



Our Winning Team



CBIZ, Inc.

MISSION STATEMENT

To provide exceptional advice and solutions that help our clients achieve their goals

VISION STATEMENT

To be recognized by our clients as the premier provider of accounting, insurance and other professional business services and by our team members as their employer of choice

CORE VALUES

We do the right thing.

Our people matter.

We are dedicated to the success of our clients.

We expect to win.

We are One CBIZ.

CORPORATE PROFILE

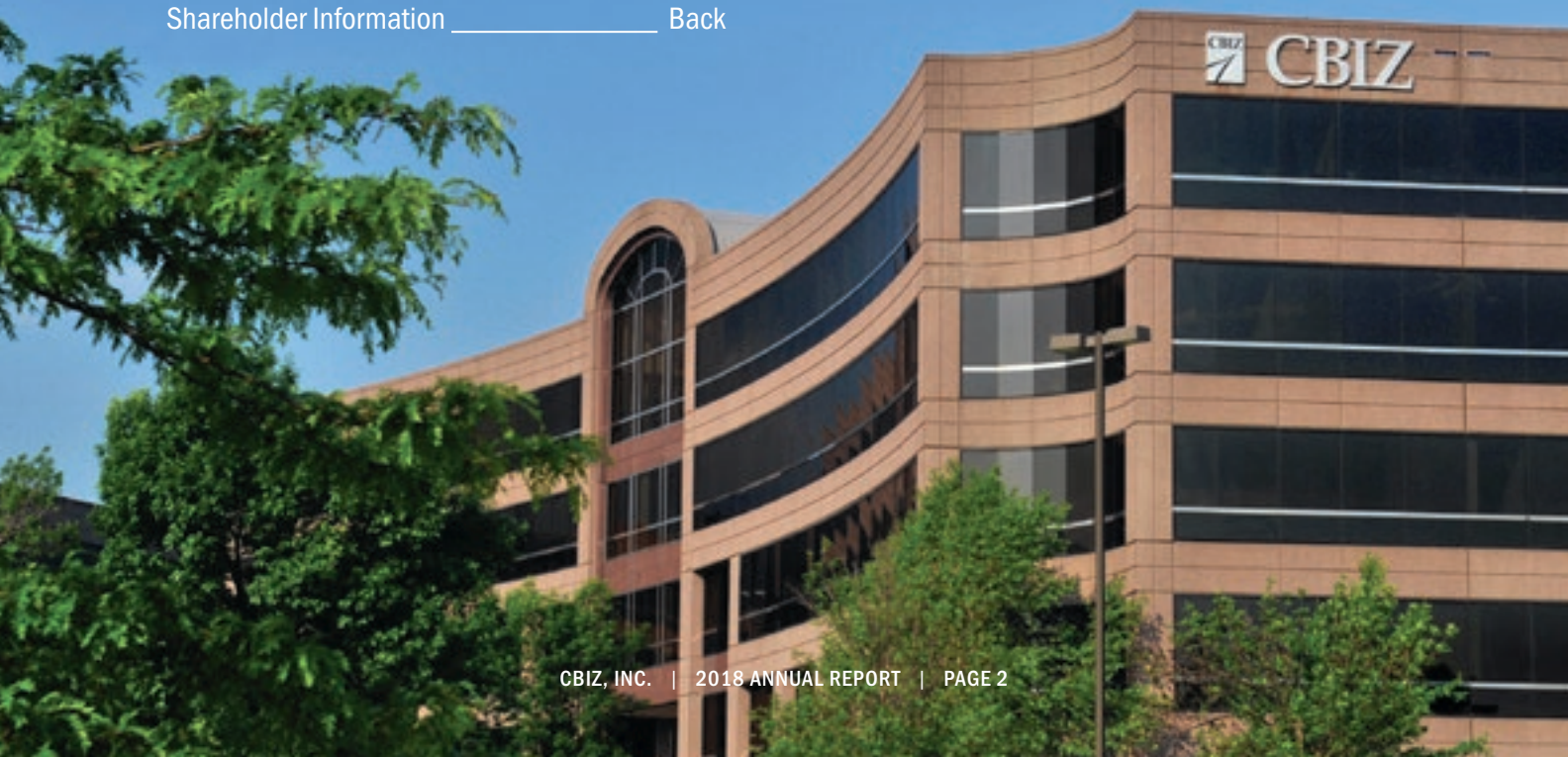
As a trusted adviser to small and mid-sized businesses across the U.S., CBIZ provides our clients with solutions that help them improve their operations and increase profitability. From our many service platforms – in areas ranging from accounting, tax and business advisory services to group health benefits, payroll, property and casualty insurance and retirement plan services – we strive to ensure that our more than 90,000 clients receive the most effective professional solutions. With 4,800 associates in more than 100 offices across the country, CBIZ's resources and services are uniquely suited to support the growth and success of our clients.

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Corporate Office

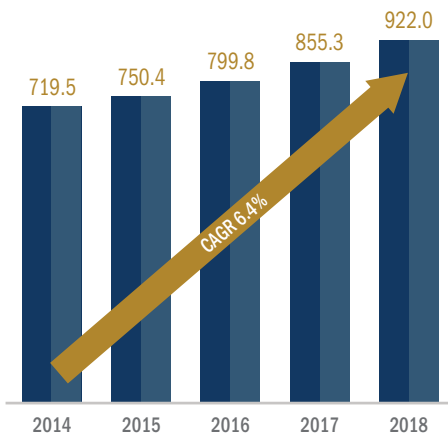
6050 Oak Tree Blvd., South, Suite 500
Cleveland, OH 44131
www.cbiz.com | 216.447.9000



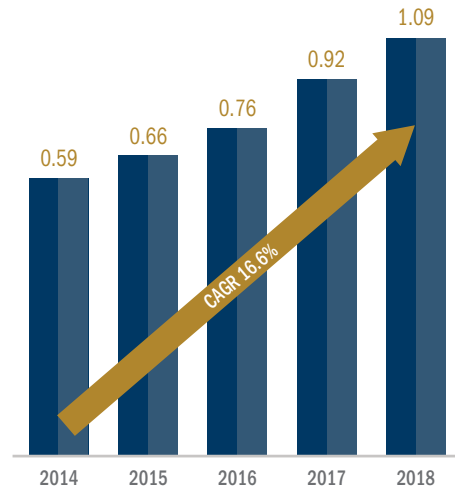
Financial Highlights



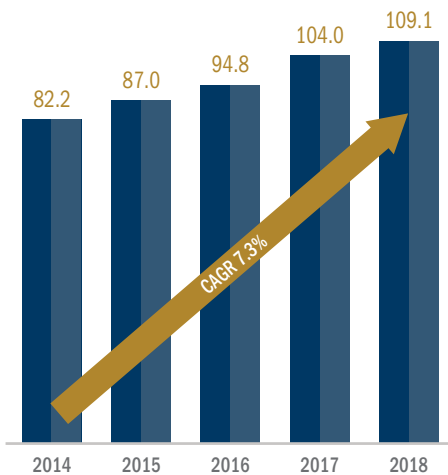
REVENUE (\$ in millions)



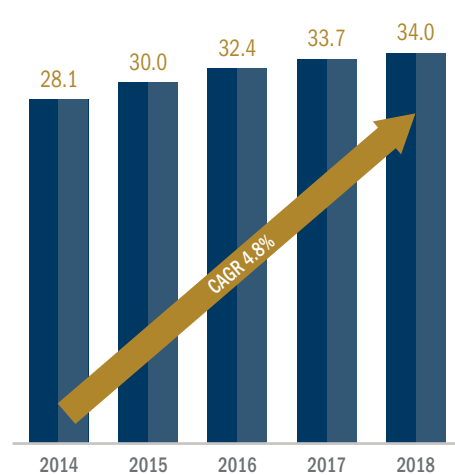
DILUTED EARNINGS PER SHARE from continuing operations (in dollars)



ADJUSTED EBITDA (\$ in millions) See Form 10-K for reconciliation



CROSS-SERVING REVENUE estimated first-year annualized (\$ in millions)



THIS ANNUAL REPORT TO SHAREHOLDERS CONTAINS FORWARD-LOOKING STATEMENTS, WHICH BY THEIR NATURE INVOLVE RISKS AND UNCERTAINTIES. CBIZ'S ANNUAL REPORT ON FORM 10-K, WHICH IS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, CONTAINS A DETAILED DESCRIPTION OF CERTAIN FACTORS THAT MAY CAUSE ACTUAL RESULTS TO DIFFER FROM RESULTS CONTEMPLATED FROM SUCH STATEMENTS.



Letter to Shareholders

DEAR FELLOW SHAREHOLDERS,

At CBIZ, one of our core values is *we expect to win*, and in 2018 that's exactly what we did.

From delivering strong financial results, to providing exceptional service to clients, to supporting the communities where we work and live, our employees continually strive for the highest level of performance in all that we do.

This drive and dedication resulted in an extraordinary year for CBIZ in 2018. I am extremely proud of our accomplishments and the **winning team** that made them possible.

OVERALL PERFORMANCE

The favorable business climate that we experienced during 2018 resulted in strong demand for our core accounting and tax, advisory, and government health care consulting services. We also benefited from strong performance by some of our more transactional businesses.

In 2018, we grew revenue to over \$922 million, an increase of 7.8% over 2017. Earnings per diluted share grew by 18.5% over the prior year, and adjusted EBITDA grew to \$109.1 million, which represents a 4.9% increase over 2017. These results demonstrate our consistent track record of solid financial performance. Since 2014, we have grown revenue by 28.1%, earnings per diluted share by 84.7% and adjusted EBITDA by 32.7%.

The \$34 million in cross-serving revenue we recorded in 2018 reflects our deep understanding of our clients' goals and our ability to present them with a broad array of products and services to achieve those goals.

SEGMENT PERFORMANCE

In 2018, we experienced exceptionally strong growth of 11.2% from our **Financial Services** segment. This was driven in large part by strong demand for our traditional accounting and tax, private equity advisory, and government health care consulting services.

One of our key strategic goals is to invest in high-growth industries and service lines that allow us to leverage our broad range of services and national footprint. As part of this strategy, we were excited to add Laurus Transaction Advisors to our growing private equity consulting practice in the first quarter of 2018. This acquisition helped to strengthen our position as a leading provider of transaction advisory services to middle market-focused private equity firms. Earlier in 2019, we also welcomed The Wenner Group, a tax practice that enhances our service offerings and brings additional scale to our Denver office.

The 1.6% growth in our **Benefits and Insurance Services** segment was primarily driven by acquisitions. Our retirement planning, property and casualty, and payroll services all performed well. Our group health benefits business continued its positive trend, and at the same time, we increased our focus on hiring and developing additional producers. These investments will take time before they have a material impact on our revenue, but we expect them to improve organic revenue growth over time.

Continuing with our efforts to build out our retirement plan services offerings, we completed two investment advisory acquisitions – InR Advisory Services and

AT CBIZ, OUR CLIENTS RELY ON US FOR OUR KNOWLEDGE AND EXPERTISE, AND WE UNDERSTAND THAT OUR SUCCESS DEPENDS ON THE CAPABILITIES OF OUR 4,800 TEAM MEMBERS. WE REMAIN COMMITTED TO THEIR PERSONAL AND PROFESSIONAL DEVELOPMENT AND STRIVE TO BE THEIR EMPLOYER OF CHOICE.

TOGETHER, WE ARE TRULY A WINNING TEAM.

Sequoia Institutional Services, both of which deepen our bench strength and bring additional services and resources to our clients.

INVESTING IN OUR FUTURE

The strength of our business over the past several years has provided us with the opportunity to make significant investments in our future growth, and the tax-saving benefits related to the 2017 Tax Reform Act allowed us to accelerate certain of these investments. Among them, we invested in new technologies to support our growing business, equipping us to meet the evolving needs of our clients both today and in the future.

We also created and launched a new national branding campaign targeted to business decision makers in our major markets throughout the U.S. The campaign, through the use of national cable television and digital online advertising, is designed to increase brand awareness among prospective clients and recruits and reinforce our go-to-market strategy – **“We out-local the nationals and out-national the locals.”** We look forward to continuing the campaign in 2019.

Our strong cash flow provides us with the ability to support our growing business while continuing to create value for our shareholders. During 2018, we invested \$41.7 million to fund acquisition-related activities and \$15.6 million to repurchase shares. Since the beginning of 2018, we completed four strategic acquisitions that expanded our capabilities and our presence in current and new markets. Over the past five years, we have invested \$213 million in strategic acquisitions while returning \$103 million to shareholders through share repurchases. Looking ahead, investment in acquisitions continues to be our top priority, followed by opportunistic share repurchases.

OUR PEOPLE AND WINNING CULTURE

At CBIZ, our clients rely on us for our knowledge and expertise, and we understand that our success depends on the capabilities of our 4,800 team members. We remain committed to their personal and professional development and strive to be their employer of choice.

As part of our commitment, in 2018 we introduced a new management training course, piloted a leadership

GRADUATING MEMBERS OF THE
CBIZ LEADERSHIP COUNCIL
RING THE NYSE CLOSING BELL
ON FEBRUARY 20, 2018.



OUR FIRST NATIONAL BRANDING CAMPAIGN WAS DESIGNED TO RAISE AWARENESS OF CBIZ IN THE MARKETPLACE. OUR MESSAGING REINFORCED THAT AS OUR CLIENTS' NEEDS GROW MORE COMPLEX, WE HAVE THE UNIQUE ABILITY TO OFFER A NATIONAL TEAM OF SPECIALIZED EXPERTS IN ADDITION TO THEIR TRUSTED LOCAL ADVISOR.

pipeline program and rolled out a new e-learning system that includes self-study courses, webinars, tutorials and training resources for all employees. We improved our campus recruiting methods, and also expanded our internship programs to go beyond traditional public accounting and include more insurance opportunities.

We also graduated another class from our two-year company-wide leadership training course known as the CBIZ Leadership Council (CLC), where high-performing individuals receive strategic training to prepare them for future leadership roles. We were proud to watch our CLC members celebrate the completion of the program by ringing the bell at the New York Stock Exchange.

We know that our efforts are having a positive impact as evidenced by the results of our 2018 employee engagement survey that once again illustrated a continued positive trend in overall favorable ratings with our highest score recorded to date.

In 2018, we were honored to be recognized with more than 50 national and local market awards. Notable recognitions include:

- **America's Best Mid-Size Employers** by *Forbes* magazine;
- **Best Workplaces in Consulting and Professional Services** by *Great Place to Work* and *Fortune* magazine;
- **Best Places to Work** by *Business Insurance*, for the fourth year in a row;
- **100 Best Workplaces for Millennials** by *Great Place to Work* and *Fortune* magazine;
- **Best and Brightest Companies in the Nation** by *National Association of Business Resources*, for the third year in a row;
- **Workplace Excellence Seal of Approval, Health & Wellness Seal of Approval and Certificate of Recognition** by the Alliance for Workplace Excellence; and
- **Best Workplace** honors in 22 of our local markets as well as several local and national **Health and Wellness Awards**.

We are also proud of the ways in which our team members are committed to the communities in which we live and work. Our 10th annual food drive once again resulted in the donation of more than 1 million pounds of food to local food banks across the nation. Additionally, for the past 11 years, our CBIZ Women's Advantage Program has partnered with Dress for Success to raise funds and awareness. To date, CBIZ has donated more than \$545,000 to affiliates of Dress for Success nationwide.

LOOKING AHEAD

While there are some signs that the economy may begin to temper in the not-too-distant future, we continue to experience optimism among leaders of small and middle-market businesses and generally expect continued demand for our services. Considering these factors, in 2019 we anticipate revenue growth within a range of 4% to 6%, and growth in fully diluted earnings per share within a range of 10% to 12% over 2018.

To build on our momentum, we will continue to invest in our people and our business. We are committed to hiring, training and supporting new producers and continuing our investment in national branding in order to strengthen our market recognition. These, along with other investments, will ensure our future growth and better position us to leverage our unique value proposition of providing national resources and expertise locally, with personal service.

In closing, I would like to congratulate our team members for a truly outstanding 2018 and for their commitment and dedication to our clients and our profession. I would also like to thank our shareholders for their continued trust and support, and members of our Board of Directors for their thoughtful insight and guidance. Together, we are truly a **winning team**.

Sincerely,



Jerome P. Grisko Jr.
President and Chief Executive Officer

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____
Commission file number 1-32961

CBIZ, INC.

(Exact name of registrant as specified in its charter)

Delaware

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)

(216) 447-9000

(Registrant's telephone number, including area code)

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

Common Stock, par value \$0.01

New York Stock Exchange

(Title of class)

(Name of exchange on which registered)

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Emerging growth company

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the last sales price of such common stock as of the closing of trading on June 29, 2018, was approximately \$1.2 billion.

The number of outstanding shares of the registrant's common stock is 54,848,225 as of January 31, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant incorporates by reference in Part III hereof portions of its definitive Proxy Statement for its 2019 Annual Meeting of Stockholders.

CBIZ, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (“the Exchange Act”). All statements other than statements of historical fact included in this Annual Report on Form 10-K including, without limitation, “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding our financial position, business strategy and plans and objectives for future performance are forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are commonly identified by the use of such terms and phrases as “will,” “could,” “can,” “may,” “strive,” “hope,” “intend,” “believe,” “estimate,” “continue,” “plan,” “expect,” “project,” “anticipate,” “outlook,” “foreseeable future,” “seek” and words or phrases of similar import in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated services, sales efforts, expenses, and financial results.

From time to time, we may also provide oral or written forward-looking statements in other materials we release to the public. Any or all of our forward-looking statements in this Annual Report on Form 10-K and in any other public statements that we make, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Such forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in “Item 1A. Risk Factors” will be important in determining future results. Should one or more of these risks or assumptions materialize, or should the underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected.

Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially, and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in the quarterly, periodic and annual reports we file with the United States Securities and Exchange Commission (the “SEC”). Also note that we provide cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our businesses as discussed in Item 1 and Item 1A. These are factors that we think could cause our actual results to differ materially from expected and historical results. Other factors besides those described here could also adversely affect operating or financial performance.

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

PART I

ITEM 1. BUSINESS.

Introduction — We have been operating as a professional services business since 1996. We built our professional services business organically and through acquiring and integrating accounting and financial service providers, group health benefits consulting firms, property and casualty brokerage firms, retirement plan services firms, payroll service providers, and valuation and other service firms throughout the United States. We are listed on the New York Stock Exchange (“NYSE”) under the symbol “CBZ.”

We provide professional business services, products and solutions that help our clients grow and succeed by better managing their finances and employees. These services are provided to primarily small and mid-sized businesses (“SMB”), as well as individuals, governmental entities and not-for-profit enterprises throughout the United States. We also provide limited information technology services through our National Practices segment in the United States and parts of Canada. We deliver our integrated services through the following three practice groups: Financial Services, Benefits and Insurance Services, and National Practices.

We believe that our diverse and integrated service offerings result in advantages for both the client and for us. By providing custom solutions that help clients manage their finances and employees, we enable our clients to focus their resources on their own core business and operational competencies. Additionally, working with one provider for several solutions enables our clients to utilize their resources more efficiently by eliminating the need to coordinate with multiple service providers. The ability to combine several services and offer them through one trusted provider distinguishes us from other service providers.

Business Strategy — We strive to maximize shareholder value and believe this is accomplished through growth in revenue and earnings per share, as well as the strategic allocation and deployment of free cash-flow and capital resources.

Revenue — We believe revenue growth will be achieved through internal organic growth, cross-serving additional services to our existing clients, and targeted acquisitions. We expect to grow earnings per share by increasing revenue and achieving operating leverage through improved productivity and cost management. Each of these components is critical to the long-term growth strategy, and we expect each component to contribute to our long-term revenue growth.

- We believe we can capitalize on organic growth opportunities by offering a higher level of national resources than traditional local professional service firms, but delivering these services locally with a higher level of personal service than is expected from traditional national firms. We are also able to leverage technology to create efficiencies and to link together aligned services such as benefits, payroll and human resource services.
- Cross-serving provides us with the opportunity to offer and deliver multiple services to our existing clients. Cross-serving opportunities are identified by our employees as they provide services to our existing clients. Being a trusted advisor to our clients provides us with the opportunity to identify the clients’ needs, while the diverse and integrated services we offer allows us to provide solutions to satisfy these needs.
- Our acquisition strategy is to selectively acquire businesses that expand our market position and strengthen our existing service offerings. Strategic businesses that we seek to acquire generally have strong and energetic leadership, a positive local market reputation, a commitment to client service, the potential for cross-serving additional services to our clients, an ability to integrate quickly with our existing operations and are accretive to earnings.

Cash Flows and Capital Resources — Our strategy is to utilize capital resources for strategic initiatives that will optimize shareholder return. The highest priority for the utilization of capital is focused on strategic acquisitions.

We also believe that repurchasing shares of our common stock is a use of cash that provides stockholder value. We may repurchase shares of our common stock when, after assessing capital needed to fund acquisitions and seasonal working capital needs, capital resources are available and such repurchases are accretive to stockholders.

Business Services — We deliver our integrated services through three operating practice groups. A general description of services provided by each practice group is provided in the table below.

<u>Financial Services</u>	<u>Benefits and Insurance Services</u>	<u>National Practices</u>
<ul style="list-style-type: none"> • Accounting and Tax • Government Healthcare Consulting • Financial Advisory • Valuation • Risk & Advisory Services 	<ul style="list-style-type: none"> • Group Health Benefits Consulting • Payroll • Property and Casualty • Retirement Plan Services 	<ul style="list-style-type: none"> • Managed Networking and Hardware Services • Healthcare Consulting

Practice Groups

Revenue by practice group for the years ended December 31, 2018, 2017 and 2016 is provided in the table below (in thousands) along with a discussion of certain external relationships and regulatory factors that currently impact those practice groups.

	<u>Year Ended December 31,</u>					
	<u>2018</u>		<u>2017</u>		<u>2016</u>	
Financial Services	\$600,926	65.2%	\$540,315	63.2%	\$501,307	62.7%
Benefits and Insurance Services	288,437	31.3%	283,909	33.2%	267,606	33.5%
National Practices	32,640	3.5%	31,116	3.6%	30,919	3.8%
Total CBIZ revenue	<u>\$922,003</u>	<u>100.0%</u>	<u>\$855,340</u>	<u>100.0%</u>	<u>\$799,832</u>	<u>100.0%</u>

Financial Services

The Financial Services practice group is divided into a Financial Services division, which represents the various accounting units spread geographically throughout the United States that provide core accounting services regionally, and a National Services division consisting of those units that provide their specialty services nationwide. Core accounting services consist mainly of accounting and tax compliance and consulting, while National Services consist primarily of federal and state governmental healthcare compliance, valuation services, real estate consulting and internal audit outsourcing. Both the Financial Services and National Services divisions report to the President of Financial Services.

Restrictions imposed by independence requirements and state accountancy laws and regulations preclude us from rendering audit and attest services (other than internal audit services). As such, we maintain joint-referral relationships and administrative service agreements (“ASAs”) with independent licensed Certified Public Accounting (“CPA”) firms (the “CPA firms”) under which audit and attest services may be provided to our clients by such CPA firms. These firms are owned by licensed CPAs, a vast majority of whom are also employed by our subsidiaries. Under these ASAs, we provide a range of services to the CPA firms, including (but not limited to): administrative functions such as office management, bookkeeping and accounting; preparing marketing and promotional materials; providing office space, computer equipment, systems support and administrative and professional staff. Services are performed in exchange for a fee.

Fees earned by us under the ASAs are recorded as revenue in the accompanying Consolidated Statements of Comprehensive Income and totaled approximately \$154.0 million, \$156.4 million and \$144.8 million for the

years ended December 31, 2018, 2017 and 2016, respectively, a majority of which is related to services rendered to privately-held clients and governmental agencies. In the event that accounts receivable and unbilled work in process become uncollectible by the CPA firms, the service fee due to us is typically reduced on a proportional basis. The ASAs have terms ranging up to fifteen years, are renewable upon agreement by both parties, and have certain rights of extension and termination.

At December 31, 2018, we maintained ASAs with five CPA firms. Most of the members and/or stockholders of those CPA firms are also our employees, and we render services to the CPA firms as an independent contractor. One of our ASAs is with Mayer Hoffman McCann, P.C. (“Mayer Hoffman”), an independent national CPA firm headquartered in Kansas City, Missouri. Mayer Hoffman has 170 stockholders, the vast majority of whom are also our employees. Mayer Hoffman maintains an eight member board of directors. There are no board members of Mayer Hoffman who hold senior officer positions at CBIZ. Our association with Mayer Hoffman offers clients access to the multi-state resources and expertise of a national CPA firm. We also have an ASA with Myers and Stauffer LC (“MSLC”), an independent national governmental healthcare consulting firm headquartered in Kansas City, Missouri. MSLC has eleven equity members, all of whom are also our employees. MSLC maintains a five member executive committee, none of whom hold senior officer positions at CBIZ. Although the ASAs do not constitute control, we are one of the beneficiaries of the agreements and may bear certain economic risks. As such, the CPA firms with which we maintain ASAs qualify as variable interest entities. Refer to Note 1, Basis of Presentation and Significant Accounting Policies, to the accompanying consolidated financial statements for further discussion.

Benefits and Insurance Services

The Benefits and Insurance Services practice group operates under the President of Benefits and Insurance Services, who oversees the practice group, along with a senior management team aligned along functional, product, and unit management lines. The Benefits and Insurance Services group is organized along lines of services such as group health benefits consulting and brokerage, property and casualty brokerage, retirement plan advisory services, payroll services, human capital advisory services, actuarial services, life insurance and other services that serve local and regional clients with national resources.

The Benefits and Insurance Services practice group maintains relationships with many different insurance carriers. Some of these carriers have compensation arrangements with us whereby some portion of payments due may be contingent upon meeting certain performance goals, or upon our providing client services that would otherwise be provided by the carriers. These compensation arrangements are provided to us as a result of our performance and expertise, and may result in enhancing our ability to access certain insurance markets and services on behalf of our clients. The aggregate compensation related to these arrangements received during the years ended December 31, 2018, 2017 and 2016 was less than 2% of consolidated CBIZ revenue for the respective periods.

National Practices

Our National Practices group consists of two services; healthcare consulting and information technology. The healthcare consulting group serves hospitals and other healthcare providers, specializing in revenue management, reimbursement optimization and managed care contracting. The information technology service group has been serving one client in the United States and Canada for more than fifteen years.

Sales and Marketing — In 2018, CBIZ launched a major branding campaign targeted to business decision makers in order to increase awareness of CBIZ in the marketplace. The campaign utilized national cable television networks including CNN, FOX and MSNBC geographically focused on the markets we serve. The TV commercials were also promoted online through a multichannel digital advertising campaign. Quantitative pre- and post- campaign research will be used to evaluate the success of the branding campaign.

Overall, CBIZ marketing goals are focused on providing us with a consistent image while at the same time providing support, tools and resources for each practice and market to utilize within each of our distinct geographic and industry markets. Three key strategies are employed to accomplish these goals: (i) thought leadership, (ii) market segmentation, and (iii) sales/sales management process development.

- Thought leadership: Our marketing efforts continue to capitalize on the extensive knowledge and expertise of our associates. This has been accomplished through media visibility, social media, webinars, and the creation of a wide variety of white papers, newsletters, books, and other information offerings.
- Market segmentation: The majority of our marketing resources are devoted to the highly measurable and high return on investment strategies that specifically target those industries and service areas where we have particularly deep experience. These efforts typically involve local, regional or national trade show and event sponsorships, targeted direct mail, email, and telemarketing campaigns, and practice and industry specific websites and newsletters.
- Sales/sales management process development: We continue to enhance an accountable business development culture with several initiatives, including enhanced management visibility, analytics and forecasting through Salesforce.com and the implementation of performance management scorecards and business development pipeline reports. Together, these initiatives have helped create a more effective, efficient and successful sales management process throughout the Company.

Our focus has been on developing marketing strategies that specifically support each of our major practice areas: Financial Services and Benefits and Insurance Services. In each of these segments, emphasis has been put on marketing technology that has the highest and most measurable return on investment, including enhanced targeted email campaigns, webinars, web lead generation, and an evolving web presence.

In order to capitalize on marketing technology, we have developed a robust initiative to engage our professionals in building online relationships and reputation through social media. We have also launched multiple targeted digital lead generation programs which help manage an online relationship from first touch through conversion.

Clients — We provide professional services to over 90,000 clients, including over 50,000 business clients. By providing various professional services and administrative functions, we enable our clients to focus their resources on their own operational competencies. Reducing administrative functions allows clients to enhance productivity, reduce costs and improve service quality and efficiency by focusing on their core business. Depending on a client's size and capabilities, it may choose to utilize one, some or many of the diverse and integrated services offered by us.

Our clients represent a large variety of industries and markets, including many government agencies. We target SMB companies that have between 50 and 2,000 employees and annual revenues between \$5.0 million and \$200.0 million. Our largest client comprised less than 3% of our consolidated revenue in 2018 and is included in the National Practices operating practice group. Management believes that our client diversity helps insulate us from a downturn in a particular industry or geographic market. Nevertheless, economic conditions among select clients and groups of clients may have an impact on the demand for services provided by us.

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

Acquisitions and Divestitures — We seek to strengthen our operations and customer service capabilities by selectively acquiring businesses that expand our market position and strengthen our existing service offerings. In 2018, we completed three acquisitions and purchased one client list. We divest (through sale or closure) business operations that do not contribute to our long-term objectives for growth, or that are not complementary to our target service offerings and markets. In 2018, we sold a small office in the Financial Services practice group, as well as two books of business in the Benefits and Insurance practice group. For further discussion regarding acquisitions and divestitures, refer to Note 19, Acquisitions, and Note 20, Discontinued Operations and Divestitures, to the accompanying consolidated financial statements.

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

We are subject to industry regulation and changes, including changes in laws, regulations, and codes of ethics governing our accounting, insurance, valuation, registered investment advisory and broker-dealer operations, as well as in other industries, the interpretation of which may impact our operations.

We are subject to certain privacy and information security laws and regulations, including, but not limited to those under the Health Insurance Portability and Accountability Act of 1996, The Financial Modernization Act of 1999 (the Gramm-Leach-Bliley Act), the Health Information Technology for Economic and Clinical Health Act, and other provisions of federal and state laws which may restrict our operations and give rise to expenses related to compliance.

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

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

The CPA firms with which we maintain ASAs may operate as limited liability companies, limited liability partnerships or professional corporations. The firms are separate legal entities with separate governing bodies and officers. Neither the existence of the ASAs nor the providing of services thereunder constitutes control of the CPA firms by us. The Company and the CPA firms maintain their own respective liability and risk of loss in connection with the performance of their respective services. Attest services are not permitted to be performed by

any individual or entity that is not licensed to do so. We are not permitted to perform audits, reviews, compilations, or other attest services, do not contract to perform them and do not provide the associated attest reports. Given this legal prohibition and course of conduct, we do not believe it is likely that we would bear the risk of litigation losses related to attest services provided by the CPA firms. Although the ASAs do not constitute control, we are one of the beneficiaries of the agreements and may bear certain economic risks. As such, the CPA firms with which we maintain ASAs qualify as variable interest entities. Refer to Note 1, Basis of Presentation and Significant Accounting Policies, to the accompanying consolidated financial statements for further discussion.

As of December 31, 2018, we believe we are in compliance with all governmental and professional organizations regulations relevant to the services we provide.

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

Employees — At December 31, 2018, we employed approximately 4,800 employees. We believe that we have a good relationship with our employees. A large number of our employees hold professional licenses or degrees. As a professional services company that differentiates itself from competitors through the quality and diversity of our service offerings, we believe that our employees are our most important asset. Accordingly, we strive to remain competitive as an employer while increasing the capabilities and performance of our employees.

Seasonality — A disproportionately large amount of our revenue occurs in the first half of the year. This is due primarily to accounting and tax services provided by our Financial Services practice group, which is subject to seasonality related to heavy volume in the first four months of the year. The Financial Services practice group generated nearly 40% of its revenue in the first four months of each of the past five years. In addition, nearly 50% of our annual earnings per share have been earned during the first quarter of each of the past five years. Like most professional service companies, most of our operating costs are relatively fixed in the short term, which generally results in higher operating margins in the first half of the year.

Available Information — Our principal executive office is located at 6050 Oak Tree Boulevard, South, Suite 500, Cleveland, Ohio 44131, and our telephone number is (216) 447-9000. Our website is located at <https://www.cbiz.com>. We make available, free of charge on our website, through the investor information page, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after we file (or furnish) such reports with the SEC. In addition, the SEC maintains an Internet Website that contains reports, proxy and information statements and other information about us at <https://www.sec.gov>. Our corporate code of conduct and ethics and the charters of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee of the Board of Directors are available on the investor information page of our website, referenced above, and in print to any shareholder who requests them.

ITEM 1A. RISK FACTORS.

The following factors may affect our actual operating and financial results and could cause results to differ materially from those in any forward-looking statements. You should carefully consider the following information.

We may be more sensitive to revenue fluctuations than other companies, which could result in fluctuations in the market price of our common stock. A substantial majority of our operating expenses, such as personnel and related costs and occupancy costs, are relatively fixed in the short term. As a result, we may not be able to

quickly reduce costs in response to any decrease in revenue. This factor could cause our quarterly results to be lower than expectations of securities analysts and stockholders, which could result in a decline in the price of our common stock.

Payments on accounts receivable may be slower than expected, or amounts due on receivables or notes may not be fully collectible. Professional services firms often experience higher average accounts receivable days outstanding compared to many other industries, which may be magnified if the general economy worsens. If our collections become slower, our liquidity may be adversely impacted. We monitor the aging of receivables regularly and make assessments of the ability of customers to pay amounts due. We provide for potential bad debts and recognize additional reserves against bad debts as we deem it appropriate. Notwithstanding these measures, our customers may face unexpected circumstances that adversely impact their ability to pay their trade receivables or note obligations to us and we may face unexpected losses as a result.

We are dependent on the services of our executive officers and other key employees, the loss of any of whom may have a material adverse effect on our business, financial condition and results of operations. Our success depends in large part upon the abilities and continued services of our executive officers and other key employees, such as our business unit presidents. In the course of business operations, employees may resign and seek employment elsewhere. Certain principal employees, however, are bound in writing to agreements containing non-compete and other restrictive covenants barring competitive employment, client acceptance, and solicitation of employees for a period of between two and ten years following their resignation. We cannot assure you that we will be able to retain the services of our key personnel. If we cannot retain the services of key personnel, there could be a material adverse effect on our business, financial condition and results of operations. While we generally have contractual arrangements with key personnel that contain restrictive covenants, courts are at times reluctant to enforce such covenants. In addition, many of our executive officers and other key personnel are either participants in our 2014 Stock Incentive Plan (the “2014 Plan”), holders of a significant amount of our common stock, or receive other incentive-based compensation. We believe that these interests provide additional incentives for these key employees to remain with us. In order to support our growth, we intend to continue to effectively recruit, hire, train and retain additional qualified management personnel. Our inability to attract and retain necessary personnel could have a material adverse effect on our business, financial condition and results of operations.

Restrictions imposed by independence requirements and conflict of interest rules may limit our ability to provide services to clients of the attest firms with which we have contractual relationships and the ability of such attest firms to provide attestation services to our clients. Restrictions imposed by independence requirements and state accountancy laws and regulations preclude us from rendering audit and other attest services (other than internal audit services). As such, we and our subsidiaries maintain joint-referral relationships and ASAs with independent licensed CPA firms under which audit and other attest services may be provided to our clients by such CPA firms. The CPA firms are owned by licensed CPAs, a vast majority of whom are employed by us.

Under these ASAs, we provide a range of services to the CPA firms, including: administrative functions such as office management, bookkeeping, and accounting; preparing marketing and promotion materials; providing office space, computer equipment, systems support and administrative and professional staff. Services are performed in exchange for a fee. Fees earned by us under the ASAs are recorded as revenue in the accompanying Consolidated Statements of Comprehensive Income. In the event that accounts receivable and unbilled work in process become uncollectible by the CPA firms, the service fee due to us is typically reduced on a proportional basis.

With respect to CPA firm clients that are required to file audited financial statements with the SEC, the SEC staff views us and the CPA firms with which we have contractual relationships as a single entity in applying independence rules established by the accountancy regulators and the SEC. Accordingly, we do not hold any financial interest in, nor do we enter into any business relationship with, an SEC-reporting attest client that the

CPA firm performing an audit could not maintain; further, we do not sell any non-audit services to an SEC-reporting attest client that the CPA firm performing an audit could not sell under the auditor independence limitations set out in the Sarbanes-Oxley Act of 2002 and other professional accountancy independence standards. SEC staff informed us that independence rules that apply to clients that receive attest services under SEC and Public Company Accounting Oversight Board (“PCAOB”) standards from such CPA firms would prohibit such clients from holding any common stock of CBIZ. However, applicable professional standards generally permit us to provide additional services to privately-held companies, in addition to those services which may be provided to SEC-reporting attest clients of a CPA firm. We and the CPA firms have implemented policies and procedures designed to enable us to maintain independence and freedom from conflicts of interest in accordance with applicable standards. Given the pre-existing limits set by us on our relationships with SEC-reporting attest clients of associated CPA firms, and the limited number and size of such clients, the imposition of independence limitations under the Sarbanes-Oxley Act of 2002, SEC rule or interpretation, or PCAOB standards do not and are not expected to materially affect our revenues.

There can be no assurance that following the policies and procedures implemented by us and the CPA firms will enable us and the CPA firms to avoid circumstances that would cause us and them to lack independence from an SEC-reporting attest client; nor can there be any assurance that state, U.S. Government Accountability Office or U.S. Department Of Labor accountancy authorities will not impose additional restrictions on the profession. To the extent that the CPA firms for whom we provide administrative and other services are affected, we may experience a decline in fee revenue from these businesses as well as expenses related to addressing independence concerns. To date, revenues derived from providing services in connection with attestation engagements of the attest firms performed for SEC-reporting clients have not been material.

Our goodwill and other intangible assets could become impaired, which could lead to material non-cash charges against earnings. At December 31, 2018, the net carrying value of our goodwill and other intangible assets totaled \$564.3 million and \$72.7 million, respectively. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 350, Intangibles—Goodwill and Other, we assess these assets, including client lists, to determine if there is any indication of impairment. Significant negative industry or economic trends, disruptions to our business, adverse changes resulting from new governmental regulations, divestitures and sustained market capitalization declines may result in recognition of impairments. Any impairment of goodwill or intangible assets would result in a non-cash charge against current earnings, which could lead to a material impact on our results of operations and statements of financial position.

Certain liabilities resulting from acquisitions are estimated and could lead to a material impact on earnings. Through our acquisition activities, we record liabilities for estimated future contingent earnout payments. The fair value of these liabilities is assessed on a quarterly basis and changes in assumptions used to determine the amount of the liability could lead to an adjustment that may have a material impact, favorable or unfavorable, on our results of operations.

Governmental regulations and interpretations are subject to changes, which could have a material adverse effect on revenue. Changes in laws and regulations, or the interpretation and application thereof, could result in changes in the amount or the type of business services required by businesses and individuals, which could have a material adverse effect on our financial condition. We cannot be sure that future laws and regulations will provide the same or similar opportunities for us to provide business consulting and management services to businesses and individuals. State insurance regulators have conducted inquiries to clarify the nature of compensation arrangements within the insurance brokerage industry. Future regulatory actions or laws, including tax laws and laws and regulations relating to the Affordable Care Act, may limit or eliminate our ability to enhance revenue through all current compensation arrangements and may result in a diminution of future insurance brokerage revenue from these sources. Accordingly, our ability to continue to operate in some states may depend on our flexibility to modify our operational structure in response to these changes in regulations.

Changes in the United States healthcare environment, including new healthcare legislation, may adversely affect the revenue and margins in our healthcare benefit businesses. Our employee benefits business, specifically our group health consulting and brokerage businesses, receives commissions for brokering employer-sponsored healthcare policies with insurance carriers on behalf of the client. In many cases, these commissions consist of a ratable portion of the insurance premiums on those policies, based upon a sliding scale pertaining to the dollar volume of premiums and/or the number of participants in the plan.

Changes in the healthcare environment, including, but not limited to, any legislated changes in the United States' national healthcare system, that affect the methods by which insurance carriers remunerate brokers, could adversely impact our revenues and margins in this business. Specifically, legislation or other changes could afford our clients and their employees the ability to seek insurance coverage through other means, including, but not limited to, direct access with insurance carriers or other similar avenues, which could eliminate or adversely alter the remuneration brokers receive from insurance carriers for their services.

Higher rates of unemployment in the United States could result in a general reduction in the number of individuals with employer-sponsored healthcare coverage. This decline in employee participation in healthcare insurance plans at our clients could result in a reduction in the commissions we receive from insurance carriers for our brokerage services, which could have an adverse impact on revenues and margins in this business.

We are subject to risks relating to processing customer transactions for our payroll and other transaction processing businesses. The high volume of client funds and data processed by us, or by our out-sourced resources abroad, in our transaction related businesses entails risks for which we may be held liable if the accuracy or timeliness of the transactions processed is not correct. In addition, related to our payroll and employee benefits businesses, we store personal information about some of our clients and their employees for which we may be liable under the Health Insurance Portability and Accountability Act or other governmental regulations if the security of this information is breached. We could incur significant legal expense to defend any claims against us, even those claims without merit. While we carry insurance against these potential liabilities, we cannot be certain that circumstances surrounding such an error or breach of security would be entirely reimbursed through insurance coverage. We believe we have controls and procedures in place to address our fiduciary responsibility and mitigate these risks. However, if we are not successful in managing these risks, our business, financial condition and results of operations may be harmed.

Cyber-attacks or other security breaches involving our computer systems or the systems of one or more of our vendors could materially and adversely affect our business. Our systems, like others in the industries we serve, are vulnerable to cyber security risks, and we are subject to potential disruption caused by such activities. Corporations such as ours are subject to frequent attacks on their systems. Such attacks may have various goals, from seeking confidential information to causing operational disruption. Although to date such activities have not resulted in material disruptions to our operations or, to our knowledge, a material breach of any security or confidential information, no assurance can be provided that such disruptions or breach will not occur in the future. Any significant violations of data privacy could result in the loss of business, litigation, regulatory investigations, penalties, ongoing expenses related to client credit monitoring and support, and other expenses, any of which could damage our reputation and adversely affect the growth of our business. While we have deployed resources that are responsible for maintaining appropriate levels of cyber security, and while we utilize third-party technology products and services to help identify, protect, and remediate our information technology systems and infrastructure against security breaches and cyber-incidents, our responsive and precautionary measures may not be adequate or effective to prevent, identify, or mitigate attacks by hackers, foreign governments, or other actors or breaches caused by employee error, malfeasance, or other disruptions. We are also dependent on security measures that some of our third-party vendors and customers are taking to protect their own systems and infrastructures. If our third-party vendors do not maintain adequate security measures, do not require their sub-contractors to maintain adequate security measures, do not perform as anticipated and in accordance with contractual requirements, or become targets of cyber-attacks, we may experience operational difficulties and increased costs, which could materially and adversely affect our business.

We are subject to risk as it relates to software that we license from third parties. We license software from third parties, much of which is integral to our systems and our business. The licenses are generally terminable if we breach our obligations under the license agreements. If any of these relationships were terminated or if any of these parties were to cease doing business or cease to support the applications we currently utilize, we may be forced to spend significant time and money to replace the licensed software. However, we cannot assure you that the necessary replacements will be available on reasonable terms, if at all.

We could be held liable for errors and omissions. All of our business services entail an inherent risk of malpractice and other similar claims resulting from errors and omissions. Therefore, we maintain errors and omissions insurance coverage. Although we believe that our insurance coverage is adequate, we cannot be certain that actual future claims or related legal expenses would not exceed the coverage amounts. In addition, we cannot be certain that the different insurance carriers which provide errors and omissions coverage for different lines of our business will not dispute their obligation to cover a particular claim. If we have a large claim, or a large number of claims, on our insurance, the rates for such insurance may increase, and amounts expended in defense or settlement of these claims prior to exhaustion of deductible or self-retention levels may become significant, but contractual arrangements with clients may constrain our ability to incorporate such increases into service fees. Insurance rate increases, disputes by carriers over coverage questions, payments by us within deductible or self-retention limits, as well as any underlying claims or settlement of such claims, could have a material adverse effect on our business, financial condition and results of operations.

We are not a CPA firm and we do not perform any attest services for clients. We do not maintain any ownership interest in or control over any CPA firm with which one of our subsidiaries may maintain an ASA. All of our administrative and professional staff who are provided to such CPA firms work under the sole direction, supervision and control of the particular CPA firm, and we do not control how attest work is conducted. For these reasons we do not believe we have liability to any party related to their receipt of attest services from such CPA firms. Nevertheless, from time to time we have been sued for attest work that we do not perform but which is performed by such CPA firms. While we have been successful to date in defending against such suits, it is possible that similar claims may be brought in the future. We will be required to defend against such claims, and may incur expenses related to such lawsuits and may not be successful in defending against such lawsuits. In the event that the CPA firms with which we maintain ASAs incur judgments and costs related to such suits that threaten the solvency of the CPA firms, we may incur expenditures related to such proceedings.

The future issuance of additional shares could adversely affect the price of our common stock. Future sales or issuances of common stock, including those related to the uses described below, or the perception that sales could occur, could adversely affect the market price of our common stock and dilute the percentage ownership held by our stockholders. We have authorized 250 million shares of common stock, and have approximately 54.8 million shares of common stock outstanding at January 31, 2019. A substantial number of these shares have been issued in connection with acquisitions. As part of many acquisition transactions, shares are contractually restricted from sale for a one-year period, and as of January 31, 2019, approximately 0.2 million shares of our common stock were under lock-up contractual restrictions that expire by December 31, 2019. We cannot be sure when sales by holders of our stock will occur, how many shares will be sold or the effect that sales may have on the market price of our common stock.

Our principal stockholders may have substantial control over our operations. Our stockholders that beneficially own (within the meaning of Rule 13d-3 of the Exchange Act) significant percentages of our common stock relative to other individual stockholders may exert substantial influence over actions that require the consent of a majority of our outstanding shares, including the election of directors. Our share repurchase activities may result in increased ownership percentages of these individuals and therefore increase the influence they may exert, if they do not participate in these share repurchase transactions or otherwise dispose of their common stock.

We require a significant amount of cash for interest payments on our debt and to expand our business as planned. At December 31, 2018, our debt consisted primarily of \$135.5 million in principal amount outstanding under our \$400 million unsecured credit facility (as amended and restated the “2018 credit facility” or the “credit facility”). Our debt requires us to dedicate a portion of our cash flow from operations to pay interest on our indebtedness, thereby reducing the funds available to use for acquisitions, capital expenditures and general corporate purposes. Our ability to make interest payments on our debt, and to fund acquisitions, will depend upon our ability to generate cash in the future. Insufficient cash flow could place us at risk of default under our debt agreements or could prevent us from expanding our business as planned. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our business may not generate sufficient cash flow from operations and future borrowings may not be available to us under our credit facility in an amount sufficient to enable us to fund our other liquidity needs. Volatility in interest rates from monetary policy or economic conditions could increase expenses, cause uncertainty and impact our ability to pay interest on our indebtedness. Refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, for further information regarding interest rate risk.

The interest rates under our 2018 credit facility and related interest rate swaps may be impacted by the phase-out of LIBOR. The London Interbank Offered Rate (“LIBOR”), is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rates on loans globally. We generally use LIBOR as a reference rate to calculate interest rates under our credit facility. In 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if LIBOR will cease to exist at that time or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index, the Secured Overnight Financing Rate (“SOFR”), calculated using short-term repurchase agreements backed by Treasury securities. SOFR is observed and backward looking, unlike LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Given that SOFR is a secured rate backed by government securities, it will be a rate that does not take into account bank credit risk (as is the case with LIBOR). SOFR also may be more volatile than LIBOR. Whether or not SOFR, or another alternative reference rate, attains market traction as a LIBOR replacement tool remains in question. If LIBOR ceases to exist, we may need to amend our 2018 credit facility and related interest rate swaps to replace LIBOR with an agreed upon replacement index, and certain of the interest rates under our 2018 credit facility may change. The new rates may not be as favorable to us as those in effect prior to any LIBOR phase-out. We may also find it desirable to engage in more frequent interest rate hedging transactions.

Terms of our credit facility may adversely affect our ability to run our business and/or reduce stockholder returns. The terms of our credit facility, as well as the guarantees of our subsidiaries, could impair our ability to operate our business effectively and may limit our ability to take advantage of business opportunities. For example, our credit facility may (i) restrict our ability to repurchase or redeem our capital stock or debt, or merge or consolidate with another entity; (ii) limit our ability to borrow additional funds or to obtain other financing in the future for working capital, capital expenditures, acquisitions, investments and general corporate purposes; (iii) limit our ability to dispose of our assets, to create liens on our assets, to extend credit or to issue dividends to our stockholders; and (iv) make us more vulnerable to economic downturns and reduce our flexibility in responding to changing business and economic conditions.

Our failure to satisfy covenants in our debt instruments could cause a default under those instruments. Our debt instruments include a number of covenants relating to financial ratios and tests. Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. The breach of any of these covenants could result in a default under these instruments. An event of default would permit our lenders and other debt holders to declare all amounts borrowed from them to be due and payable, together with accrued and unpaid interest. If the lenders accelerate the repayment of borrowings, we may not have sufficient assets to repay our debt.

We are reliant on information processing systems and any failure or disruptions of these systems could have a material adverse effect on our business, financial condition and results of operations. Our ability to provide business services depends on our capacity to store, retrieve, process and manage significant databases, and expand and upgrade periodically our information processing capabilities. Interruption or loss of our information processing capabilities through loss of stored data, breakdown or malfunctioning of computer equipment and software systems, telecommunications failure, or damage caused by extreme weather conditions, electrical power outage, geopolitical events, or other disruption could have a material adverse effect on our business, financial condition and results of operations. Although we have disaster recovery procedures in place and insurance to protect against such contingencies, we cannot be sure that insurance or these services will continue to be available, cover all our losses or compensate us for the possible loss of clients occurring during any period that we are unable to provide business services.

We may not be able to acquire and finance additional businesses which may limit our ability to pursue our business strategy. We acquired three businesses and one client list during 2018, and maintain a healthy pipeline of potential businesses for acquisition. Targeted acquisitions are part of our growth strategy, and it is our intention to selectively acquire businesses or client lists that are complementary to existing service offerings in our target markets. However, we cannot be certain that we will be able to continue identifying appropriate acquisition candidates and acquire them on satisfactory terms, and we cannot be assured that such acquisitions, even if completed, will perform as expected or will contribute significant synergies, revenues or profits. In addition, we may also face increased competition for acquisition opportunities, which may inhibit our ability to complete transactions on terms that are favorable to us. As discussed above, there are certain provisions under our credit facility that may limit our ability to acquire additional businesses. In the event that we are not in compliance with certain covenants as specified in our credit facility, we could be restricted from making acquisitions, restricted from borrowing funds from our credit facility for other uses, or required to pay down the outstanding balance on the line of credit. However, management believes that funds available under the credit facility, along with cash generated from operations, will be sufficient to meet our liquidity needs, including planned acquisition activity in the foreseeable future. To the extent we are unable to find suitable acquisition candidates, an important component of our growth strategy may not be realized.

The business services industry is competitive and fragmented. If we are unable to compete effectively, our business, financial condition and results of operations may be negatively impacted. We face competition from a number of sources in the business services industry. Many of our competitors are large companies that may have greater financial, technical, marketing and other resources. Our principal competitors include financial and management consulting firms, the consulting practices of major accounting firms, local and regional business services companies, independent contractors, the in-house or former in-house resources of our clients, as well as new entrants into our markets. We cannot assure you that, as our industry continues to evolve, additional competitors will not enter the industry or that our clients will not choose to conduct more of their business services internally or through alternative business services providers. Although we intend to monitor industry trends and respond accordingly, we cannot assure you that we will be able to anticipate and successfully respond to such trends in a timely manner. We cannot be certain that we will be able to effectively compete against current and future competitors, or that competitive pressure will not have a material adverse effect on our business, financial condition and results of operations.

There is volatility in our stock price. The market for our common stock has, from time to time, experienced price and volume fluctuations. Factors such as announcements of variations in our quarterly financial results and fluctuations in revenue, as well as the expectations of stockholders and securities analysts regarding the ability of our business to grow and achieve certain revenue or profitability targets, could cause the market price of our common stock to fluctuate significantly. In addition, the stock market in general has experienced volatility that often has been unrelated to the operating performance of companies such as ours. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

Given our levels of share-based compensation, our tax rate may vary significantly depending on our stock price. We apply FASB Accounting Standard Update (“ASU”) No. 2016-09, Compensation—Stock Compensation (Topic 718)—Improvements to Employee Share-Based Payment Accounting under which the tax effects of the accounting for share-based compensation may significantly impact our effective tax rate from period to period. In periods in which our stock price is higher than the grant date fair value of the share-based compensation vesting or exercises in that period, we will recognize excess tax benefits that will decrease our effective tax rate. For example, in 2018 and 2017, the excess tax benefit recognized from share-based compensation decreased our provision for income taxes by \$3.3 million and \$3.8 million, respectively. In future periods in which our stock price is lower than the grant price of the share-based compensation vesting in that period, our effective tax rate may increase. The amount and value of share-based compensation issued relative to our earnings in a particular period will also affect the magnitude of the impact of share-based compensation on our effective tax rate. These tax effects are dependent on our stock price and exercise activity, which we do not control, and a decline in our stock price could significantly increase our effective tax rate and adversely affect our financial results.

We may be subject to the actions of activist shareholders. Our Board of Directors and management team are committed to acting in the best interest of all of our shareholders. We value constructive input from investors and regularly engage in dialogue with our shareholders regarding strategy and performance. Activist shareholders who disagree with the composition of the Board of Directors, our strategy or the way the Company is managed may seek to effect change through various strategies and channels. Responding to shareholder activism can be costly and time-consuming, disrupt our operations, and divert the attention of management and our employees from our strategic initiatives. Activist campaigns can create perceived uncertainties as to our future direction, strategy, or leadership and may result in the loss of potential business opportunities, harm our ability to attract new employees, investors, and customers, and cause our stock price to experience periods of volatility or stagnation.

Changes in accounting policies, standards, and interpretations could materially affect how we report our financial condition, results of operations, and cash flows. The FASB, regulatory agencies, and other bodies that establish accounting standards periodically change the financial accounting and reporting standards governing the preparation of our consolidated financial statements. Additionally, those bodies that establish and interpret the accounting standards (such as the FASB and the SEC) may change prior interpretations or positions on how these standards should be applied. These changes can be difficult to predict and can materially affect how we record and report our financial condition, results of operations, and cash flows. In unusual circumstances, we could be required to retroactively apply a new or revised standard, resulting in changes to previously reported financial results.

Rapid technological changes could significantly impact our competitive position, client relationships and operating results. The professional business services industry has been and continues to be impacted by significant technological changes, enabling companies to offer services competitive with ours. Many of those technological changes are (i) reducing demand for our services, (ii) enabling the development of competitive products or services, or (iii) enabling our current customers to reduce or bypass the use of our services. Additionally, rapid changes in artificial intelligence and block chain-based technology are increasing the competitiveness landscape. We may not be successful in anticipating or responding to these changes and demand for our services could be further reduced by advanced technologies being deployed by our competitors. The effort to gain technological expertise and develop new technologies in our business may require us to incur significant expenses. In some cases, we depend on key vendors and partners to provide technology and other support. If these third parties fail to perform their obligations or cease to work with us, our ability to execute on our strategic initiatives could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our corporate headquarters are located at 6050 Oak Tree Boulevard, South, Suite 500, Cleveland, Ohio 44131, in leased premises. We lease more than 100 offices in 32 states and believe that our current facilities are sufficient for our current needs.

ITEM 3. LEGAL PROCEEDINGS.

Refer to Note 12, Commitments and Contingencies, to the accompanying consolidated financial statements for information on legal proceedings, which is incorporated by reference herein.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information for Common Stock - Our common stock is traded on the NYSE under the trading symbol "CBZ."

Holders of Record — The approximate number of holders of our common stock based on record ownership as of December 31, 2018 was 2,200 holders.

Dividends — Historically, we have not paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. Refer to Note 9, Debt and Financing Arrangements, to the accompanying consolidated financial statements for information relating to restrictions on declaring or making dividend payments under our 2018 credit facility.

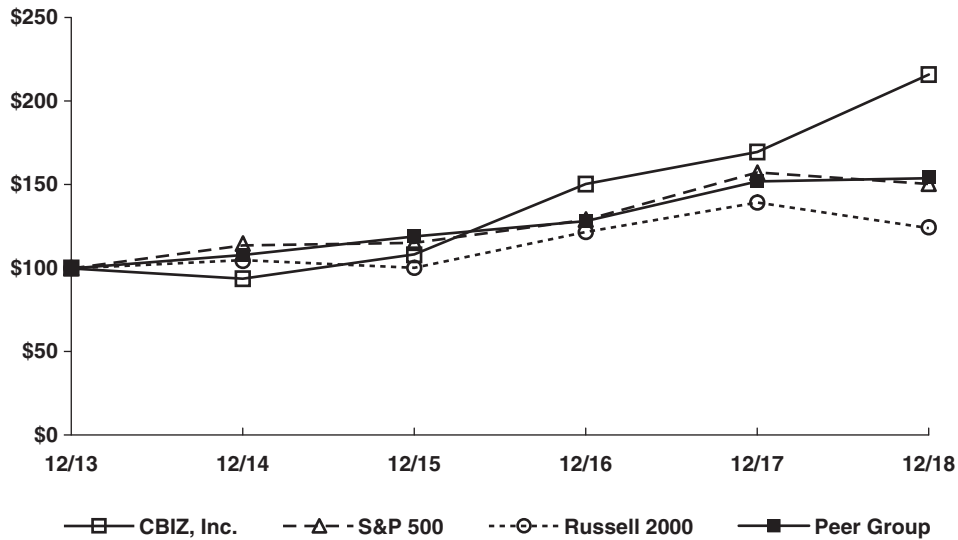
Recent Sales of Unregistered Securities — During the year ended December 31, 2018, we issued approximately 0.2 million shares of our common stock as payment for contingent consideration for acquisitions that occurred prior to 2018. The above referenced shares were issued in transactions not involving a public offering in reliance on the exemption from registration afforded by Section 4(a)(2) of the Securities Act. The persons to whom the shares were issued had access to full information about the Company and represented that they acquired the shares for their own account and not for the purpose of distribution. The certificates for the shares contain a restrictive legend advising that the shares may not be offered for sale, sold, or otherwise transferred without having first been registered under the Securities Act or pursuant to an exemption from the Securities Act.

Issuer Purchases of Equity Securities — In 2018, we repurchased approximately 0.8 million shares of our common stock at a total cost of approximately \$15.6 million, which does not include the purchase of shares withheld for tax purposes under the 2014 Plan. On February 6, 2019, our Board of Directors authorized the continuation of the Share Repurchase Program, which has been renewed annually for the past fifteen years. It is effective beginning April 1, 2019, to which the amount of shares to be purchased will be reset to 5 million, and will expire one year from the effective date. Refer to Note 14, Common Stock, to the accompanying consolidated financial statements for further information relating to the Share Repurchase Program.

Performance Graph — The graph below matches the cumulative five-year total return of holders of CBIZ, Inc.'s common stock with the cumulative total returns of the S&P 500 index, the Russell 2000 index and a customized peer group of five companies that includes: Brown & Brown, Inc., H & R Block, Inc., Paychex, Inc., Resources Connection, Inc. and Willis Towers Watson Plc. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was \$100 on 12/31/2013 and tracks it through 12/31/2018.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among CBIZ, Inc., the S&P 500 Index, the Russell 2000 Index, and a Peer Group



*\$100 invested on 12/31/13 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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* \$100 invested on 12/31/2013 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

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	12/13	12/14	12/15	12/16	12/17	12/18
CBIZ, Inc.	\$100.00	\$ 93.86	\$108.11	\$150.22	\$169.41	\$216.01
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09
Peer Group	100.00	107.77	118.93	127.99	151.81	153.95

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6. SELECTED FINANCIAL DATA.

The following table presents our selected historical financial data. The information set forth below should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the accompanying consolidated financial statements and notes thereto, which are included elsewhere in this Annual Report.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except per share data)				
Results of Operations Data					
Revenue	\$ 922,003	\$ 855,340	\$ 799,832	\$750,422	\$719,483
Income from continuing operations before income tax expense	79,840	74,320	67,006	57,832	50,568
Income tax expense	18,267	23,288	26,399	22,829	20,154
Income from continuing operations (1)	61,573	51,032	40,607	35,003	30,414
Net income	\$ 61,570	\$ 50,377	\$ 40,065	\$ 34,107	\$ 29,759
Basic weighted average common shares	54,561	53,862	52,321	50,280	48,343
Diluted weighted average common shares	56,487	55,689	53,513	52,693	51,487
Diluted earnings per share:					
Continuing operations	\$ 1.09	\$ 0.92	\$ 0.76	\$ 0.66	\$ 0.59
Net income	\$ 1.09	\$ 0.91	\$ 0.75	\$ 0.65	\$ 0.58
Balance Sheet Data					
Total assets	\$1,183,031	\$1,176,231	\$1,118,588	\$996,331	\$991,244
Long-term debt (2)	\$ 135,500	\$ 178,500	\$ 191,400	\$206,550	\$203,969
Total liabilities	\$ 589,368	\$ 645,352	\$ 638,567	\$568,383	\$591,399
Total stockholders’ equity	\$ 593,663	\$ 530,879	\$ 480,021	\$427,948	\$399,845
Adjusted EBITDA (3)	\$ 109,135	\$ 104,011	\$ 94,842	\$ 87,039	\$ 82,220

- (1) “Income from continuing operations” in 2018 and 2017 was impacted by the Tax Act and Jobs Act of 2017. Refer to Note 8, Income Taxes, for additional information on our provision for income taxes
- (2) Represents bank debt and the convertible notes, which are reported in the accompanying Consolidated Balance Sheets. The 4.875% 2010 Convertible Senior Subordinated Notes matured in the fourth quarter of 2015.
- (3) We report our financial results in accordance with United States generally accepted accounting principles (“GAAP”). Adjusted EBITDA, a Non-GAAP measure, represents income from continuing operations before income tax expense, interest expense, gain on sale of operations, net, and depreciation and amortization expense. We have included Adjusted EBITDA because such data is commonly used as a performance measure by analysts and investors and as a measure of our ability to service debt. Adjusted EBITDA should not be regarded as an alternative or replacement to any measurement of performance under generally accepted accounting principles. Refer to the GAAP Reconciliation table in Part II — Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, which reconciles the Non-GAAP financial measure to the nearest GAAP financial measure, “Income from continuing operations.”

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations relates to, and should be read in conjunction with, our consolidated financial statements included elsewhere in this report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management’s expectations. Please see the sections of this report entitled “Forward-Looking Statements” and “Risk Factors.”

EXECUTIVE SUMMARY

Financial Year in Review — Revenue of \$922.0 million in 2018 grew \$66.7 million, or 7.8%, from revenue of \$855.3 million in 2017. Same-unit revenue improved by \$40.2 million, or 4.7%, while acquisitions contributed \$26.5 million to revenue, or 3.1%. A detailed discussion of revenue by practice group is included under “Operating Practice Groups.” Income from continuing operations in 2018 increased \$10.5 million, or 20.7%, to \$61.6 million from \$51.0 million in 2016. Refer to “Results of Operations - Continuing Operations” for a detailed discussion of the components of income from continuing operations. Earnings per diluted share from continuing operations were \$1.09 in 2018, compared to \$0.92 in 2017, with a fully diluted weighted average share count of 56.5 million shares in 2018, compared to 55.7 million shares in 2017.

Strategic Use of Capital — Our first priority for the use of capital is to make strategic acquisitions. We completed three acquisitions in 2018; Laurus Transaction Advisors, LLC (“Laurus”), InR Advisory Services, LLC (“InR”) and Sequoia Institutional Services (“Sequoia”). We also purchased one client list, which was recorded in the Financial Services practice group. Annualized revenue for these acquisitions is estimated to be approximately \$11.0 million. Refer to Note 19, Acquisitions, to the accompanying consolidated financial statements for further discussion on acquisitions.

We also have the financing flexibility and the capacity to take an opportunistic approach towards share repurchases. We believe that repurchasing shares of our common stock is a prudent use of our financial resources, and that investing in our stock is an attractive use of capital and an efficient means to provide value to our shareholders. We repurchased 0.8 million shares of our common stock at a total cost of approximately \$15.6 million in 2018, 1.2 million shares at a total cost of approximately \$18.3 million in 2017 and 0.8 million shares at a total cost of approximately \$7.8 million in 2016. Refer to Note 14, Common Stock, to the accompanying consolidated financial statements for further discussion on the Share Repurchase Program.

Tax Cuts and Jobs Act of 2017 (the “Tax Act”) — The Tax Act permanently reduced the corporate federal income tax rate from 35% to 21% beginning in 2018. Our effective tax rate was 22.9% in 2018, compared to 31.3% in 2017. Refer to Note 8, Income Taxes, for additional information on our provision for income taxes.

Adoption of Revenue from Contracts with Customers — On January 1, 2018, we adopted ASU No. 2014-09, “Revenue from Contracts with Customers” (“Topic 606”) and all of the related amendments. Refer to Note 1, Basis of Presentation and Significant Accounting Policies, and Note 2, Revenue, to the accompanying consolidated financial statements for further discussion on Topic 606.

Debt and Financing Arrangements — On April 3, 2018, we amended and restated our \$400.0 million unsecured credit facility. The 2018 credit facility (i) amends the previous credit facility, (ii) extends the maturity date from 2019 to 2023, (iii) continues to provide for a \$400.0 million revolving loan commitment, (iv) improves our borrowing margin and (v) increases the flexibility of certain covenant baskets, as compared to the previous credit facility. On August 16, 2018, we entered into an unsecured \$20.0 million line of credit (the “line of credit”). Refer to Note 6, Financial Instruments, and Note 9, Debt and Financing Arrangements, to the accompanying consolidated financial statements for further discussion regarding investments and our debt and financing arrangements.

Accomplishments and Other Events

National Marketing Campaign — We launched a national marketing campaign in the third quarter of 2018 using television, digital and online advertisements in our major markets throughout the United States. It was designed to create brand awareness with prospective clients, as well as with target companies and potential new hires. The campaign concluded at the end of 2018, but will commence again in the Spring and Fall of 2019.

Workplace Awards — In 2018, we were honored and recognized for 52 various national and local market awards. A sample of the awards won include;

- **100 Best Workplaces for Millennials** — We were selected and honored amongst 100 recipients as one of the “2018 Best Workplaces for Millennials” by *Great Place to Work* and *Fortune* magazine.
- **Alliance for Workplace Excellence** — We were recognized for three awards in 2018 by the Alliance for Workplace Excellence; (i) Workplace Excellence Seal of Approval, (ii) Health & Wellness Seal of Approval and (iii) Certificate of Recognition – Best Practices for Supporting Works 50+.
- **America’s Best Mid-Size Employer** — We were named one of “2018 America’s Best Mid-Size Employers” by *Forbes* magazine.
- **Best and Brightest Companies in the Nation** — For the third year in a row, we were honored as a “Best and Brightest Company” by *National Association of Business Resources* based on our commitment to human resource practices and employee enrichment.
- **Best Places to Work** — We were selected and honored for the fourth year in a row as a “Best Places to Work in Insurance” by *Business Insurance* magazine based on our commitment to attracting, developing and retaining great talent through employee benefits and other programs. We were recognized for this award based on core focus areas such as leadership and planning, corporate culture, communications, work environment and overall engagement.
- **Best Workplace in Consulting and Professional Services** — We were named one of the “2018 Best Workplaces in Consulting and Professional Services” by *Great Place to Work* and *Fortune* magazine.

RESULTS OF OPERATIONS — CONTINUING OPERATIONS

We provide professional business services that help clients manage their finances and employees. We deliver our integrated services through the following three practice groups: Financial Services, Benefits and Insurance Services and National Practices. A description of these groups’ operating results and factors affecting their businesses is provided below.

Same-unit revenue represents total revenue adjusted to reflect comparable periods of activity for acquisitions and divestitures. For example, for a business acquired on July 1, 2017, revenue for the period January 1, 2018 through June 30, 2018 would be reported as revenue from acquired businesses; same-unit revenue would include revenue for the periods July 1 through December 31 of both years. Divested operations represent operations that did not meet the criteria for treatment as discontinued operations. Those businesses that have met the requirements to be treated as a discontinued operation are eliminated from continuing operations for all periods presented below.

Revenue

The following table summarizes total revenue for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,					
	2018	Percent	2017	Percent	2016	Percent
	(Dollars in thousands)					
Financial Services	\$600,926	65.2%	\$540,315	63.2%	\$501,307	62.7%
Benefits and Insurance Services	288,437	31.3%	283,909	33.2%	267,606	33.5%
National Practices	32,640	3.5%	31,116	3.6%	30,919	3.8%
Total CBIZ revenue	<u>\$922,003</u>	<u>100.0%</u>	<u>\$855,340</u>	<u>100.0%</u>	<u>\$799,832</u>	<u>100.0%</u>

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

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

Operating Expenses

The following table presents our operating expenses for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Operating expenses	\$790,283	\$755,584	\$697,726
Operating expenses % of revenue	85.7%	88.3%	87.2%

2018 compared to 2017 — The majority of our operating expenses relate to personnel costs, which includes (i) salaries and benefits, (ii) commissions paid to producers (iii) incentive compensation and (iv) share-based compensation. Our operating expenses increased by \$34.7 million, but decreased to 85.7% of revenue from 88.3% of revenue for the prior year. Personnel costs increased \$44.8 million, or 7.7%, to support our growth in revenue, with acquisitions contributing approximately \$15.0 million to personnel costs. Personnel costs and other operating expenses are discussed in further detail under “Operating Practice Groups.”

The deferred compensation plan reduced operating expenses by \$4.5 million in 2018, but increased operating expenses by \$10.9 million in 2017. Excluding the impact of the deferred compensation plan, operating expenses would have been \$794.8 million, or 86.2% of revenue, in 2018 compared to \$744.7 million, or 87.1%, in 2017.

2017 compared to 2016 — Our operating expenses increased by \$57.9 million, or 8.3%, in 2017 compared to 2016, and increased to 88.3% of revenue from 87.2% of revenue for the prior year. Personnel costs increased \$45.2 million, or 8.4%, to support our growth in revenue, with acquisitions contributing approximately \$22.3 million to personnel costs. The deferred compensation plan increased operating expenses by \$10.9 million and \$4.6 million in 2017 and 2016, respectively. Excluding this item, operating expenses would have been \$744.7 million, or 87.1% of revenue, in 2017 compared to \$693.2 million, or 86.7%, in 2016.

Corporate General & Administrative Expenses

The following table presents our Corporate General & Administrative (“G&A”) expenses for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands, except percentages)		
G&A expenses	\$39,173	\$33,295	\$36,319
G&A expenses % of revenue	4.2%	3.9%	4.6%

2018 compared to 2017 — Our G&A expenses increased by approximately \$5.9 million, or 17.7%, in 2018 compared to 2017, and increased to 4.2% of revenue from 3.9% of revenue for the prior year. Personnel costs increased \$3.7 million, or 20.5%, mainly due to an increase in incentive-based compensation. An increase in marketing expenses of approximately \$1.6 million, mostly attributable to the national marketing campaign, also contributed to the increase in G&A expenses. The deferred compensation plan reduced G&A expenses by \$0.4 million in 2018, but increased G&A expenses by \$1.2 million in 2017. Excluding the impact of the deferred compensation plan, G&A expenses would have been \$39.6 million, or 4.3% of revenue, in 2018 compared to \$32.1 million, or 3.8%, in 2017.

2017 compared to 2016 — Our G&A expenses decreased by approximately \$3.0 million, or 8.3%, in 2017 compared to 2016, and decreased to 3.9% of revenue from 4.6% of revenue for the prior year. Personnel costs decreased \$2.0 million, or 9.8%, mainly due to a decrease in incentive-based compensation, as well as a decrease of \$0.7 million in professional fees related to legal fees incurred. The deferred compensation increased G&A expenses by \$1.2 million and \$0.7 million in 2017 and 2016, respectively. Excluding these items, G&A expenses would have been \$32.1 million, or 3.8% of revenue, in 2017 compared to \$35.6 million, or 4.5% of revenue, in 2016.

Other (Expense) Income, Net

The following table present our other (expense) income, net for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Interest expense	\$ (6,645)	\$ (6,675)	\$ (6,593)
Gain on sale of operations, net	1,025	45	855
Other (expense) income, net (1)	(7,087)	14,489	6,957
Total other (expense) income, net	<u>\$(12,707)</u>	<u>\$ 7,859</u>	<u>\$ 1,219</u>

- (1) Other (expense) income, net includes a net loss of \$4.9 million in 2018, compared to net gains of \$12.1 million and \$5.3 million in the years 2017 and 2016, respectively, associated with the value of investments held in a rabbi trust related to the deferred compensation plan. The adjustments to the investments held in a rabbi trust related to the deferred compensation plan are offset by a corresponding increase or decrease to compensation expense, which is recorded as “Operating expenses” and “G&A expenses” in the accompanying Consolidated Statements of Comprehensive Income. The deferred compensation plan has no impact on “Income from continuing operations before income tax expense” or diluted earnings per share from continuing operations.

Interest Expense — Our primary financing arrangement is the 2018 credit facility. Interest expense was \$6.6 million in 2018, compared to \$6.7 million in 2017. Our average debt balance and interest rate was \$182.3 million and 3.08%, respectively, in 2018 compared to \$205.3 million and 2.72%, respectively, in 2017. Interest expense was \$6.6 million in 2016 with an average debt balance and interest rate of \$234.5 million and

2.43%, respectively. Our debt is further discussed in Note 9, Debt and Financing Arrangements, to the accompanying consolidated financial statements.

Gain on Sale of Operations, net — In 2018, we sold a small office in the Financial Services practice group, along with two small books of business, both in the Benefits and Insurance practice group. We sold one small book of business in the Financial Services practice group in 2017 and two small books of business in the Benefits and Insurance practice group in 2016.

Other (Expense) Income, net — The majority of “Other (expense) income, net” consists of net gains and losses associated with the value of the deferred compensation plan as discussed above in footnote 1, as well as net adjustments to the fair value of our contingent purchase price liability related to prior acquisitions. Other expense of \$7.1 million in 2018 consisted of a \$4.9 million net loss related to the deferred compensation plan, as well as a \$2.6 million net adjustment increase to the fair value of our contingent purchase price liability. Other income of \$14.5 million in 2017 consisted of a net gain of \$12.1 million related to the deferred compensation plan and a \$1.5 million net adjustment decrease to the fair value of our contingent purchase price liability. Other income of \$7.0 million in 2016 consisted of a net gain of \$5.3 million related to the deferred compensation plan, as well as a \$1.0 million net adjustment decrease to the fair value of our contingent purchase price liability.

Income Tax Expense

The following table presents our income tax expense for the years ended December 31, 2017, 2016 and 2015:

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(Dollars in thousands, except percentages)		
Income tax expense	\$18,267	\$23,288	\$26,399
Effective tax rate	22.9%	31.3%	39.4%

We recorded income tax expense from continuing operations of \$18.3 million in 2018, \$23.3 million in 2017 and \$26.4 million in 2016. Our effective tax rate for those same periods was 22.9%, 31.3% and 39.4%, respectively. We recognized a reduction in our income tax expense from continuing operations of \$3.3 million and \$3.8 million, respectively, in 2018 and 2017, due to ASU 2016-09, Stock Compensation. We also recognized a reduction in our income tax expense from continuing operations of \$9.4 million and \$2.5 million, respectively, in 2018 and 2017 due to the Tax Act. Refer to Note 8, Income Taxes, for additional information on our provision for income taxes.

GAAP RECONCILIATION

Income from Continuing Operations to Non-GAAP Financial Measures (1)

	<u>Year Ended December 31,</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(Dollars in thousands)				
Income from continuing operations	\$ 61,573	\$ 51,032	\$40,607	\$35,003	\$30,414
Interest expense	6,645	6,675	6,593	8,902	13,124
Income tax expense	18,267	23,288	26,399	22,829	20,154
Gain on sale of operations, net	(1,025)	(45)	(855)	(84)	(1,303)
Depreciation	6,140	5,274	5,378	5,658	5,353
Amortization	17,535	17,787	16,720	14,731	14,478
Adjusted EBITDA	<u>\$109,135</u>	<u>\$104,011</u>	<u>\$94,842</u>	<u>\$87,039</u>	<u>\$82,220</u>

(1) We report our financial results in accordance with GAAP. This table reconciles Non-GAAP financial measures to the nearest GAAP financial measure, “Income from continuing operations.” Adjusted EBITDA

is not defined by GAAP, is not based on any comprehensive set of accounting rules or principles, and should not be considered in isolation from, or regarded as an alternative or replacement to, any measurement of performance or cash flow under GAAP. Because of these limitations, Adjusted EBITDA should be considered alongside our financial results presented in accordance with GAAP. Adjusted EBITDA is commonly used by our shareholders and debt holders to evaluate, assess and benchmark our operational results and to provide an additional measure with respect to our ability to meet future debt obligations.

Operating Practice Groups

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

Financial Services

	Year Ended December 31,			<u>% Change</u>
	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	
	(Dollars in thousands)			
Revenue				
Same-unit	\$578,308	\$540,120	\$38,188	7.1%
Acquired businesses	22,618	—	22,618	
Divested operation	—	195	(195)	
Total revenue	<u>600,926</u>	<u>540,315</u>	<u>60,611</u>	11.2%
Operating expenses	<u>508,653</u>	<u>468,089</u>	<u>40,564</u>	8.7%
Gross margin	<u>\$ 92,273</u>	<u>\$ 72,226</u>	<u>\$20,047</u>	27.8%
Gross margin percentage	<u>15.4%</u>	<u>13.4%</u>		

2018 compared to 2017 — The Financial Services practice group revenue in 2018 grew by 11.2% to \$600.9 million from \$540.3 million in 2017, reflecting same-unit growth of \$38.2 million, or 7.1%, driven by those units that provide traditional accounting and tax-related services, which increased by \$19.5 million, or 5.6%, as well as those units that provide national services, which increased by \$18.7 million, or 9.2%. Traditional accounting and tax-related services growth was attributable to favorable pricing and an increase in billable hours. National services benefited from both project work and growth in the governmental health care compliance business, as well as growth in the advisory business. The acquisition of CMF Associates, L.L.C. (“CMF”), Laurus, and McKay & Carnahan, Inc. (“McKay”) provided incremental revenue of \$22.6 million. We provide a range of services to affiliated CPA firms under ASAs. Fees earned under the ASAs are recorded as revenue in the accompanying Consolidated Statements of Comprehensive Income and were \$154.0 million and \$156.4 million in 2018 and 2017, respectively.

Operating expenses increased by \$40.6 million in 2018, but decreased to 84.6% of revenue from 86.6% of revenue for the prior year, primarily due to leveraging personnel costs and other operating expenses with the increase in revenue. Personnel costs increased by \$35.3 million, or 9.3%, with acquisitions contributing approximately \$12.6 million to personnel costs in 2018. Travel costs attributable to the growth in our advisory business also contributed to the increase in operating expenses. Travel-related costs increased by \$3.2 million, or 17.7%.

	Year Ended December 31,			% Change
	2017	2016	\$ Change	
	(Dollars in thousands)			
Revenue				
Same-unit	\$519,566	\$501,307	\$18,259	3.6%
Acquired businesses	20,554	—	20,554	
Divested operation	195	—	195	
Total revenue	<u>540,315</u>	<u>501,307</u>	<u>39,008</u>	7.8%
Operating expenses	<u>468,089</u>	<u>432,254</u>	<u>35,835</u>	8.3%
Gross margin	<u>\$ 72,226</u>	<u>\$ 69,053</u>	<u>\$ 3,173</u>	4.6%
Gross margin percentage	<u>13.4%</u>	<u>13.8%</u>		

2017 compared to 2016 — The Financial Services practice group revenue in 2017 grew by 7.8% to \$540.3 million from \$501.3 million in 2016. The acquisition of CMF, The Seff Group, P.C. (“Seff”) and, McKay provided incremental revenue of \$20.6 million. Same-unit growth of \$18.3 million, or 3.6%, was driven by those units that provide traditional accounting and tax-related services, which increased by \$9.2 million, or 3.0%, as well as those units that provide national services, which increased by \$8.4 million, or 5.1%, due to the same factors as discussed above in the “2018 compared to 2017” section. Operating expenses increased by \$35.8 million in 2017, and increased to 86.6% of revenue from 86.2% of revenue for the prior year. To support growth in our revenue in 2017, personnel costs increased by \$29.3 million, driven by an increase in headcount. Acquisitions contributed \$13.4 million to the increase in personnel costs in 2017.

Benefits and Insurance Services

	Year Ended December 31,			% Change
	2018	2017	\$ Change	
	(Dollars in thousands)			
Revenue				
Same-unit	\$284,366	\$283,909	\$ 457	0.2%
Acquired businesses	4,071	—	4,071	
Total revenue	<u>288,437</u>	<u>283,909</u>	<u>4,528</u>	1.6%
Operating expenses	<u>239,646</u>	<u>236,317</u>	<u>3,329</u>	1.4%
Gross margin	<u>\$ 48,791</u>	<u>\$ 47,592</u>	<u>\$1,199</u>	2.5%
Gross margin percentage	<u>16.9%</u>	<u>16.8%</u>		

2018 compared to 2017 — The Benefits and Insurance Services practice group revenue in 2018 grew by 1.6% to \$288.4 million from \$283.9 million in 2017, primarily driven by \$4.1 million of incremental revenue from the acquisition of InR, Slaton Insurance (“Slaton”), Sequoia, and Pacific Coastal Pension and Insurance Services, Inc. (“Pacific Coastal”). Same-unit revenue increased slightly by \$0.5 million, or 0.2%, in 2018 driven by growth in our property and casualty group, slightly offset by declines in our employee benefits group and retirement plan

services. The property and casualty group also benefited by nearly \$1.0 million from the adoption of Topic 606. Revenue within this business unit is recognized on the effective date of the insurance policy under Topic 606, compared to the legacy standard in which revenue was recognized as of (i) the later of the effective date of the insurance policy or the date billed to the customer (agency billing arrangements) and (ii) when the data necessary from the carriers was available (direct billing arrangements). Topic 606 is discussed in further detail in Note 1, Basis of Presentation and Significant Accounting Policies, and Note 2, Revenue, to the accompanying consolidated financial statements. Operating expenses increased by \$3.3 million in 2018 due to personnel costs which increased by \$3.3 million, or 1.9%, primarily due to acquisitions, as well as an increase in the hiring of sales production staff.

	Year Ended December 31,			% Change
	2017	2016	\$ Change	
	(Dollars in thousands)			
Revenue				
Same-unit	\$266,462	\$267,606	\$ (1,144)	-0.4%
Acquired businesses	17,447	—	17,447	
Total revenue	283,909	267,606	16,303	6.1%
Operating expenses	236,317	223,487	12,830	5.7%
Gross margin	<u>\$ 47,592</u>	<u>\$ 44,119</u>	<u>\$ 3,473</u>	7.9%
Gross margin percentage	<u>16.8%</u>	<u>16.5%</u>		

2017 compared to 2016 — The Benefits and Insurance Services practice group revenue in 2017 grew by 6.1% to \$283.9 million from \$267.6 million in 2016, driven by \$17.4 million of incremental revenue from the acquisition of Flex-Pay Business Services, Inc. (“Flex-Pay”), The Savitz Organization (“Savitz”), Pacific Coastal, Actuarial Consultants, Inc. (“ACI”) and Slaton. The same-unit revenue decrease of 0.4% in 2017 was primarily attributable to fewer recruiting projects in our human capital services group as well as a decline in non-recurring revenue in our life and wholesale insurance services group, which tends to be transactional. Excluding these service groups, same-unit revenue growth from our core benefits and insurance services would have been 0.3%. Operating expenses increased by \$12.8 million in 2017, but decreased as a percentage of revenue to 83.2% of revenue from 83.5% of revenue for the prior year. Personnel costs increased by \$11.4 million primarily due to the acquisitions as discussed above. Excluding acquisitions, personnel costs increased \$2.4 million.

National Practices

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Revenue			
Same-unit	\$32,640	\$31,116	\$30,919
Operating expenses	30,003	28,382	27,697
Gross margin	<u>\$ 2,637</u>	<u>\$ 2,734</u>	<u>\$ 3,222</u>
Gross margin percentage	<u>8.1%</u>	<u>8.8%</u>	<u>10.4%</u>

Revenue growth in this practice group was primarily driven by our cost-plus contract with a single client, which has existed since 1999. The cost-plus contract is a five year contract with the most recent renewal through December 31, 2023. Revenues from this single client accounted for nearly 75% of the National Practice group’s revenue. Operating expenses have increased mainly due to an increase in salaries and benefits.

LIQUIDITY AND CAPITAL RESOURCES

The following table is derived from our Consolidated Statements of Cash Flows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Net cash flows provided by operating activities	\$ 105,248	\$ 77,036	\$ 74,061
Net cash used in investing activities	(47,576)	(48,681)	(9,847)
Net cash flows used in financing activities	(109,380)	(45,593)	(18,384)

We generate strong cash flows from operations and have access to a \$400 million credit facility which enables us to fund investments and operating projects that are designed to optimize shareholder return. Cash flows from operations and available capital resources allow us to make strategic acquisitions, repurchase shares of our common stock when accretive to shareholders, meet working capital needs, and service our debt. Generally we maintain low levels of cash and apply any available cash to pay down our outstanding debt balance. Due to the seasonal nature of the Financial Services practice group's accounting and tax services in the first four months of the fiscal year, we historically generate much of our cash flows during the last three quarters of the fiscal year.

Our working capital management primarily relates to trade accounts receivable, accounts payable, incentive-based compensation and other assets which consists of other receivables typically related to tenant improvement allowances within our portfolio of over 100 office leases. At any specific point in time, working capital is subject to many variables, including seasonality and the timing of cash receipts and payments, most notably in the timing of insurance premiums to the carriers within our Benefits and Insurance practice group. We have restricted cash on deposit from clients in connection with the pass-through of insurance premiums to the carrier with the related liability for these funds recorded in "Accounts payable" in the accompanying Consolidated Balance Sheets.

Accounts receivable balances increase in response to the increase in revenue generated by the Financial Services practice group during the first four months of the year. A significant amount of this revenue is billed and collected in subsequent quarters. Days sales outstanding ("DSO") from continuing operations represent accounts receivable and unbilled revenue (net of realization adjustments) at the end of the period, divided by trailing twelve months daily revenue. We experienced a decrease in DSO to 70 days in 2018 from 73 days in 2017, mainly due to increased management of collection efforts. We provide DSO data because such data is commonly used as a performance measure by analysts and investors and as a measure of our ability to collect on receivables in a timely manner.

Cash Provided by Operating Activities

2018 compared to 2017 — Cash flow from operating activities generated cash of \$105.2 million during 2018 and consisted of net income of \$61.6 million, adjusted for certain non-cash items, such as depreciation and amortization expense of \$23.7 million and share-based compensation expense of \$6.9 million, as well as a working capital source of cash of \$5.1 million. The \$28.2 million increase in cash provided by operating activities in 2018 compared to 2017 was primarily due to an increase in net income of \$11.2 million, a net increase in cash from working capital of \$11.2 million and a net increase in the adjustment to the contingent earnout liability of \$4.1 million.

2017 compared to 2016 — Cash flow from operating activities generated cash of \$77.0 million during 2017 and consisted of net income of \$50.3 million, adjusted for certain non-cash items, such as depreciation and amortization expense of \$23.1 million and share-based compensation expense of \$5.1 million, partially offset by a working capital use of cash of \$6.1 million. Net cash provided by operating activities increased by \$2.9 million in 2017 from 2016. Net income increased by \$10.3 million, partially offset by a net decrease in cash from working capital of \$4.9 million and a net decrease in excess tax benefits related to share-based payments of \$2.7 million. Cash flows from operating activities generated cash of \$74.1 million in 2016 and consisted of net income of \$40.1 million, adjusted for certain non-cash items, such as depreciation and amortization expense of \$22.1 million and share-based compensation expense of \$5.7 million.

Investing Activities

The majority of our investing activities relate to acquisitions, capital expenditures and net activity related to funds held for clients. Refer to Note 1, Basis of Presentation and Significant Accounting Policies, and Note 19, Acquisitions, to the accompanying consolidated financial statements for further discussion on our acquisitions and a further description of funds held for clients and client fund obligations.

2018 — Net cash used in investing activities in 2018 consisted primarily of \$29.1 million related to the acquisitions of Laurus, InR and Sequoia, as well as \$14.6 million in capital expenditures. Net activity related to funds held for clients also contributed \$6.2 million to cash used in investing activities.

2017 — Net cash used in investing activities in 2017 consisted primarily of \$28.1 million related to the acquisition of CMF and Slaton and working capital adjustments related to the Savitz acquisition, as well as \$11.9 million of capital expenditures. Net activity related to funds held for clients of \$6.8 million also contributed to cash used in investing activities.

2016 — In 2016, net cash used in investing activities consisted primarily of \$5.7 million related to the acquisitions of Savitz, Flex-Pay and Ed Jacobs & Associates, Inc. (“Ed Jacobs”), as well as capital expenditures of \$4.1 million.

Financing Activities

The majority of our financing activities relates to our 2018 credit facility, share repurchases, net client fund obligation activity, as well as contingent consideration payments for prior acquisitions. Refer to Note 9, Debt and Financing Arrangements, and Note 14, Common Stock, to the accompanying consolidated financial statements for further discussion on our 2018 credit facility and Share Repurchase Program.

2018 — Net cash used in financing activities in 2018 consisted primarily of net payments on our 2018 credit facility of \$43.0 million, a net decrease of \$41.5 million in client fund obligations, \$17.5 million of share repurchases, and \$11.8 million of contingent consideration payments for prior acquisitions.

2017 — Net cash used in financing activities in 2017 consisted primarily of \$19.7 million of share repurchases, net payments on our credit facility of \$12.9 million, as well as \$10.5 million of contingent consideration payments for prior acquisitions.

2016 — In 2016, net cash used in financing activities consisted of net payments on our credit facility of \$14.4 million, as well as \$9.1 million of share repurchases, partially offset by a net increase in client fund obligations of \$5.3 million.

CAPITAL RESOURCES

The following table presents our capital structure (in thousands).

	December 31,	
	2018	2017
Bank debt	\$135,500	\$178,500
Stockholders’ equity	593,663	530,879
Total capital	<u>\$729,163</u>	<u>\$709,379</u>

Credit Facility — On April 3, 2018, we amended and restated our \$400.0 million unsecured credit facility. The 2018 credit facility (i) amends the previous credit facility, (ii) extends the maturity date from 2019 to 2023, (iii) continues to provide for a \$400.0 million revolving loan commitment, (iv) improves our borrowing margin and

(v) increases the flexibility of certain covenant baskets, as compared to the previous credit facility. At December 31, 2018, we had \$135.5 million outstanding under the credit facility, as well as letters of credit and performance guarantees totaling \$4.0 million. Available funds under the credit facility, based on the terms of the commitment, were approximately \$255.5 million at December 31, 2018. The weighted average interest rate under the credit facility was 3.08% in 2018 and 2.72% in 2017. The credit facility allows for the allocation of funds for future strategic initiatives, including acquisitions and the repurchase of our common stock, subject to the terms and conditions of the credit facility.

Debt Covenant Compliance — We are required to meet certain financial covenants with respect to (i) total leverage ratio and (ii) a minimum fixed charge coverage ratio. We were in compliance with our covenants as of December 31, 2018. Our ability to service our debt and to fund future strategic initiatives will depend upon our ability to generate cash in the future. For further discussion regarding our credit facility, refer to Note 9, Debt and Financing Arrangements, to the accompanying consolidated financial statements.

Use of Capital — Our first priority for the use of capital is to make strategic acquisitions. We completed three acquisitions in 2018: Laurus, InR and Sequoia, as well as one client list. Refer to Note 19, Acquisitions, to the accompanying consolidated financial statements for further discussion on acquisitions. We also have the financing flexibility and the capacity to take an opportunistic approach towards share repurchases. We believe that repurchasing shares of our common stock is a prudent use of our financial resources, and that investing in our stock is an attractive use of capital and an efficient means to provide value to our shareholders. We repurchased 0.8 million shares of our common stock at a total cost of approximately \$15.6 million in 2018, 1.2 million shares at a total cost of approximately \$18.3 million in 2017 and 0.8 million shares at a total cost of approximately \$7.8 million in 2016. Refer to Note 14, Common Stock, to the accompanying consolidated financial statements for further discussion on the Share Repurchase Program.

Cash Requirements for 2019 — Cash requirements for 2019 will include acquisitions, interest payments on debt, seasonal working capital requirements, contingent earnout payments for previous acquisitions, share repurchases and capital expenditures. We believe that cash provided by operations, as well as available funds under our credit facility will be sufficient to meet cash requirements for the next 12 months.

OBLIGATIONS AND COMMITMENTS

Our aggregate amount of future obligations for the next five years and thereafter is set forth below (in thousands):

	<u>Total</u>	<u>2019</u>	<u>2020- 2021</u>	<u>2022-2023</u>	<u>2024 and Thereafter</u>
Credit facility (1)	\$153,235	\$ 4,173	\$ 8,346	\$140,716	\$ —
Operating leases (2)	196,508	34,490	56,825	39,339	65,854
Contingent purchase price liabilities (3)	39,708	22,538	14,537	2,633	—
Other liabilities (4)	9,459	6,240	2,116	5	1,098
Total	<u>\$398,910</u>	<u>\$67,441</u>	<u>\$81,824</u>	<u>\$182,693</u>	<u>\$66,952</u>

(1) Our 2018 credit facility matures on April 3, 2023. Interest on the credit facility is not determinable due to the revolving nature of the credit facility and the variability of the related interest rate. Dollar amounts are estimates based on applying the 3.08% weighted average rate of the credit facility at December 31, 2018 to the \$135.5 million outstanding balance of the credit facility at December 31, 2018.

(2) Operating leases include the minimum rent commitments under non-cancelable operating leases. Amount excludes cash expected to be received under subleases.

(3) Represents the contingent earnout liability that is expected to be paid over the next four years resulting from business acquisitions. For the years ended December 31, 2019, 2020, 2021 and 2022 the cash portions of the contingent earnout liability are \$17.1 million, \$11.0 million, \$4.2 million and \$2.2 million, respectively, with the remaining balance representing the stock portions.

(4) Other liabilities include letters of credit and license bonds, contingencies related to the purchase of client lists and federal and state income taxes. For further discussion regarding commitments and contingencies, refer to Note 12, Commitments and Contingencies, to the

accompanying consolidated financial statements. The liability for unrecognized tax benefits of \$2.8 million under FASB ASC Topic 740, Income Taxes, is excluded, since we are unable to reasonably estimate the timing of cash settlements with the respective tax authorities.

Off-Balance Sheet Arrangements — We maintain ASAs with independent CPA firms (as described more fully under “Business — Financial Services” and in Note 1, Basis of Presentation and Significant Accounting Policies, to the accompanying consolidated financial statements), which qualify as variable interest entities. The accompanying consolidated financial statements do not reflect the operations or accounts of variable interest entities as the impact is not material to the consolidated financial condition, results of operations, or cash flows of CBIZ.

We provide letters of credit for insurance needs as well as to landlords (lessors) of our leased premises in lieu of cash security deposits. Letters of credit totaled \$1.1 million and \$2.3 million at December 31, 2018 and 2017. In addition, we provide license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding was \$2.9 million and \$2.5 million at December 31, 2018 and 2017, respectively.

We have various agreements under which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which we customarily agree to hold the other party harmless against losses arising from a breach of representations, warranties, covenants or agreements, related to matters such as title to assets sold and certain tax matters. Payment by us under such indemnification clauses are generally conditioned upon the other party making a claim. Such claims are typically subject to challenge by us and to dispute resolution procedures specified in the particular contract. Further, our obligations under these agreements may be limited in terms of time and/or amount and, in some instances, we may have recourse against third parties for certain payments made by us. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of our obligations and the unique facts of each particular agreement. Historically, we have not made any payments under these agreements that have been material individually or in the aggregate. As of December 31, 2018, we were not aware of any obligations arising under indemnification agreements that would require material payments.

Interest Rate Risk Management — We do not purchase or hold any derivative instruments for trading or speculative purposes. We utilize interest rate swaps to manage interest rate risk exposure associated with our floating-rate debt under the credit facility. Under these interest rate swap contracts, we receive cash flows from counterparties at variable rates based on the London Interbank Offered Rate (“LIBOR”) and pay the counterparties a fixed rate. To mitigate counterparty credit risk, we only enter into contracts with selected major financial institutions with investment grade ratings and continually assess their creditworthiness. There are no credit risk-related contingent features in our interest rate swaps nor do the swaps contain provisions under which we would be required to post collateral.

As of December 31, 2018, the notional value of all of our interest rate swaps was \$70.0 million, with maturity dates ranging from October 2020 to June 2023. For further details on our interest rate swaps, refer to Note 6, Financial Instruments, to the accompanying consolidated financial statements.

In connection with payroll services provided to clients, we collect funds from our clients’ accounts in advance of paying these client obligations. These funds held for clients are segregated and invested in accordance with our investment policy, which requires that all investments carry an investment grade rating at the time of initial investment. The interest income on these investments mitigates the interest rate risk for the borrowing costs of our credit facility, as the rates on both the investments and the outstanding borrowings against the credit facility are based on market conditions. Refer to Note 6, Financial Instruments, and Note 9, Debt and Financing Arrangements, to the accompanying consolidated financial statements for further discussion regarding investments and our debt and financing arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our consolidated financial statements in accordance with GAAP is based on the selection and application of accounting policies that require us to make significant estimates and assumptions that in certain circumstances affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, we have made our best estimates and judgements of certain amounts included in the consolidated financial statements, giving due consideration to materiality. We consider the accounting policies discussed below to be critical to the understanding of our consolidated financial statements. Actual results could differ from our estimates and assumptions, and any such difference could be material to our consolidated financial statements. Significant accounting policies, including Revenue Recognition, are described more fully in Note 1, Basis of Presentation and Significant Accounting Policies, to the accompanying consolidated financial statements.

Accounts Receivable and Notes Receivable — We determine the valuation of accounts receivable (including unbilled accounts receivable) and notes receivable, and the adequacy of the allowance for doubtful accounts based on estimates of losses related to the respective receivable balance. We analyze historical bad debts, client credit-worthiness, the age of accounts receivable and current economic trends and conditions when evaluating the adequacy of the allowance for doubtful accounts and the collectability of notes receivable. Significant management judgments and estimates must be made and used in connection with establishing the allowance for doubtful accounts for each accounting period. Material differences may result if facts and circumstances change in relation to the original estimation.

Business Combinations — We recognize and measure identifiable assets acquired and liabilities assumed as of the acquisition date at fair value. Fair value measurements require extensive use of estimates and assumptions, including estimates of future cash flows to be generated by the acquired assets. In addition, we recognize and measure contingent consideration at fair value as of the acquisition date using a probability-weighted discounted cash flow model. The fair value of contingent consideration obligations that are classified as liabilities are reassessed each reporting period. Any change in the fair value estimate is recorded in the earnings of that period.

Goodwill and Other Intangible Assets — Goodwill represents the difference between the purchase price of the acquired business and the related fair value of the net assets acquired. A significant portion of our assets in the accompanying Consolidated Balance Sheets is goodwill. At December 31, 2018, the carrying value of goodwill totaled \$564.3 million, compared to total assets of \$1.2 billion and total shareholders' equity of \$593.2 million. Intangible assets consist of identifiable intangibles other than goodwill. Identifiable intangible assets other than goodwill include client lists and non-compete agreements which require significant judgements in determining the fair value. We carry client lists and non-compete agreements at cost, less accumulated amortization, in the accompanying Consolidated Balance Sheets.

Goodwill is not amortized, but rather is tested for impairment annually during the fourth quarter. In addition to our annual goodwill test, on a periodic basis, we are required to consider whether it is more likely than not (defined as a likelihood of more than 50%) that the fair value has fallen below its carrying value, thus requiring us to perform an interim goodwill impairment test. Intangible assets with definite lives, such as client lists and non-compete agreements, are amortized using the straight-line method over their estimated useful lives (generally ranging from two to fifteen years). We review these assets for impairment whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable. Recoverability is assessed based on a comparison of the undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis or market comparable method.

The goodwill impairment test is performed at a reporting unit level. A reporting unit is an operating segment of a business or one level below an operating segment. At December 31, 2018, we had five reporting units. We may use either a qualitative or quantitative approach when testing a reporting unit's goodwill for impairment. Under

the qualitative assessment, we are not required to calculate the fair value of a reporting unit unless we determine that it is more likely than not that its fair value is less than its carrying amount. If under the quantitative assessment the fair value of a reporting unit is less than its carrying amount, then the amount of the impairment loss, if any, must be measured. Any such impairment charge would reduce earnings and could be material.

After considering changes to assumptions used in our most recent quantitative testing for each reporting unit, including the capital market environment, economic and market conditions, industry competition and trends, our weighted average cost of capital, changes in management and key personnel, the price of our common stock, changes in our results of operations, the magnitude of the excess of fair value over the carrying amount of each reporting unit as determined in our most recent quantitative testing, and other factors, we concluded that it was more likely than not that the fair values of each of our reporting units were more than their respective carrying values and, therefore, did not perform a quantitative impairment analysis. For further information regarding our goodwill balances, refer to Note 5, Goodwill and Other Intangible Assets, net, to the accompanying consolidated financial statements.

Loss Contingencies — Loss contingencies, including litigation claims, are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Contingent liabilities are often resolved over long time periods. Estimating probable losses requires analysis that often depends on judgment about potential actions by third parties. Refer to Note 12, Commitments and Contingencies, to the accompanying consolidated financial statements for further information.

Other Significant Policies — Other significant accounting policies, not involving the same level of management judgment and uncertainty as those discussed above, are also critical in understanding the consolidated financial statements. Those policies are described in Note 1, Basis of Presentation and Significant Accounting Policies, to the accompanying consolidated financial statements.

Recent Accounting Pronouncements — Refer to Note 1, Basis of Presentation and Significant Accounting Policies, to the accompanying consolidated financial statements for a description of recent accounting pronouncements, which is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not purchase or hold any derivative instruments for trading or speculative purposes. We utilize interest rate swaps to manage interest rate risk exposure associated with our floating-rate debt under the credit facility. Under these interest rate swap contracts, we receive cash flows from counterparties at variable rates based on LIBOR and pay the counterparties a fixed rate. To mitigate counterparty credit risk, we only enter into contracts with selected major financial institutions with investment grade ratings and continually assess their creditworthiness. There are no credit risk-related contingent features in our interest rate swaps nor do the swaps contain provisions under which we would be required to post collateral.

The notional value, fixed rate of interest and expiration date of each interest rate swap is i) \$25 million – 1.300% — October 2020, (ii) \$10 million – 1.120% — February 2021 and (iii) \$20 million – 1.770% — May 2022 and (iv) \$15 million – 2.640% — June 2023. Refer to Note 6, Financial Instruments, to the accompanying consolidated financial statements for further discussion regarding interest rate swaps.

Interest rate risk results when the maturity or repricing intervals of interest-earning assets and interest-bearing liabilities are different. A change in the Federal Funds Rate, or the reference rate set by Bank of America, N.A., would affect the rate at which we could borrow funds under our credit facility. Our balance outstanding under the credit facility at December 31, 2018 was \$135.5 million, of which \$65.5 million is subject to rate risk. If market rates were to increase or decrease 100 basis points from the levels at December 31, 2018, interest expense would increase or decrease approximately \$0.7 million annually.

In connection with our payroll business, funds held for clients are segregated and invested in short-term investments, such as corporate and municipal bonds. In accordance with our investment policy, all investments carry an investment grade rating at the time of the initial investment. At each respective balance sheet date, these investments are adjusted to fair value with fair value adjustments being recorded to other comprehensive income or loss for the respective period. Refer to Notes 6, Financial Instruments, and Note 7, Fair Value Measurements, to the accompanying consolidated financial statements for further discussion regarding these investments and the related fair value assessments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial Statements, together with the notes thereto and the reports of KPMG LLP dated February 28, 2019 thereon, and the Supplementary Data required hereunder, are included in this Annual Report as set forth in Item 15(a) hereof and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

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

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

Conclusions — Based upon the Controls Evaluation, our CEO and CFO have concluded that as of the end of the period covered by this report, our Disclosure Controls are effective at the reasonable assurance level described above. There were no changes in our Internal Controls that occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our Internal Controls.

Management’s Report on Internal Control Over Financial Reporting — Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision of management, including our CEO and CFO, we conducted an evaluation of our internal control over financial reporting based on the framework provided in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

Our independent auditor, KPMG LLP, an independent registered public accounting firm, has issued an audit report on the effectiveness of our internal control over financial reporting which appears in Item 8 of this Annual Report.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information with respect to this item not included below is incorporated by reference from our Definitive Proxy Statement for the 2019 Annual Stockholders' Meeting to be filed with the SEC no later than 120 days after the end of CBIZ's fiscal year.

We have adopted a Code of Professional Conduct and Ethics Guide that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Our Code of Professional Conduct and Ethics Guide is available on the investor information page of our website, located at <https://www.cbiz.com>, and in print to any shareholder who requests them. Any waiver or amendment to the code will be posted on our website.

Executive Officers, Directors and Key Employees of the Registrant — The following table sets forth certain information regarding the directors, executive officers and certain key employees of CBIZ. Each executive officer and director of CBIZ named in the following table has been elected to serve until his/her successor is duly appointed or elected or until his/her earlier removal or resignation from office. No arrangement or understanding exists between any executive officer of CBIZ and any other person pursuant to which he or she was selected as an officer.

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Executive Officers and Directors:		
Steven L. Gerard (1)	73	Chairman
Jerome P. Grisko, Jr. (1)	57	President & Chief Executive Officer, Director
Rick L. Burdick (1)	67	Lead Director and Vice Chairman
Michael H. DeGroot (3)	58	Director
Joseph S. DiMartino (2)(3)(4)	75	Director
Gina D. France (3)	60	Director
Sherrill W. Hudson (2)(3)	75	Director
Todd J. Slotkin (2)(3)(4)	65	Director
Donald V. Weir (2)(3)	77	Director
Benaree Pratt Wiley (3)(4)	72	Director
Ware H. Grove	68	Senior Vice President and Chief Financial Officer
Chris Spurio	53	President, Financial Services
Michael P. Kouzelos	50	President, Benefits and Insurance Services
Richard E. Mills	63	Chief Operating Officer, Financial Services
Michael W. Gleespen	60	Secretary and General Counsel
Other Key Employees:		
John A. Fleischer	57	Senior Vice President and Chief Information Officer
Mark M. Waxman	60	Senior Vice President and Chief Marketing Officer
Teresa E. Bur	54	Senior Vice President and Chief Human Resources Officer
Bruce J. Kowalski	58	Vice President, Tax
Cynthia L. Sobe	51	Treasurer
Andrew K. Dambrosio	61	Controller

- (1) Member of Executive Management Committee
- (2) Member of Audit Committee
- (3) Member of Nominating & Governance Committee
- (4) Member of Compensation Committee

Steven L. Gerard was elected by the Board to serve as its Chairman in October 2002. He was appointed Chief Executive Officer and Director in October 2000, and served as CEO until March 2016. Mr. Gerard continues to serve as non-executive Chairman. Mr. Gerard was Chairman and Chief Executive Officer of Great Point Capital, Inc., a provider of operational and advisory services from 1997 to October 2000. From 1991 to 1997, he was Chairman and Chief Executive Officer of Triangle Wire & Cable, Inc. and its successor Ocean View Capital, Inc. Mr. Gerard's prior experience includes 16 years with Citibank, N.A. in various senior corporate finance and banking positions. Further, Mr. Gerard served seven years with the American Stock Exchange, where he last served as Vice President of the Securities Division. Mr. Gerard also serves on the Boards of Directors of Lennar Corporation and Las Vegas Sands Corporation, and was a member of the Board of Directors of Joy Global, Inc. until its acquisition by Komatsu Limited in 2017.

Jerome P. Grisko, Jr. was appointed to the CBIZ Board in November, 2015. Mr. Grisko was appointed Chief Executive Officer in March 2016, and has served as President since February 2000. He was also Chief Operating Officer from February 2000 until his appointment as Chief Executive Officer. Mr. Grisko joined CBIZ as Vice President, Mergers & Acquisitions in September 1998 and was promoted to Senior Vice President, Mergers & Acquisitions and Legal Affairs in December of 1998. Prior to joining CBIZ, Mr. Grisko was associated with the law firm of Baker & Hostetler LLP, where he practiced from September 1987 until September 1998, serving as a partner of such firm from January 1995 to September 1998. While at Baker & Hostetler, Mr. Grisko concentrated his practice in the area of mergers and acquisitions and general corporate law.

Rick L. Burdick has served as a Director of CBIZ since October 1997, when he was elected as an independent director. On May 17, 2007, Mr. Burdick was elected by the Board to be its Lead Director, a non-officer position. Previously, in October 2002, he was elected by the Board as Vice Chairman, a non-officer position. Mr. Burdick has been a partner at the law firm of Akin Gump Strauss Hauer & Feld LLP since April 1988. Mr. Burdick serves as Lead Director on the Board of Directors of AutoNation, Inc.

Michael H. DeGroote, son of CBIZ founder Michael G. DeGroote, was appointed a Director of CBIZ in November 2006. Mr. DeGroote currently serves as President of Westbury International, a full-service real estate development company, specializing in commercial/industrial land, residential development and property management. Prior to joining Westbury, Mr. DeGroote was Vice President of MGD Holdings and previously held a management position with Cooper Corporation, and previously served on the Board of Directors of Progressive Waste Solutions Ltd. He served on the Board of Governors of McMaster University in Hamilton, Ontario.

Joseph S. DiMartino has served as a Director of CBIZ since November 1997, when he was elected as an independent director. Mr. DiMartino has been Chairman of the Boards of the funds in The Dreyfus Family of Funds since January 1995. Mr. DiMartino served as President, Chief Operating Officer and Director of The Dreyfus Corporation from October 1982 until December 1994 and also served as a director of Mellon Bank Corporation. He also served as Chairman of the Board of The Noel Group, a public buyout firm. Mr. DiMartino served on the Boards of SunAir Services Corp., LEVCOR International, Inc., The Newark Group and the Muscular Dystrophy Association.

Gina D. France was appointed to the CBIZ Board in February, 2015. Ms. France founded France Strategic Partners, LLC, a strategy and transaction advisory firm, and has served as its President and Chief Executive Officer since 2003. Ms. France has over 35 years of experience in strategy, investment banking and corporate finance. Prior to founding France Strategic Partners, Ms. France was a Managing Director with Ernst & Young, LLP and directed the Firm's Center for Strategic Transactions. Prior to her work with Ernst & Young, Ms. France was a Senior Vice President with Lehman Brothers, Inc. Ms. France serves on the boards of Huntington Bancshares, Inc. and Cedar Fair, L.P. and has previously served on the boards of FirstMerit Corporation, Dawn Food Products, Inc. and Mack Industries.

Sherrill W. Hudson was appointed to the CBIZ Board in February, 2015. Until July 2016, upon the sale of the Company, Mr. Hudson was Chairman of the Board of TECO Energy, Inc. and was a member of its board since

January 2003. He was executive chairman from August 2010 to December 2012, after having served as Chairman and Chief Executive Officer since July 2004. Mr. Hudson also serves on the boards of Lennar Corporation and United Insurance Holdings Corporation. He served on the Publix Super Markets, Inc. board from January 2003 until April 2015. Mr. Hudson is also Chairman of the Florida Chapter of the National Association of Corporate Directors. Mr. Hudson retired from Deloitte & Touche, LLP in August 2002, after 37 years of service.

Todd J. Slotkin has served as a Director of CBIZ since September 2003, when he was elected as an independent director. Mr. Slotkin has served since 2014 as the Global Business Head of Alvarez & Marsal's Asset Management Services. Mr. Slotkin is also an independent director of the Apollo Closed End Fund Complex (Apollo Floating Rate Fund, Apollo Tactical Income Fund). In 2011, Mr. Slotkin was appointed the Managing Partner of Newton Pointe LLC, an advisory firm, a position he also held during the period 2007-2008. Mr. Slotkin served on the Board of Martha Stewart Living Omnimedia from 2008 to 2012, and was head of its Audit Committee and Special Committee. Between 2008 and 2010, Mr. Slotkin was a Senior Managing Director of Irving Place Capital. From 2006 to 2007 Mr. Slotkin served as a Managing Director of Natixis Capital Markets. From 1992 to 2006, Mr. Slotkin served as a SVP (1992-1998) and EVP and Chief Financial Officer (1998-2006) of MacAndrews & Forbes Holdings Inc. Additionally, he was the Executive Vice President and Chief Financial Officer of publicly owned M&F Worldwide (1998-2006). Prior to 1992, Mr. Slotkin spent 17 years with Citigroup, ultimately serving as Senior Managing Director and Senior Credit Officer. He was the Global Head of Citigroup's Leveraged Capital Group. Mr. Slotkin is a co-founder of the Food Allergy Research & Education, Inc., formerly known as the Food Allergy Initiative.

Donald V. Weir has served as a Director of CBIZ since September 2003, when he was elected as an independent director. Mr. Weir is Vice President of Private Equity for Sanders Morris Harris Group Inc. ("SMHG") and has been with SMHG for the past fifteen years. Prior to this Mr. Weir was Chief Financial Officer and director of publicly-held Deeptech International Inc. and two of its subsidiaries, Tatham Offshore, Inc. and Leviathan Gas Pipeline Company, both of which were publicly-held companies. Prior to his employment with Deeptech, Mr. Weir worked for eight years with Sugar Bowl Gas Corporation, as Controller and Treasurer and later in a consulting capacity. Mr. Weir was associated with Price Waterhouse, an international accounting firm, from 1966 to 1979.

Benaree Pratt Wiley has served as a Director of CBIZ since May 2008, when she was elected as an independent director. Ms. Wiley is a Principal of The Wiley Group, a firm specializing in personnel strategy, talent management, and leadership development primarily for global insurance and consulting firms. Ms. Wiley served as the President and Chief Executive Officer of The Partnership, Inc., a talent management organization for multicultural professionals in the greater Boston region for fifteen years before retiring in 2005. Ms. Wiley is currently a director on the boards of The Dreyfus Family of Funds and Blue Cross and Blue Shield of Massachusetts. Her civic activities include serving on the boards of the Efficacy Institute, Howard University and Dress for Success Boston.

Ware H. Grove has served as Senior Vice President and Chief Financial Officer of CBIZ since December 2000. Before joining CBIZ, Mr. Grove served as Senior Vice President and Chief Financial Officer of Bridgestreet Accommodations, Inc., which he joined in early 2000 to restructure financing, develop strategic operating alternatives, and assist with merger negotiations. Prior to joining Bridgestreet, Mr. Grove served for three years as Vice President and Chief Financial Officer of LESCO, Inc. Since beginning his career in corporate finance in 1972, Mr. Grove has held various financial positions with large companies representing a variety of industries, including Revco D.S., Inc., Computerland/Vanstar, Manville Corporation, The Upjohn Company, and First of America Bank. Mr. Grove served on the Board of Directors for Applica, Inc. (NYSE: APN) from September 2004 through January 2007, at which time the company was sold to a private equity firm.

Chris Spurio was appointed Senior Vice President of CBIZ and President of CBIZ's Financial Services practice group, effective January 1, 2014. Mr. Spurio joined CBIZ in January 1998 and served as Corporate Controller

until July 1999. He then served as Vice President of Finance from July 1999 until September 2008. Mr. Spurio served as Executive Managing Director of the Financial Services Group's Midwest Region from September 2008 through March 2010, and as the Group's Chief Operating Officer from March 2010 through December 2013. Mr. Spurio was associated with KPMG LLP, an international accounting firm, from July 1988 to January 1998. Mr. Spurio is a CPA, CGMA and a member of the American Institute of Certified Public Accountants and the Ohio Society of Certified Public Accountants.

Michael P. Kouzelos joined CBIZ in June 1998 and has held several positions in the Company. He was appointed President of the Benefits & Insurance practice group in May 2015, and was appointed Senior Vice President of Strategic Initiatives in September 2005. Mr. Kouzelos also served as the Chief Operating Officer of the Benefits & Insurance division between April 2007 and May 2015, as Vice President of Strategic Initiatives from April 2001 through August 2005, as Vice President of Shared Services from August 2000 to March 2001, and as Director of Business Integration from June 1998 to July 2000. Mr. Kouzelos was associated with KPMG LLP, an international accounting firm, from 1990 to September 1996 and received his Master of Business Administration degree from The Ohio State University in May of 1998.

Richard E. Mills has served as the Chief Operating Officer of CBIZ's Financial Services practice group since January 2014. Prior to this appointment, Mr. Mills was President of CBIZ MHM, LLC — Kansas City, and responsible for offices in St. Louis, Topeka, Wichita and Tulsa. His responsibilities at a corporate level include business development, marketing, strategic planning, national training and organizational efficiency. Mr. Mills has also served as the Kansas City and Midwest Regional Attest Leader, and for many years consulted with clients on a variety of topics, including acquisitions, strategic planning, succession planning and improving profitability. His clients included not-for-profit organizations, construction companies, manufacturing and distribution companies. Mr. Mills began his career with Mayer Hoffman McCann in 1978.

Michael W. Gleespen has served as Corporate Secretary since April 2001 and General Counsel since June 2001. Mr. Gleespen is an attorney and has served as CBIZ's Vice President of Regulatory Compliance and Accountancy Compliance Officer and Technical Director since February 1998. Prior to joining CBIZ, Mr. Gleespen was an Assistant Ohio Attorney General in the Business & Government Regulation Section and the Court of Claims Defense Section from 1988 until 1998, during which time he was counsel to the Ohio Accountancy Board, the Ohio State Teachers Retirement System and represented many other state departments and agencies. Mr. Gleespen also held the post of Associate Attorney General for Pension, Disability and Annuity Plans and was the Co-Chairman of the Public Pension Plan Working Group.

Other Key Employees:

John A. Fleischer has served as Senior Vice President and Chief Information Officer of CBIZ since August 2014. Prior to joining CBIZ, Mr. Fleischer held CIO roles at TTT Holdings (a Talisman Capital Partners company), Ferro Corporation, The Goodyear Tire & Rubber Company, and T-Systems. Prior to these, he held senior IT roles at Volkswagen and Federal-Mogul Corporation. While at T-Systems, Mr. Fleischer also ran the U.S. consulting practice, which provided IT services to clients in a variety of industries. He began his career as a commissioned officer in the United States Army and served twelve years on active duty in numerous roles, which included directing large-scale systems development and integration projects in communications and computing. He is a Distinguished Military Graduate of Princeton University and received his Master of Business Administration degree from The Ohio State University. Mr. Fleischer serves on the Board of Trustees of the Lakeside Chautauqua Association.

Mark M. Waxman has served as Chief Marketing Officer since 2001. Mr. Waxman has over thirty years of experience in marketing and branding. Prior to joining CBIZ, he was Chief Executive Officer/Creative Director of one of Silicon Valley's most well-known advertising agencies, Carter Waxman. He was also a founding partner of SK Consulting (acquired by CBIZ in 1998) providing strategic marketing and branding services to a wide range of companies and industries. Mr. Waxman has been a featured marketing columnist and contributor

to many business and trade publications, and currently serves on the Advisory Board of several Silicon Valley start-ups. He is currently the Chairman of the Board of Silicon Valley Creates and serves on the Boards of the Institute of Contemporary Art, the West Valley Mission Foundation, and the Silicon Valley Organization PAC. He has served as the Chairman of the Board for organizations including the Silicon Valley Chamber of Commerce, Artsopolis.com, the Silicon Valley Ad Club, and The San Jose Repertory Theatre.

Teresa E. Bur has been responsible for the Human Resources function at CBIZ since 1999 when she was appointed Vice President of Human Resources. Her role was elevated in 2006 when she was appointed Senior Vice President and again in 2014 when she was appointed Chief Human Resources Officer. From 1995 to 1999 Ms. Bur served as Director of Human Resources for Robert D. O’Byrne & Associates, Inc. and The Grant Nelson Group, Inc., subsidiaries of CBIZ now known as CBIZ Benefits and Insurance Services, Inc. Ms. Bur served as an Executive Board member of CBIZ Women’s Advantage from 2006-2014 where she chaired the Professional Development committee. Ms. Bur has over 25 years of experience in human resources, is an active member of the Society of Human Resources Management, and is certified as a SPHR and SHRM — SCP.

Bruce J. Kowalski joined CBIZ in December 2003 as Corporate Tax Manager and was appointed Vice President — Tax in April 2008. Mr. Kowalski has more than thirty years of corporate tax experience, beginning his career in 1982 with Price Waterhouse and holding various corporate tax positions with The Scott Fetzer Company and UCAR Carbon Company Inc. Mr. Kowalski is a CPA (inactive) and received his Masters of Taxation degree from the University of Akron.

Cynthia L. Sobe joined CBIZ in August 2016 as Treasurer. Prior to joining CBIZ, Ms. Sobe served as Vice President, Corporate Treasurer for Crowne Group, LLC from November 2014 through January 2016. Prior to joining Crowne Group, LLC, Ms. Sobe was Vice President, Chief Financial Officer of AMRESCO, LLC (a division of VWR) from October 2012 to October 2014. Prior to joining AMRESCO, LLC, Ms. Sobe held various financial and accounting positions with companies representing a variety of industries, including Associated Materials, LLC, Jo-Ann Stores, LLC, Revco D.S., Inc., and Ernst & Young, LLP. Ms. Sobe is a CPA (inactive), and she received a Master of Business Administration from Case Western Reserve University in May 2000. Ms. Sobe is a member of the American Institute of Certified Public Accountants and the Association for Financial Professionals.

Andrew K. Dambrosio joined CBIZ in September 2012 as Controller. Prior to joining CBIZ, Mr. Dambrosio served as Controller and Executive Director of Financial Planning and Analysis for American Greetings Corporation’s North American Greeting Card Division from January 2004 through February 2012. Prior to joining American Greetings Corporation, Mr. Dambrosio was Corporate Controller for LESCO, Inc. from December 2000 through January 2004. Since beginning his career in 1979, Mr. Dambrosio has held various financial and accounting positions with companies representing a variety of industries, including American Greetings.COM, Picker International, Inc., Medusa Corporation and NACCO Industries, Inc. Mr. Dambrosio is a CPA and a member of the American Institute of Certified Public Accountants and the Ohio Society of Certified Public Accountants.

ITEM 11. EXECUTIVE COMPENSATION.

Information with respect to this item is incorporated by reference from our Definitive Proxy Statement for the 2019 Annual Stockholders’ Meeting to be filed with the SEC no later than 120 days after the end of our fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information with respect to this item is incorporated by reference from our Definitive Proxy Statement for the 2019 Annual Stockholders’ Meeting to be filed with the SEC no later than 120 days after the end of our fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Information with respect to this item is incorporated by reference from our Definitive Proxy Statement for the 2019 Annual Stockholders' Meeting to be filed with the SEC no later than 120 days after the end of our fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Information with respect to this item is incorporated by reference from our Definitive Proxy Statement for the 2019 Annual Stockholders' Meeting to be filed with the SEC no later than 120 days after the end of our fiscal year.

PART IV

ITEM 15. EXHIBITS.

(a) The following documents are filed as part of this Annual Report or incorporated by reference:

1. Financial Statements.

As to financial statements and supplementary information, reference is made to “Index to Financial Statements” on page F-1 of this Annual Report.

2. Exhibits.

The following documents are filed as exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K. Since its incorporation, CBIZ has operated under various names including: Republic Environmental Systems, Inc.; International Alliance Services, Inc.; Century Business Services, Inc.; and CBIZ, Inc. Exhibits listed below refer to these names collectively as “the Company”.

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Company’s Registration Statement on Form 10, File No. 0-25890, and incorporated herein by reference) (P).
3.2	Certificate of Amendment of the Certificate of Incorporation of the Company dated October 17, 1996 (filed as Exhibit 3.2 to the Company’s Annual Report on Form 10-K for the year ended December 31, 1996, File No. 000-25890, dated March 31, 1997, and incorporated herein by reference).
3.3	Certificate of Amendment to the Certificate of Incorporation of the Company effective December 23, 1997 (filed as Exhibit 3.3 to the Company’s Annual Report on Form 10-K for the year ended December 31, 1997, File No. 000-25890, dated February 18, 1998, and incorporated herein by reference).
3.4	Certificate of Amendment of the Certificate of Incorporation of the Company dated September 10, 1998 (filed as Exhibit 3.4 to the Company’s Annual Report on Form 10-K for the year ended December 31, 1998, File No. 000-25890, dated March 4, 1999, and incorporated herein by reference).
3.5	Certificate of Amendment of the Certificate of Incorporation of the Company, effective August 1, 2005 (filed as Exhibit 3.5 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, File No. 000-25890, dated March 16, 2006, and incorporated herein by reference).
3.6	Amended and Restated Bylaws of the Company (filed as Exhibit 3.2 to the Company’s Registration Statement on Form 10, File No. 000-25890, and incorporated herein by reference) (P).
3.7	Amendment to Amended and Restated Bylaws of the Company dated November 1, 2007 (filed as Exhibit 3.1 to the Company’s Report on Form 8-K, File No. 001-32961, dated November 1, 2007, and incorporated herein by reference).
4.1	Form of Stock Certificate of Common Stock of the Company (filed as Exhibit 4.1 to the Company’s Annual Report Form 10-K for the year ended December 31, 1998, File No. 000-25890, dated March 4, 1999, and incorporated herein by reference).
4.2	Employee Stock Investment Plan (filed as Exhibit 4.4 to the Company’s Report on Form S-8, File No. 000-333-62148, dated June 1, 2001, and incorporated herein by reference).
10.1†	2002 Stock Incentive Plan (filed as Appendix A to the Company’s Proxy Statement for the 2002 Annual Meeting of Stockholders, File No. 000-25890, dated April 1, 2002, and incorporated herein by reference).

<u>Exhibit No.</u>	<u>Description</u>
10.2†	Severance Protection Agreement by and between the Company and Jerome P. Grisko, Jr. (filed as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 000-25890, dated April 2, 2001, and incorporated herein by reference).
10.3†	CBIZ, Inc. 2002 Amended and Restated Stock Incentive Plan (Amended and Restated as of May 12, 2011), (filed as Exhibit 10.1 to the Company's Report on Form 10-Q, File No. 001-32961, dated August 9, 2011, and incorporated herein by reference).
10.4†	2014 Stock Incentive Plan and 2002 Amended and Restated Stock Incentive Plan (filed as Exhibit 4.2 to Form S-8, dated July 7, 2014, and incorporated herein by reference).
10.5	Credit Agreement, dated as of July 28, 2014, by and among CBIZ, Inc., Bank of America, N.A., as administrative agent, and other participating financial institutions (filed as Exhibit 10.1 to the Company's Report on Form 8-K, File No. 001-32961, dated August 1, 2014, and incorporated herein by reference).
10.6	First Amendment to Credit Agreement by and among CBIZ Operations, Inc., CBIZ, Inc., and Bank of America, N.A., as agent, lender, issuing bank, and the other financial institutions from time to time party to the Credit Agreement. (filed as Exhibit 10.1 to the Company's Report on Form 8-K, File No. 001-32961, dated April 10, 2015 and incorporated herein by reference).
10.7	Second Amendment to Credit Agreement by and among CBIZ Operations, Inc., CBIZ, Inc., and Bank of America, N.A., as agent, lender, issuing bank, swing line issuing bank and the other financial institutions from time to time party to the Credit Agreement. (filed as Exhibit 10.1 to the Company's Report on Form 10-Q, File No. 001-32961, dated November 3, 2015 and incorporated herein by reference).
10.8†	Consulting Agreement by and between the Company and Steven L. Gerard, dated March 9, 2016 (filed as Exhibit 10.1 to the Company's Report on Form 10-Q, File No. 001-32961, dated March 3, 2016, and incorporated herein by reference).
10.9†	Employment Agreement by and between the Company and Jerome P. Grisko, Jr., dated September 1, 2016 (filed as Exhibit 10.1 to the Company's Report on Form 8-K, File No. 001-32961, dated September 8, 2016, and incorporated herein by reference).
10.10†	Amended and Restated Employment Agreement by and between the Company and Ware H. Grove, dated March 30, 2017 (filed as Exhibit 10.1 to the Company's Report on Form 8-K, File No. 001-32961, dated April 4, 2017, and incorporated herein by reference).
10.11	Loan Agreement dated as of August 16, 2018 by and among CBIZ Benefits and Insurance, Inc. and The Huntington Bank (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, File No. 001-32961, on November 1, 2018, and incorporated herein by reference).
10.12	Amended and Restated Credit Agreement by and among CBIZ Operations, Inc., CBIZ, Inc., and Bank of America, N.A., as administrative agent, and the other financial institutions from time to time party thereto, dated April 3, 2018 (filed as Exhibit 10.1 to the Company's Report on Form 8-K, File No. 001-32961, on April 5, 2018, and incorporated herein by reference).
21.1*	List of Subsidiaries of CBIZ, Inc.
23*	Consent of KPMG LLP
24*	Powers of attorney (included on the signature page hereto).
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

<u>Exhibit No.</u>	<u>Description</u>
32.2**	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following materials from CBIZ, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (ii) Consolidated Balance Sheets at December 31, 2018 and 2017, (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016, (iv) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016, and (v) Notes to the Consolidated Financial Statements.

* Indicates documents filed herewith.

** Indicates documents furnished herewith.

† Management contract or compensatory plan contract or arrangement filed pursuant to Item 601 of Regulation S-K.

(P) Paper Filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CBIZ, INC.
(REGISTRANT)

By /s/ WARE H. GROVE

Ware H. Grove
Chief Financial Officer
February 28, 2019

KNOW ALL MEN AND WOMEN BY THESE PRESENTS that each person whose signature appears below on this Annual Report hereby constitutes and appoints Jerome P. Grisko, Jr. and Ware H. Grove, and each of them, with full power to act without the other, his true and lawful attorney-in-fact and agent, with full power of substitution for him and her and his and her name, place and stead, in all capacities (until revoked in writing), to sign any and all amendments to this Annual Report of CBIZ, Inc. and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary fully to all intents and purposes as he might or could do in person, thereby ratifying and confirming all that each attorney-in-fact and agent, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated above.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JEROME P. GRISKO, JR.</u> Jerome P. Grisko, Jr.	President & Chief Executive Officer, Director (Principal Executive Officer)	February 28, 2019
<u>/s/ WARE H. GROVE</u> Ware H. Grove	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2019
<u>/s/ STEVEN L. GERARD</u> Steven L. Gerard	Chairman	February 28, 2019
<u>/s/ RICK L. BURDICK</u> Rick L. Burdick	Lead Director	February 28, 2019
<u>/s/ MICHAEL H. DE GROOTE</u> Michael H. DeGrootte	Director	February 28, 2019
<u>/s/ JOSEPH S. DI MARTINO</u> Joseph S. DiMartino	Director	February 28, 2019
<u>/s/ GINA D. FRANCE</u> Gina D. France	Director	February 28, 2019

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ SHERRILL W. HUDSON</u> Sherrill W. Hudson	Director	February 28, 2019
<u>/s/ TODD J. SLOTKIN</u> Todd J. Slotkin	Director	February 28, 2019
<u>/s/ DONALD V. WEIR</u> Donald V. Weir	Director	February 28, 2019
<u>/s/ BENAREE PRATT WILEY</u> Benaree Pratt Wiley	Director	February 28, 2019

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
CBIZ, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of CBIZ, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Change in Accounting Principle

As described in Note 1 to the consolidated finance statements, the Company has changed its method of accounting for revenue recognition effective January 1, 2018 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting* appearing under Item 9A. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and

testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 1996.

Cleveland, Ohio
February 28, 2019

CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In thousands, except per share data)

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 640	\$ 424
Restricted cash	27,481	32,985
Accounts receivable, net	207,287	188,300
Other current assets	26,841	23,352
Current assets before funds held for clients	262,249	245,061
Funds held for clients	161,289	203,112
Total current assets	<u>423,538</u>	<u>448,173</u>
Non-current assets:		
Property and equipment, net	34,205	26,081
Goodwill and other intangible assets, net	637,009	613,206
Assets of deferred compensation plan	84,435	85,589
Other non-current assets	3,844	3,182
Total non-current assets	<u>759,493</u>	<u>728,058</u>
Total assets	<u><u>\$1,183,031</u></u>	<u><u>\$1,176,231</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 58,630	\$ 51,375
Income taxes payable	464	—
Accrued personnel costs	63,953	45,264
Contingent purchase price liability	22,538	15,151
Other current liabilities	13,656	18,874
Current liabilities before client fund obligations	159,241	130,664
Client fund obligations	162,073	203,582
Total current liabilities	<u>321,314</u>	<u>334,246</u>
Non-current liabilities:		
Bank debt	135,500	178,500
Debt issuance costs	(1,526)	(828)
Total long-term debt	133,974	177,672
Income taxes payable	3,402	4,454
Deferred income taxes, net	6,764	3,339
Deferred compensation plan obligations	84,435	85,589
Contingent purchase price liability	17,170	22,423
Other non-current liabilities	22,309	17,629
Total non-current liabilities	<u>268,054</u>	<u>311,106</u>
Total liabilities	<u><u>589,368</u></u>	<u><u>645,352</u></u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share; shares authorized 250,000; shares issued 131,404 and 130,075; shares outstanding 55,072 and 54,591	1,314	1,301
Additional paid-in capital	692,398	675,504
Retained earnings	408,963	345,302
Treasury stock, 76,332 and 75,484 shares	(508,530)	(491,046)
Accumulated other comprehensive loss	(482)	(182)
Total stockholders' equity	<u>593,663</u>	<u>530,879</u>
Total liabilities and stockholders' equity	<u><u>\$1,183,031</u></u>	<u><u>\$1,176,231</u></u>

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(In thousands, except per share data)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenue	\$922,003	\$855,340	\$799,832
Operating expenses	790,283	755,584	697,726
Gross margin	131,720	99,756	102,106
Corporate general and administrative expenses	39,173	33,295	36,319
Operating income	92,547	66,461	65,787
Other (expense) income:			
Interest expense	(6,645)	(6,675)	(6,593)
Gain on sale of operations, net	1,025	45	855
Other (expense) income, net	(7,087)	14,489	6,957
Total other (expense) income, net	(12,707)	7,859	1,219
Income from continuing operations before income tax expense	79,840	74,320	67,006
Income tax expense	18,267	23,288	26,399
Income from continuing operations	61,573	51,032	40,607
Loss from operations of discontinued operations, net of tax	(3)	(655)	(542)
Net income	\$ 61,570	\$ 50,377	\$ 40,065
Earnings (loss) per share:			
Basic:			
Continuing operations	\$ 1.13	\$ 0.95	\$ 0.78
Discontinued operations	—	(0.01)	(0.01)
Net income	\$ 1.13	\$ 0.94	\$ 0.77
Diluted:			
Continuing operations	\$ 1.09	\$ 0.92	\$ 0.76
Discontinued operations	—	(0.01)	(0.01)
Net income	\$ 1.09	\$ 0.91	\$ 0.75
Basic weighted average common shares outstanding	54,561	53,862	52,321
Diluted weighted average common shares outstanding	56,487	55,689	53,513
Comprehensive income:			
Net income	\$ 61,570	\$ 50,377	\$ 40,065
Other comprehensive income:			
Net unrealized loss on available-for-sale securities, net of income tax benefit of \$96, \$16 and \$77	(259)	(42)	(23)
Net unrealized (loss) gain on interest rate swaps, net of income tax (benefit) expense of (\$8), \$107 and \$135	(17)	379	182
Foreign currency translation	(24)	(15)	(30)
Total other comprehensive (loss) income	(300)	322	129
Total comprehensive income	\$ 61,270	\$ 50,699	\$ 40,194

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(In thousands)

	Issued Common Shares	Treasury Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Totals
December 31, 2015	126,182	73,228	\$1,262	\$634,626	\$254,860	\$(462,167)	\$(633)	\$427,948
Net income	—	—	—	—	40,065	—	—	40,065
Other comprehensive income	—	—	—	—	—	—	129	129
Share repurchases	—	919	—	—	—	(9,144)	—	(9,144)
Restricted stock	300	—	3	(3)	—	—	—	—
Stock options exercised	1,128	—	11	8,059	—	—	—	8,070
Share-based compensation	—	—	—	5,725	—	—	—	5,725
Tax expense from employee share plans	—	—	—	1,004	—	—	—	1,004
Business acquisitions	581	—	6	6,218	—	—	—	6,224
December 31, 2016	128,191	74,147	1,282	655,629	294,925	(471,311)	(504)	480,021
Net income	—	—	—	—	50,377	—	—	50,377
Other comprehensive income	—	—	—	—	—	—	322	322
Share repurchases	—	1,337	—	—	—	(19,735)	—	(19,735)
Restricted stock	292	—	3	(3)	—	—	—	—
Stock options exercised	1,176	—	12	7,996	—	—	—	8,008
Share-based compensation	—	—	—	5,705	—	—	—	5,705
Business acquisitions	416	—	4	6,177	—	—	—	6,181
December 31, 2017	130,075	75,484	1,301	675,504	345,302	(491,046)	(182)	530,879
Cumulative-effect adjustment (Note 1)	—	—	—	—	2,091	—	—	2,091
Adjusted balance at January 1, 2018	130,075	75,484	1,301	675,504	347,393	(491,046)	(182)	532,970
Net income	—	—	—	—	61,570	—	—	61,570
Other comprehensive loss	—	—	—	—	—	—	(300)	(300)
Share repurchases	—	848	—	—	—	(17,484)	—	(17,484)
Restricted stock	272	—	3	(3)	—	—	—	—
Stock options exercised	864	—	8	6,283	—	—	—	6,291
Share-based compensation	—	—	—	6,866	—	—	—	6,866
Business acquisitions	193	—	2	3,748	—	—	—	3,750
December 31, 2018	131,404	76,332	\$1,314	\$692,398	\$408,963	\$(508,530)	\$(482)	\$593,663

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(In thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:			
Net income	\$ 61,570	\$ 50,377	\$ 40,065
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Gain on sale of operations, net of tax	(1,025)	(45)	(855)
Depreciation and amortization expense	23,675	23,061	22,098
Bad debt expense, net of recoveries	3,665	5,137	4,090
Adjustment to contingent earnout liability, net	2,617	(1,494)	(994)
Deferred income taxes	5,775	3,674	4,829
Employee stock awards	6,866	5,705	5,725
Excess tax benefits from share based payment arrangements	(3,260)	(3,837)	(1,108)
Other, net	400	1,178	1,065
<i>Changes in assets and liabilities, net of acquisitions and divestitures:</i>			
Accounts receivable, net	(10,668)	(13,849)	(19,188)
Other assets	(3,344)	3,180	(5,612)
Accounts payable	974	3,738	10,217
Income taxes payable	426	(2,071)	1,881
Accrued personnel costs	17,901	(599)	5,496
Other liabilities	(140)	3,508	5,965
Net cash provided by continuing operations	<u>105,432</u>	<u>77,663</u>	<u>73,674</u>
Operating cash flows (used in) provided by discontinued operations	(184)	(627)	387
Net cash provided by operating activities	<u>105,248</u>	<u>77,036</u>	<u>74,061</u>
Cash flows from investing activities:			
Business acquisitions and purchases of client lists, net of cash acquired	(29,080)	(28,093)	(5,653)
Purchases of client fund investments	(18,426)	(15,546)	(11,355)
Proceeds from the sales and maturities of client fund investments	12,238	8,785	9,778
Additions to property and equipment	(14,624)	(11,892)	(4,141)
Other, net	2,316	(1,935)	1,524
Net cash used in investing activities	<u>(47,576)</u>	<u>(48,681)</u>	<u>(9,847)</u>
Cash flows from financing activities:			
Proceeds from bank debt	690,173	533,900	416,800
Payment of bank debt	(733,173)	(546,800)	(431,200)
Payment for acquisition of treasury stock	(17,484)	(19,735)	(9,144)
(Decrease) increase in client funds obligations	(41,509)	(10,273)	5,257
Payment of contingent consideration of acquisitions	(11,787)	(10,515)	(7,504)
Proceeds from exercise of stock options	6,291	8,008	8,070
Other, net	(1,891)	(178)	(663)
Net cash used in financing activities	<u>(109,380)</u>	<u>(45,593)</u>	<u>(18,384)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>(51,708)</u>	<u>(17,238)</u>	<u>45,830</u>
Cash, cash equivalents and restricted cash at beginning of year	<u>182,262</u>	<u>199,500</u>	<u>153,670</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 130,554</u>	<u>\$ 182,262</u>	<u>\$ 199,500</u>
Reconciliation of cash, cash equivalents and restricted cash to the Consolidated Balance Sheets			
Cash and cash equivalents	\$ 640	\$ 424	\$ 3,494
Restricted cash	27,481	32,985	27,880
Cash equivalents included in funds held for clients	102,433	148,853	168,126
Total cash, cash equivalents and restricted cash	<u>\$ 130,554</u>	<u>\$ 182,262</u>	<u>\$ 199,500</u>

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Selected Terms Used in Notes to Consolidated Financial Statements

ASA — Administrative Service Agreement.

ASC — Accounting Standards Codification.

ASU — Accounting Standards Update.

CPA firm — Certified Public Accounting firm.

FASB — The Financial Accounting Standards Board.

GAAP — United States Generally Accepted Accounting Principles.

LIBOR — London Interbank Offered Rate.

New Lease Standard — ASU No. 2016-02, Leases.

SEC — United States Securities & Exchange Commission.

Tax Act — Tax Cuts and Jobs Act of 2017.

Topic 606 — ASU No. 2014-09, Revenue from Contracts with Customers.

Organization — CBIZ, Inc. is a diversified services company which, acting through its subsidiaries, has been providing professional business services since 1996, primarily to small and medium-sized businesses, as well as individuals, governmental entities, and not-for-profit enterprises throughout the United States and parts of Canada. CBIZ, Inc. manages and reports its operations along three practice groups: Financial Services, Benefits and Insurance Services and National Practices. A further description of products and services offered by each of the practice groups is provided in Note 22, Segment Disclosures, to the accompanying consolidated financial statements.

Basis of Presentation — The accompanying consolidated financial statements reflect the operations of CBIZ, Inc. and all of its wholly-owned subsidiaries (“CBIZ,” the “Company,” “we,” “us” or “our”), after elimination of all intercompany accounts and transactions. We have prepared the accompanying consolidated financial statements in accordance with GAAP and pursuant to the rules and regulations of the SEC.

We have determined that our relationship with certain CPA firms with whom we maintain ASAs qualify as variable interest entities. The accompanying consolidated financial statements do not reflect the operations or accounts of variable interest entities as the impact is not material to our consolidated financial condition, results of operations or cash flows.

Fees earned by us under the ASAs are recorded as “Revenue” (at net realizable value) in the accompanying Consolidated Statements of Comprehensive Income and were approximately \$154.0 million, \$156.4 million and \$144.8 million for the years ended December 31, 2018, 2017 and 2016, respectively, the majority of which was related to services rendered to privately-held clients. In the event that accounts receivable and unbilled work in process become uncollectible by the CPA firms, the service fee due to us is typically reduced on a proportional basis. Although the ASAs do not constitute control, we are one of the beneficiaries of the agreements and may bear certain economic risks.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Significant Accounting Policies — We consider the following policies to be beneficial in understanding the judgements that are involved in the preparation of our consolidated financial statements and the uncertainties that could impact our financial condition, results of operations and cash flows.

Use of Estimates — The preparation of consolidated financial statements in conformity with GAAP and pursuant to the rules and regulations of the SEC requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management's estimates and assumptions are derived from and are continually evaluated based upon available information, judgment and experience. Actual results may differ materially from these estimates.

Revenue Recognition — We account for revenue in accordance with Topic 606, Revenue from Contracts with Customers, which was adopted on January 1, 2018 using the modified retrospective transition method. We recognize revenue based on the five-step model; (i) identify the contract with the customer; (ii) identify the performance obligation in the contract; (iii) determine the contract price; (iv) allocate the transaction price; and (v) recognize revenue (or as) each performance obligation is satisfied. If we determine that a contract with enforceable rights and obligations does not exist, revenues are deferred until all criteria for an enforceable contract are met. For further information on the adoption of Topic 606, as well as our various streams of revenue, refer to "New Accounting Pronouncements" and Note 2, Revenue, to the accompanying consolidated financial statements.

Operating Expenses — Operating expenses represent costs of service and other costs incurred to operate our business units and are primarily comprised of personnel costs and occupancy related expenses. Personnel costs include (i) salaries and benefits; (ii) commissions paid to producers; (iii) incentive compensation; and (iv) share-based compensation. Incentive compensation costs and share-based compensation are estimated and accrued. The final determination of incentive compensation is made after year-end results are completed. The largest components of occupancy costs are rent expense and utilities. Base rent expense is recognized over respective lease terms, while utilities and common area maintenance charges are recognized as incurred.

Share-Based Compensation — The measurement of all share-based compensation arrangements, including stock options and restricted stock awards, is based on their grant date fair value. The expense is recognized over the requisite service period which is generally up to four years. The grant date fair value of stock options is based on the Black-Scholes-Merton pricing model, which incorporates assumptions regarding the expected volatility, the expected option life, the risk-free interest rate and the expected dividend yield. The grant date fair value of restricted stock is based on the closing price of the underlying stock on the date of grant.

Share-based compensation expense is recorded in the accompanying Consolidated Statements of Comprehensive Income as "Operating expenses" or "Corporate general and administrative expenses," depending on where the respective individual's compensation is recorded. For additional discussion regarding share-based awards, refer to Note 15, Employee Share Plans, to the accompanying consolidated financial statements.

Operating Leases — We lease most of our office facilities and equipment under various operating leases. Rent expense under such leases is recognized evenly throughout the term of the lease obligation when the total lease commitment is a known amount, and recorded on a cash basis when future rent payment increases under the obligation are unknown due to rent escalations being tied to factors that are not currently measurable (such as increases in the consumer price index). Differences between rent expense recognized and the cash payments required under operating lease agreements are recorded in the accompanying Consolidated Balance Sheets as "Other non-current liabilities." We may receive incentives to lease office facilities in certain areas. Such incentives are recorded as a deferred credit and recognized as a reduction to rent expense on a straight-line basis over the lease term.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Cash and Cash Equivalents — Cash and cash equivalents consist of cash on hand and investments with an original maturity of three months or less when purchased.

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

Accounts Receivable and Allowance for Doubtful Accounts — Accounts receivable, less allowances for doubtful accounts, reflects the net realizable value of receivables and approximates fair value. Unbilled revenues are recorded at estimated net realizable value. Assessing the collectability of receivables (billed and unbilled) requires management judgment based on a combination of factors. When evaluating the adequacy of the allowance for doubtful accounts and the overall probability of collecting on receivables, we analyze historical experience, client credit-worthiness, the age of the trade receivable balances, current economic conditions that may affect a client’s ability to pay and an evaluation of current and projected economic trends and conditions at the time of the balance sheet date. At December 31, 2018 and 2017, the allowance for doubtful accounts was \$13.4 million and \$13.8 million, respectively, in the accompanying Consolidated Balance Sheets.

Funds Held for Clients and Client Fund Obligations — Services provided by our payroll operations include the preparation of payroll checks, federal, state, and local payroll tax returns, and flexible spending account administration. In relation to these services, as well as other similar service offerings, we collect funds from our clients’ accounts in advance of paying client obligations. Funds that are collected before they are due are segregated and reported separately as “Funds held for clients” in the accompanying Consolidated Balance Sheets. Other than certain federal and state regulations pertaining to flexible spending account administration, there are no regulatory or other contractual restrictions placed on these funds.

Funds held for clients are reported in current assets and client fund obligations are reported in current liabilities in the accompanying Consolidated Balance Sheets. The balances in these accounts fluctuate with the timing of cash receipts and the related cash payments.

Funds held for clients include cash, overnight investments, certificates of deposit and corporate and municipal bonds (refer to Note 6, Financial Instruments, to the accompanying consolidated financial statements for further discussion of investments). If the par value of investments held does not approximate fair value, the balance in funds held for clients may not be equal to the balance in client fund obligations. The amount of collected but not yet remitted funds may vary significantly during the year based on the timing of clients’ payroll periods.

Property and Equipment — Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over the following estimated useful lives:

Buildings	25 to 40 years
Furniture and fixtures	5 to 10 years
Capitalized software	2 to 7 years
Equipment	3 to 7 years

Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the remaining respective lease term. The cost of software purchased or developed for internal use is capitalized and amortized using the straight-line method over an estimated useful life not to exceed seven years.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

We periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Under those circumstances, if the fair value were less than the carrying amount of the asset, we would recognize a loss for the difference.

Goodwill and Other Intangible Assets — Goodwill represents the difference between the purchase price of the acquired business and the related fair value of the net assets acquired. A significant portion of our assets in the accompanying Consolidated Balance Sheets is goodwill. At December 31, 2018, the carrying value of goodwill totaled \$564.3 million, compared to total assets of \$1.2 billion and total shareholders' equity of \$593.7 million. Intangible assets consist of identifiable intangibles other than goodwill. Identifiable intangible assets other than goodwill include client lists and non-compete agreements which require significant judgements in determining the fair value. We carry client lists and non-compete agreements at cost, less accumulated amortization, in the accompanying Consolidated Balance Sheets.

Goodwill is not amortized, but rather is tested for impairment annually during the fourth quarter. In addition to our annual goodwill test, on a periodic basis, we are required to consider whether it is more likely than not (defined as a likelihood of more than 50%) that the fair value has fallen below its carrying value, thus requiring us to perform an interim goodwill impairment test. Intangible assets with definite lives, such as client lists and non-compete agreements, are amortized using the straight-line method over their estimated useful lives (generally ranging from two to fifteen years). We review these assets for impairment whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable. Recoverability is assessed based on a comparison of the undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis or market comparable method.

The goodwill impairment test is performed at a reporting unit level. A reporting unit is an operating segment of a business or one level below an operating segment. At December 31, 2018, we had five reporting units. We may use either a qualitative or quantitative approach when testing a reporting unit's goodwill for impairment. Under the qualitative assessment, we are not required to calculate the fair value of a reporting unit unless we determine that it is more likely than not that its fair value is less than its carrying amount. If under the quantitative assessment the fair value of a reporting unit is less than its carrying amount, then the amount of the impairment loss, if any, must be measured. Any such impairment charge would reduce earnings and could be material.

After considering changes to assumptions used in our most recent quantitative testing for each reporting unit, including the capital market environment, economic and market conditions, industry competition and trends, our weighted average cost of capital, changes in management and key personnel, the price of our common stock, changes in our results of operations, the magnitude of the excess of fair value over the carrying amount of each reporting unit as determined in our most recent quantitative testing, and other factors, we concluded that it was more likely than not that the fair values of each of our reporting units were more than their respective carrying values and, therefore, did not perform a quantitative impairment analysis. For further information regarding our goodwill balances, refer to Note 5, Goodwill and Other Intangible Assets, net, to the accompanying consolidated financial statements.

Income Taxes — Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently payable and deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and operating losses and tax credit carryforwards. State income tax credits are accounted for using the flow-through method.

A valuation allowance is provided when it is more-likely-than-not that some portion of a deferred tax asset will not be realized. We determine valuation allowances based on all available evidence. Such evidence includes

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

historical results, the reversal of deferred tax liabilities, expectations of future consolidated and/or separate company profitability and the feasibility of tax-planning strategies. Determining valuation allowances includes significant judgment by management, and different judgments could yield different results.

Accounting for uncertain tax positions requires a more-likely-than-not threshold for recognition in the consolidated financial statements. We recognize a tax benefit based on whether it is more-likely-than-not that a tax position will be sustained. We record a liability to the extent that a tax position taken or expected to be taken on a tax return exceeds the amount recognized in the consolidated financial statements.

Business Combinations — We recognize and measure identifiable assets acquired and liabilities assumed as of the acquisition date at fair value. Fair value measurements require extensive use of estimates and assumptions, including estimates of future cash flows to be generated by the acquired assets. The operating results of acquired businesses are included in our consolidated financial statements beginning on the date of acquisition. The purchase price is equivalent to the fair value of consideration transferred. Tangible and identifiable intangible assets acquired and liabilities assumed as of the date of acquisition are recorded at fair value as of the acquisition date. Goodwill is recognized for the excess of purchase price over the net fair value of assets acquired and liabilities assumed.

Contingent Purchase Price Liabilities — Contingent purchase price liabilities result from our business acquisitions and are recorded at fair value at the time of acquisition and are recorded in “Contingent purchase price liability — current” and “Contingent purchase price liability — non-current” in the accompanying Consolidated Balance Sheets. We estimate the fair value of our contingent purchase price liabilities using a probability-weighted discounted cash flow model. We probability weight risk-adjusted estimates of future performance of acquired businesses, then calculate the contingent purchase price based on the estimates and discount them to present value representing management’s best estimate of fair value. The fair value of the contingent purchase price liabilities, which is considered a Level 3 unobservable input, is reassessed on a quarterly basis based on assumptions provided by practice group leaders and business unit controllers together with our corporate finance department. Any change in the fair value estimate is recorded in the earnings of that period. For the years ended December 31, 2018, 2017 and 2016, we recorded other (expense) income of (\$2.6) million, \$1.5 million and \$1.0 million, respectively, related to net changes in the fair value of contingent consideration.

Refer to Note 7, Fair Value Measurements, and Note 19, Acquisitions, for further discussion of our contingent purchase price liabilities and acquisitions.

Interest Rate Derivative Instruments — We maintain interest rate swaps that are designated as cash flow hedges to manage the market risk from changes in interest rates on our floating-rate debt under our \$400.0 million unsecured credit facility (as amended the “2018 credit facility” or the “credit facility”). The designation of a derivative instrument as a hedge and its ability to meet the hedge accounting criteria determine how we reflect the change in fair value of the derivative instrument. A derivative qualifies for hedge accounting treatment if, at inception, it meets defined correlation and effectiveness criteria. These criteria require that the anticipated cash flows and/or changes in fair value of the hedging instrument substantially offset those of the position being hedged.

We utilize derivative instruments to manage interest rate risk associated with our floating-rate debt under the credit facility. Interest rate swap contracts mitigate the risk associated with the underlying hedged item. If the contract is designated as a cash flow hedge, the mark-to-market gains or losses on the swap are deferred and included as a component of accumulated other comprehensive loss, net of tax, to the extent effective, and

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

reclassified to interest expense in the same period during which the hedged transaction affects earnings. For further discussion regarding derivative financial instruments, refer to Note 6, Financial Instruments, to the accompanying consolidated financial statements.

Recent Accounting Pronouncements — The FASB ASC is the sole source of authoritative GAAP other than the SEC issued rules and regulations that apply only to SEC registrants. The FASB issues an ASU to communicate changes to the FASB codification. We assess and review the impact of all ASUs. ASUs not listed below were reviewed and determined to be either not applicable or are not expected to have a material impact on the consolidated financial statements.

Accounting Standards Adopted in 2018

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

Restricted Cash — Statement of Cash Flows — Effective January 1, 2018, we adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230). The new standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Therefore, restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on our consolidated Statement of Cash Flows. Accordingly, the statement of cash flows has been revised to include restricted cash (related to our capital and investment advisory services, as well as our property and casualty business unit) and cash equivalents associated with funds held to satisfy client obligations, as a component of cash, cash equivalents, restricted cash and cash equivalents. When restricted cash and cash equivalents are presented separately from cash and cash equivalents on the balance sheet, a reconciliation is required between the amounts presented on the statement of cash flows and the balance sheet, as well as a disclosure of information about the nature of the restrictions. The nature of the restrictions disclosure is included in the accompanying “Significant Accounting Policies.” The reconciliation of cash, cash equivalents and restricted cash as reported in the accompanying Consolidated Balance Sheets that sum to the total of the same such amount in the accompanying Consolidated Statements of Cash Flows is included below the accompanying Consolidated Statements of Cash Flows.

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

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

We evaluate our revenue contracts with customers based on the five-step model under Topic 606, pursuant to which we: (i) identify the contract with the customer; (ii) identify the performance obligation in the contract;

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

(iii) determine the contract price; (iv) allocate the transaction price; and (v) recognize revenue when as each performance obligation is satisfied. If we determine that a contract with enforceable rights and obligations does not exist, revenues are deferred until all criteria for an enforceable contract are met.

Revenue recognition was consistent under both the legacy standard and Topic 606 for the majority of our revenue streams, with the exception of two business units within our Benefits and Insurance Services practice group.

- In our Property and Casualty business unit, commission revenue under agency billing arrangements (pursuant to which we bill the insured, collect the funds and remit the premium to the insurance carrier less our commissions) was previously recognized on the later of the effective date of the insurance policy or the date billed to the customer. We now recognize the commission revenue on the effective date of the insurance policy.
- Also in our Property and Casualty business unit, commission revenue under direct billing arrangements (pursuant to which the insurance carrier bills the insured directly and remits the commissions to us) was previously recognized when the data necessary from the carriers was available, whereas now we recognize the commission revenue on the effective date of the insurance policy.
- In our Retirement Plan Services business unit, under certain defined benefit administration arrangements we charge new clients an initial, non-refundable, set-up fee as part of a multi-year service agreement. Previously, these fees were recognized over the initial set up period, whereas now we defer the set-up fees and associated costs and recognize them over the life of the contract or the expected customer relationship, whichever is longer.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet was as follows (in thousands):

<u>Balance Sheet</u>	<u>Balance at December 31, 2017</u>	<u>Adjustments due to Topic 606</u>	<u>Balance at January 1, 2018</u>
ASSETS			
Accounts receivable, net	\$ 188,300	\$10,098	\$ 198,398
Other current assets	259,873	80	259,953
Other non-current assets	728,058	728	728,786
Total assets	<u>\$1,176,231</u>	<u>\$10,906</u>	<u>\$1,187,137</u>
LIABILITIES			
Accounts payable	51,375	6,281	57,656
Accrued personnel costs	45,264	595	45,859
Other current liabilities	237,607	113	237,720
Deferred income taxes, net	3,339	814	4,153
Other non-current liabilities	307,767	1,012	308,779
Total liabilities	<u>645,352</u>	<u>8,815</u>	<u>654,167</u>
STOCKHOLDERS' EQUITY			
Retained earnings	345,302	2,091	347,393
Other stockholders' equity	185,577	—	185,577
Total stockholders' equity	<u>530,879</u>	<u>2,091</u>	<u>532,970</u>
Total liabilities and stockholders' equity	<u>\$1,176,231</u>	<u>\$10,906</u>	<u>\$1,187,137</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

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

<u>December 31, 2018</u> <u>Balance Sheet</u>	<u>As reported</u>	<u>Adjustments</u>	<u>Balances</u> <u>without</u> <u>adoption of</u> <u>Topic 606</u>
ASSETS			
Accounts receivable, net	\$ 207,287	\$(12,671)	\$ 194,616
Other current assets	216,251	(80)	216,171
Other non-current assets	<u>759,493</u>	<u>(647)</u>	<u>758,846</u>
Total assets	<u>\$1,183,031</u>	<u>\$(13,398)</u>	<u>\$1,169,633</u>
LIABILITIES			
Accounts payable	\$ 58,630	\$ (7,930)	\$ 50,700
Accrued personnel costs	63,953	(587)	63,366
Other current liabilities	198,731	(113)	198,618
Deferred income taxes, net	6,764	(1,035)	5,729
Other non-current liabilities	<u>261,290</u>	<u>(897)</u>	<u>260,393</u>
Total liabilities	589,368	(10,562)	578,806
STOCKHOLDERS' EQUITY			
Retained earnings	408,963	(2,836)	406,127
Other stockholders' equity	<u>184,700</u>	<u>—</u>	<u>184,700</u>
Total shareholders' equity	593,663	(2,836)	590,827
Total liabilities and stockholders' equity	<u>\$1,183,031</u>	<u>\$(13,398)</u>	<u>\$1,169,633</u>

<u>Year Ended December 31, 2018</u> <u>Income Statement</u>	<u>As reported</u>	<u>Adjustments</u>	<u>Balances</u> <u>without</u> <u>adoption of</u> <u>Topic 606</u>
Revenue	\$922,003	\$(1,039)	\$920,964
Operating expenses	<u>790,283</u>	<u>(73)</u>	<u>790,210</u>
Gross margin	131,720	(966)	130,754
Corporate general and administrative expenses	<u>39,173</u>	<u>—</u>	<u>39,173</u>
Operating income	92,547	(966)	91,581
Other (expense) income:			
Interest expense	(6,645)	—	(6,645)
Gain on sale of operations, net	1,025	—	1,025
Other expense, net	<u>(7,087)</u>	<u>—</u>	<u>(7,087)</u>
Total other expense, net	(12,707)	—	(12,707)
Income from continuing operations before income tax expense	79,840	(966)	78,874
Income tax expense	<u>18,267</u>	<u>(221)</u>	<u>18,046</u>
Income from continuing operations	61,573	(745)	60,828
Loss from discontinued operations, net of tax	<u>(3)</u>	<u>—</u>	<u>(3)</u>
Net income	<u>\$ 61,570</u>	<u>\$ (745)</u>	<u>\$ 60,825</u>

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

<u>Year Ended December 31, 2018</u> <u>Cash Flow Statement</u>	<u>As reported</u>	<u>Adjustments</u>	<u>Balances without adoption of Topic 606</u>
<u>Cash flows from operating activities:</u>			
Net income	\$ 61,570	\$ (745)	\$ 60,825
Adjustments to reconcile net income to net cash provided by operating activities:	38,713	—	38,713
Changes in assets and liabilities, net of acquisitions and divestitures:			
Accounts receivable, net	(10,668)	2,573	(8,095)
Other assets	(3,344)	(81)	(3,425)
Accounts payable	974	(1,649)	(675)
Accrued personnel costs	17,901	8	17,909
Other liabilities	(140)	(106)	(246)
Other	426	—	426
Operating cash flows provide by continuing operations ...	<u>105,432</u>	<u>—</u>	<u>105,432</u>
Operating cash flows used in discontinued operations	<u>(184)</u>	<u>—</u>	<u>(184)</u>
Net cash provided by operating activities	<u>105,248</u>	<u>—</u>	<u>105,248</u>
Net provided by investing activities	<u>(47,576)</u>	<u>—</u>	<u>(47,576)</u>
Net cash used in financing activities	<u>(109,380)</u>	<u>—</u>	<u>(109,380)</u>
Net increase in cash, cash equivalents and restricted cash ...	(51,708)	—	(51,708)
Cash, cash equivalents and restricted cash at beginning of year	<u>182,262</u>	<u>—</u>	<u>182,262</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 130,554</u>	<u>\$ —</u>	<u>\$ 130,554</u>

Accounting Standards Issued But Not Adopted at December 31, 2018

Internal-Use Software — In August 2018, the FASB issued ASU 2018-15, Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40), which aligns the requirements for capitalizing implementation costs incurred in a service contract hosting arrangement with those of developing or obtaining internal-use software. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. We do not expect this guidance to have a material impact on our consolidated financial position or results of operations.

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

Derivatives and Hedging — In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815) — Targeted Improvements to Accounting for Hedging Activities. The new standard improves and simplifies accounting rules for hedge accounting to better present the economic results of an entity's risk

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

management activities in its financial statements and improves the disclosures of hedging arrangements. Additionally, it simplifies the hedge documentation and effectiveness assessment requirements. The updated guidance is effective for us beginning January 1, 2019. We do not expect this guidance to have a material impact on our consolidated financial position or results of operations.

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

We will adopt this standard effective January 1, 2019. We expect the New Lease Standard to have a material effect on our consolidated balance sheet, with no material impact on our results of operations, our liquidity or our debt covenant compliance under our current credit agreements. Refer to Note 11, Lease Commitments, to the accompanying consolidated financial statements for further information on our current lease arrangements, the amounts of which represent the future undiscounted commitments.

NOTE 2. REVENUE

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

	For the Year Ended December 31, 2018			
	Financial Services	Benefits & Insurance	National Practices	Consolidated
Accounting, tax, advisory and consulting	\$600,926	\$ —	\$ —	\$600,926
Core Benefits and Insurance Services	—	276,496	—	276,496
Non-core Benefits and Insurance Services	—	11,941	—	11,941
Managed networking, hardware services	—	—	24,404	24,404
National Practices consulting	—	—	8,236	8,236
Total revenue	<u>\$600,926</u>	<u>\$288,437</u>	<u>\$32,640</u>	<u>\$922,003</u>

Financial Services

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

Revenue for fixed-fee arrangements is recognized over time with the performance obligation measured in hours worked and anticipated realization. Anticipated realization is defined as the fixed fee divided by the product of the hours anticipated to complete a performance obligation and the standard billing rate. Anticipated realization rates are applied to hours charged to a contract when recognizing revenue. At the end of each reporting period, we evaluate the work performed to date to ensure that the amount of revenue recognized in each reporting period for the client arrangement is equal to the performance obligations met.

Time and expense arrangement revenue is recognized over time with progress measured towards completion with value being transferred through our hourly fee arrangement at expected net realizable rates per hour, plus agreed-

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

upon out-of-pocket expenses. The cumulative impact on any subsequent revision in the estimated realizable value of unbilled fees for a particular client project is reflected in the period in which the change becomes known.

We applied the guidance of Topic 606 in determining the appropriate accounting for outcome-based arrangements. Prior to recognizing revenue, we estimate the transaction price, including variable consideration that is subject to a constraint based on risks specific to the arrangement. We evaluate the estimate in each reporting period and recognize revenue to the extent it is probable that a significant reversal of revenue will not occur. Revenue is recognized when the constraint is lifted at a point in time when the value is determined and verified by a third party.

Benefits and Insurance Services

Core Benefits and Insurance Services consists of group health benefits consulting, property and casualty, retirement plan services and payroll processing services. Revenue consists primarily of fee income for administering health and retirement plans and brokerage commissions. Revenue also includes investment income related to client payroll funds that are held in CBIZ accounts, as is industry practice. Under the new revenue recognition standard, the cost to obtain a contract must be capitalized unless the contract period is one year or less. We pay commissions monthly and require the recipient of the commission to be employed by us at the time of the payment. Failure to remain employed at the date the commission is payable results in the forfeiture of commissions that would otherwise be due. Therefore, we have determined that the requirement of continued employment is substantive and accordingly, do not consider the commissions to be incremental costs of obtaining the customer contract and consequently a contract acquisition cost is not recognized for those commissions.

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

- Commission revenue and fee income are recognized over the contract period as these services are provided to clients continuously throughout the term of the arrangement. Our customers benefit from each month of service on its own and although volume and the number of participants may differ month to month, the obligation to perform substantially remains the same.
- Contingent revenue arrangements are related to carrier-based performance targets. Due to the uncertainty of the outcome and the probability that a change in estimate would result in a significant reversal of revenue, we have applied a constraint on recording contingent revenue. Revenue is recognized when the constraint has been lifted which is the earlier of written notification that the target has been achieved or cash collection. Contingent revenue is not a significant revenue stream to our consolidated financial position or results of operations.

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

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

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

estimate would result in a significant reversal of revenue, we have applied a constraint on recording contingent revenue. Revenue is recognized when the constraint has been lifted which is the earlier of written notification that the target has been achieved or cash collection. Contingent revenue is not a significant revenue stream to our consolidated financial position or results of operations.

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

- Advisory revenue is based on the value of assets under management, as provided by a third party, multiplied by an agreed upon rate. Advisory services revenue is calculated monthly or quarterly based on the estimated value of assets under management, as it is earned over the duration of the reporting period and relates to performance obligations satisfied during that period. The variability related to the estimated asset values used to recognize revenue during the reporting period is resolved and the amount of related revenue recognized is adjusted when the actual value of assets under management is known.
- Third party administration revenue is recognized over the contract period as these services are provided to clients continuously throughout the term of the arrangement. Our clients benefit from each month of service on its own, and although the volume of tasks may differ month to month, the obligation to perform substantially remains the same.
- Actuarial revenue is recognized over the contract period with performance measured in hours in relation to the expected total hours. Under certain defined benefit plan administration arrangements, we charge new clients an initial, non-refundable, set-up fee as part of a multi-year service agreement. Revenue and costs related to the set-up fees are deferred and recognized over the life of the contract or the expected customer relationship, whichever is longer.

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

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

National Practices

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

National Practices consulting revenue is based upon a fixed fee, an hourly rate, or outcome-based. Revenue for fixed fee and time and expense arrangements is recognized over the performance period based upon actual hours incurred, while revenue for outcome-based arrangements is recognized similar to the outcome-based arrangements in the Financial Services practice group.

Transaction Price Allocated to Future Obligations — The new revenue recognition standard requires the disclosure of the aggregate amount of transaction price allocated to performance obligations that have not yet been satisfied as of the reporting date. The guidance provides certain practical expedients that limit this requirement, including performance obligations that are part of a contract that is one year or less. Since the majority of our contracts are one year or less, we have applied this practical expedient related to quantifying remaining performance obligations. In regards to contracts with terms in excess of one year, certain contract

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

periods related to our government healthcare consulting, group health and benefits consulting, and property and casualty insurance businesses have an original specified contract duration in excess of one year, however, the agreements provide CBIZ and the client with the right to cancel or terminate the contract with no substantial penalty. We have applied the provisions of Topic 606 and the FASB Transition Resource Group memo number 10-14, and note that the definition of contract duration does not extend beyond the goods and services already transferred for contracts that provide both the Company and the client with the right to cancel or terminate the contract with no substantial penalty.

NOTE 3. ACCOUNTS RECEIVABLE, NET

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

	<u>2018</u>	<u>2017</u>
Trade accounts receivable	\$159,992	\$139,730
Unbilled revenue, at net realizable value	60,684	62,397
Total accounts receivable	220,676	202,127
Allowance for doubtful accounts	<u>(13,389)</u>	<u>(13,827)</u>
Accounts receivable, net	<u>\$207,287</u>	<u>\$188,300</u>

Changes in the allowance for doubtful accounts on accounts receivable are as follows (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of period	\$(13,827)	\$(13,508)	\$(12,659)
Provision for losses	(3,776)	(5,529)	(4,154)
Charge-offs, net of recoveries	4,214	5,210	3,305
Balance at end of period	<u>\$(13,389)</u>	<u>\$(13,827)</u>	<u>\$(13,508)</u>

NOTE 4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net at December 31, 2018 and 2017 consisted of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Buildings and leasehold improvements	\$ 28,456	\$ 26,289
Furniture and fixtures	27,690	25,835
Capitalized software	37,281	36,639
Equipment	<u>17,875</u>	<u>13,615</u>
Total property and equipment	111,302	102,378
Accumulated depreciation and amortization	<u>(77,097)</u>	<u>(76,297)</u>
Property and equipment, net	<u>\$ 34,205</u>	<u>\$ 26,081</u>

Depreciation expense for property and equipment was \$6.1 million, \$5.3 million and \$5.4 million in 2018, 2017 and 2016, respectively.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

A summary of changes in the carrying amount of goodwill by operating segment for the years ended December 31, 2018 and 2017 were as follows (in thousands):

	<u>Financial Services</u>	<u>Benefits and Insurance Services</u>	<u>National Practices</u>	<u>Total Goodwill</u>
December 31, 2016	\$271,330	\$214,488	\$1,666	\$487,484
Additions	<u>35,531</u>	<u>5,409</u>	<u>—</u>	<u>40,940</u>
December 31, 2017	\$306,861	\$219,897	\$1,666	\$528,424
Additions	<u>22,978</u>	<u>13,111</u>	<u>—</u>	<u>36,089</u>
Divestitures	<u>(213)</u>	<u>—</u>	<u>—</u>	<u>(213)</u>
December 31, 2018	<u>\$329,626</u>	<u>\$233,008</u>	<u>\$1,666</u>	<u>\$564,300</u>

We review goodwill at the reporting unit level at least annually, as of November 1, for impairment. We had five reporting units at November 1, 2018. No goodwill impairment was recognized as a result of the annual evaluation.

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

	<u>2018</u>	<u>2017</u>
Goodwill	\$ 564,300	\$ 528,424
Intangibles :		
Client lists	181,564	177,221
Other intangibles	<u>9,447</u>	<u>8,767</u>
Total intangibles	<u>191,011</u>	<u>185,988</u>
Total goodwill and other intangibles assets	755,311	714,412
Accumulated amortization:		
Client lists	(112,905)	(97,063)
Other intangibles	<u>(5,397)</u>	<u>(4,143)</u>
Total accumulated amortization	<u>(118,302)</u>	<u>(101,206)</u>
Goodwill and other intangible assets, net	<u>\$ 637,009</u>	<u>\$ 613,206</u>

Amortization expense for client lists and other intangible assets was \$17.5 million, \$17.8 million and \$16.7 million in 2018, 2017 and 2016, respectively. The weighted-average useful lives of total intangible assets, client lists and other intangible assets were 6.8 years, 6.7 years and 7.8 years, respectively. Other intangible assets are amortized over periods ranging from 2 to 11 years. Based on the amount of intangible assets subject to amortization at December 31, 2018, the estimated amortization expense is \$13.6 million for 2019, \$12.3 million for 2020, \$10.8 million for 2021, \$9.0 million for 2022 and \$7.9 million for 2023.

NOTE 6. FINANCIAL INSTRUMENTS

The carrying amounts of our cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments. The carrying value of bank debt approximates fair value, as the interest rate on the bank debt is variable and approximates current market rates.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Concentrations of Credit Risk — Financial instruments that may subject us to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. We place our cash and cash equivalents with highly-rated financial institutions, limiting the amount of credit exposure with any one financial institution. Our client base consists of large numbers of geographically diverse customers dispersed throughout the United States; thus, concentration of credit risk with respect to accounts receivable is not significant.

Bonds — We held corporate and municipal bonds with net par values totaling \$55.7 million and \$49.5 million at December 31, 2018 and 2017, respectively. All bonds are investment grade and are classified as available-for-sale. Our bonds have maturity dates or callable dates ranging from January 2019 through February 2024, and are included in “Funds held for clients — current” in the accompanying Consolidated Balance Sheets based on the intent and ability of us to sell these investments at any time under favorable conditions.

The following table summarizes our bond activity for the years ended December 31, 2018 and 2017 (in thousands):

	2018	2017
Fair value at January 1	\$ 51,101	\$44,573
Purchases	18,426	15,546
Sales	(1,793)	(940)
Maturities and calls	(10,445)	(7,845)
Decrease in bond premium	(377)	(160)
Fair market value adjustment	(356)	(73)
Fair value at December 31	\$ 56,556	\$51,101

Interest Rate Swaps — We do not purchase or hold any derivative instruments for trading or speculative purposes. We utilize interest rate swaps to manage interest rate risk exposure associated with our floating-rate debt under the credit facility. Under these interest rate swap contracts, we receive cash flows from counterparties at variable rates based on LIBOR and pay the counterparties a fixed rate. To mitigate counterparty credit risk, we only enter into contracts with selected major financial institutions with investment grade ratings and continually assess their creditworthiness. There are no credit risk-related contingent features in our interest rate swaps nor do the swaps contain provisions under which we would be required to post collateral.

The designation of a derivative instrument as a hedge and its ability to meet the hedge accounting criteria determine how we reflect the change in fair value of the derivative instrument. A derivative qualifies for hedge accounting treatment if, at inception, it meets defined correlation and effectiveness criteria. These criteria require that the anticipated cash flows and/or changes in fair value of the hedging instrument substantially offset those of the position being hedged.

We had no fair value hedging instruments at December 31, 2018 or 2017. Our interest rate swaps are designated as cash flow hedges. Accordingly, the interest rate swaps are recorded as either an asset or liability in the accompanying Consolidated Balance Sheets at fair value. The mark-to-market gains or losses on the swaps are deferred and included as a component of accumulated other comprehensive loss (“AOCL”), net of tax, to the extent the hedge is determined to be effective, and reclassified to interest expense in the same period during which the hedged transaction affects earnings. The interest rate swaps are assessed for effectiveness and continued qualification for hedge accounting on a quarterly basis. For the years ended December 31, 2018 and 2017, the interest rate swaps were deemed to be highly effective.

The following table summarizes our outstanding interest rate swaps and their classification in the accompanying Consolidated Balance Sheets at December 31, 2018 and 2017 (in thousands). Refer to Note 7, Fair Value

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Measurements, to the accompanying consolidated financial statements for additional disclosures regarding fair value measurements.

	December 31, 2018		
	Notional Amount	Fair Value	Balance Sheet Location
Interest rate swaps	\$70,000	\$1,096	Other non-current assets
			December 31, 2017
	Notional Amount	Fair Value	Balance Sheet Location
Interest rate swaps	\$55,000	\$1,055	Other non-current assets
Interest rate swap	\$15,000	\$ 76	Other current assets

Under the terms of the interest rate swaps, we pay interest at a fixed rate of interest plus applicable margin as stated in the agreement, and receive interest that varies with the one-month LIBOR. The notional value, fixed rate of interest and expiration date of each interest rate swap as of December 31, 2018 is (i) \$25 million – 1.300% — October 2020, (ii) \$10 million – 1.120% — February 2021 and (iii) \$20 million – 1.770% — May 2022 and (iv) \$15 million – 2.640% — June 2023. During the second quarter of 2018, we entered into a 5-year interest rate swap with a notional value of \$15 million, while during the fourth quarter of 2018, one interest rate swap expired with a notional value of \$15 million.

During the next twelve months, the amount of the December 31, 2018 AOCL balance that will be reclassified to earnings is expected to be immaterial. The following table summarizes the effects of the interest rate swap on our accompanying Consolidated Statements of Comprehensive Income for the years ended December 31, 2018 and 2017 (in thousands):

	(Loss) Gain recognized in AOCL, net of tax		Gain (Loss) reclassified from AOCL into expense		Location
	Twelve Months Ended December 31,		Twelve Months Ended December 31,		
	2018	2017	2018	2017	
Interest rate swap	\$(17)	\$379	\$357	\$(132)	Interest expense

NOTE 7. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

- Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 — Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
- Level 3 — Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As circumstances change, we will reassess the level in which the inputs are included in the fair value hierarchy.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

For the years ended December 31, 2018 and 2017, there were no transfers between the valuation hierarchy Levels 1, 2 and 3. The following table summarizes our assets and liabilities at December 31, 2018 and 2017 that are measured at fair value on a recurring basis subsequent to initial recognition and indicates the fair value hierarchy of the valuation techniques utilized by us to determine such fair value (in thousands):

	<u>Level</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Deferred compensation plan assets	1	\$ 84,435	\$ 85,589
Corporate and municipal bonds	1	\$ 56,556	\$ 51,101
Deferred compensation plan liabilities	1	\$(84,435)	\$(85,589)
Interest rate swap	2	\$ 1,096	\$ 1,131
Contingent purchase price liabilities	3	\$(39,708)	\$(37,574)

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

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

During the year ended December 31, 2018, we recorded other expense of \$2.6 million related to net changes in the fair value of contingent consideration which is mostly attributable to the required mark-to-market accounting of future shares issuances for contingent considerations. For the same period in 2017, we recorded other income of \$1.5 million related to net changes in the fair value of contingent consideration related to our prior acquisitions. These increases/decreases are included in “Other Income, net” in the accompanying Consolidated Statements of Comprehensive Income. Refer to Note 19, Acquisitions, for further discussion of our acquisitions and contingent purchase price liabilities.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

The following table summarizes the change in fair value of our contingent purchase price liabilities identified as Level 3 for the years ended December 31, 2018 and 2017 (pre-tax basis, in thousands):

	Contingent Purchase Price Liabilities
Beginning balance — January 1, 2017	\$(33,709)
Additions from business acquisitions	(19,291)
Settlement of contingent purchase price payable	13,932
Change in fair value of contingency	2,128
Change in net present value of contingency	<u>(634)</u>
Balance — December 31, 2017	\$(37,574)
Additions from business acquisitions	(13,382)
Settlement of contingent purchase price payable	13,865
Change in fair value of contingency	(1,673)
Change in net present value of contingency	<u>(944)</u>
Balance — December 31, 2018	<u><u>\$(39,708)</u></u>

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

NOTE 8. INCOME TAXES

For financial reporting purposes, income from continuing operations before income taxes includes the following components (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
United States	\$79,669	\$74,151	\$66,848
Foreign (Canada)	<u>171</u>	<u>169</u>	<u>158</u>
Total	<u><u>\$79,840</u></u>	<u><u>\$74,320</u></u>	<u><u>\$67,006</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Income tax expense (benefit) included in the accompanying Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016 was as follows (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Continuing operations :			
Current:			
Federal	\$12,626	\$21,086	\$18,816
Foreign	45	45	42
State and local	2,808	2,475	2,681
Total	<u>15,479</u>	<u>23,606</u>	<u>21,539</u>
Deferred:			
Federal	2,047	(1,086)	4,148
State and local	741	768	712
Total	<u>2,788</u>	<u>(318)</u>	<u>4,860</u>
Total income tax expense from continuing operations ...	18,267	23,288	26,399
Discontinued operations :			
Operations of discontinued operations:			
Current	2	(418)	(365)
Deferred	<u>(1)</u>	<u>(19)</u>	<u>(10)</u>
Total income tax expense from discontinued operations ...	1	(437)	(375)
Total income tax expense	<u>\$18,268</u>	<u>\$22,851</u>	<u>\$26,024</u>

The provision for income taxes attributable to income from continuing operations differed from the amount obtained by applying the federal statutory income tax rate to income from continuing operations before income taxes, as follows (in thousands, except percentages):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Tax at U.S. federal statutory rates	\$16,766	\$26,012	\$23,452
State taxes (net of federal benefit)	4,035	2,945	2,643
Business meals and entertainment — non-deductible	915	820	784
Reserves for uncertain tax positions	(1,124)	(35)	(87)
Share-based compensation	(3,260)	(3,837)	—
Impact of the Tax Cuts and Jobs Act of 2017	—	(2,487)	—
Non-deductible expenses	785	236	22
Other, net	150	(366)	(415)
Provision for income taxes from continuing operations	<u>\$18,267</u>	<u>\$23,288</u>	<u>\$26,399</u>
Effective income tax rate	<u>22.9%</u>	<u>31.3%</u>	<u>39.4%</u>

ASU 2016-09 — Stock Compensation — We recognized a reduction to “Income tax expense” in the accompanying Consolidated Statements of Comprehensive Income of \$3.3 million in 2018 and \$3.8 million in 2017 (resulting from an increase in the fair value of an award from grant date to the vesting or exercise date, as applicable). The income tax benefit of \$1.1 million in 2016 from share-based compensation was recorded in “Additional paid-in-capital” in the accompanying Consolidated Balance Sheets. Refer to Note 1, Basis of Presentation and Significant Accounting Policies to the accompanying consolidated financial statements for further discussion on new accounting pronouncement adoptions.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

The Tax Act — On December 22, 2017, the Tax Act was signed into law, which permanently reduces the corporate federal income tax rate from 35% to 21% beginning in 2018. We recognized an income tax benefit of \$2.5 million in 2017, due to the revaluation of our deferred tax liabilities. Our effective tax rate was 22.9% in 2018, compared to 31.3% in 2017.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017, were as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 1,091	\$ 1,229
Allowance for doubtful accounts	2,902	3,022
Employee benefits and compensation	24,761	21,155
Lease costs	4,099	3,611
State tax credit carryforwards	1,353	1,385
Property and equipment	—	528
Other deferred tax assets	<u>287</u>	<u>633</u>
Total gross deferred tax assets	34,493	31,563
Less: valuation allowance	<u>(1,840)</u>	<u>(1,657)</u>
Total deferred tax assets, net	\$32,653	\$29,906
Deferred tax liabilities:		
Accrued interest	\$ —	\$ 819
Client list intangible assets	1,184	1,513
Goodwill and other intangibles	35,840	30,913
Property and equipment	1,356	—
Other deferred tax liabilities	<u>1,037</u>	<u>—</u>
Total gross deferred tax liabilities	<u>\$39,417</u>	<u>\$33,245</u>
Net deferred tax liability	<u><u>\$(6,764)</u></u>	<u><u>\$(3,339)</u></u>

We have established valuation allowances for deferred tax assets related to certain employee benefits and compensation, state net operating loss (“NOL”) carryforwards and state income tax credit carryforwards at December 31, 2018 and December 31, 2017. The net increase in the valuation allowance of \$0.2 million for the year ended December 31, 2018 primarily related to changes in the valuation allowance for NOLs. The net increase in the valuation allowance of \$0.3 million for the year ended December 31, 2017 primarily related to changes in the valuation allowance as a result of the Tax Act.

In assessing the realization of deferred tax assets, management considers all available positive and negative evidence, including projected future taxable income, scheduled reversal of deferred tax liabilities, historical financial operations and tax planning strategies. Based upon review of these items, management believes it is more-likely-than-not that the Company will realize the benefits of these deferred tax assets, net of the existing valuation allowances.

We file income tax returns in the United States, Canada, and most state jurisdictions. In March 2016, the Internal Revenue Service completed its audit of our 2013 and 2014 federal income tax returns. We paid \$0.5 million in settlement of this audit which had no impact on the 2016 income tax expense. With limited exceptions, our state and local income tax returns and non-U.S. income tax returns are no longer subject to tax authority examinations for years ending prior to January 1, 2014 and January 1, 2013, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

The availability of NOLs and state tax credits are reported as deferred tax assets, net of applicable valuation allowances, in the accompanying Consolidated Balance Sheets. At December 31, 2018, we had state net operating loss carryforwards of \$23.2 million and state tax credit carryforwards of \$1.4 million. The state net operating loss carryforwards expire on various dates between 2019 and 2038 and the state tax credit carryforwards expire on various dates between 2019 and 2028.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at January 1	\$ 3,882	\$4,090	\$4,287
Additions for tax positions of the current year	119	123	110
Settlements of prior year positions	(16)	—	(11)
Lapse of statutes of limitation	<u>(1,166)</u>	<u>(331)</u>	<u>(296)</u>
Balance at December 31	<u>2,819</u>	<u>3,882</u>	<u>4,090</u>

Included in the balance of unrecognized tax benefits at December 31, 2018 are \$1.9 million of unrecognized tax benefits that, if recognized, would affect the effective tax rate. We believe it is reasonably possible that certain of these unrecognized tax benefits could change in the next twelve months. We expect reductions in the liability for unrecognized tax benefits of approximately \$0.1 million within the next twelve months due to expiration of statutes of limitation. Given the number of years that are currently subject to examination, we are unable to estimate the range of potential adjustments to the remaining balance of unrecognized tax benefits at this time.

We recognize interest expense, and penalties related to unrecognized tax benefits as a component of income tax expense. During 2018, we accrued interest expense of less than \$0.1 million and, as of December 31, 2018, had recognized a liability for interest expense and penalties of \$0.7 million and \$0.2 million, respectively, relating to unrecognized tax benefits. During 2017, we accrued interest expense of \$0.2 million and, as of December 31, 2017, had recognized a liability for interest expense and penalties of \$0.7 million and \$0.2 million, respectively, relating to unrecognized tax benefits.

NOTE 9. DEBT AND FINANCING ARRANGEMENTS

In 2018, we amended and restated our primary financing arrangement, the \$400 million unsecured credit facility, by and among CBIZ Operations, Inc., CBIZ, Inc. and Bank of America, N.A., as administrative agent and bank, and other participating banks. The 2018 credit facility amends and restates our credit agreement (prior to being amended and restated by the 2018 credit facility, the “2014 credit facility”), dated as of July 28, 2014, as amended by the First Amendment to credit agreement, dated as of April 10, 2015, and as amended by the Second Amendment to credit agreement, as filed on November 3, 2015. The 2018 credit facility extends the maturity date from 2019 to 2023, continues to provide for a \$400 million revolving loan commitment, improves our borrowing margin related to leverage ratio and increases the flexibility of certain covenant baskets, as compared to the 2014 credit facility. In connection with our 2018 credit facility, we incurred approximately \$1.1 million of financing costs during the second quarter of 2018, which have been deferred as other assets on our Consolidated Balance Sheets, and are being amortized as interest expense on a straight line basis over the term of the 2018 credit facility.

In the third quarter of 2018, we entered into an unsecured \$20 million line of credit with a bank participating in our 2018 credit facility. This line of credit will be used to support our short-term funding requirements of payroll client fund obligations due to the investment of client funds, rather than liquidating client funds that have already been invested in available-for-sale securities. Refer to Note 6, Financial Instruments, for further discussion

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

regarding these investments. The line of credit, which terminates August 16, 2019, did not have a balance outstanding at December 31, 2018. Borrowings under the line of credit bear interest at the prime rate.

The 2018 credit facility provides us with the capital necessary to meet our working capital needs as well as the flexibility to continue with our strategic initiatives, including business acquisitions and share repurchases. The balance outstanding under the 2018 credit facility and the 2014 credit facility was \$135.5 million and \$178.5 million at December 31, 2018 and December 31, 2017, respectively. Rates for the years ended December 31, 2018 and 2017 were as follows (includes bank debt and interest rate swaps):

	2018	2017
Weighted average rates	3.08%	2.72%
Range of effective rates	2.12% - 5.50%	2.19% - 4.75%

Availability — We have approximately \$255.5 million of available funds under the 2018 credit facility at December 31, 2018, based on the terms of the commitment. Available funds under the credit facility are based on a multiple of earnings before interest, taxes, depreciation and amortization as defined in the credit facility, and are reduced by letters of credit, performance guarantees, other indebtedness and outstanding borrowings under the credit facility. Under the credit facility, loans are charged an interest rate consisting of a base rate or Eurodollar rate plus an applicable margin, letters of credit are charged based on the same applicable margin, and a commitment fee is charged on the unused portion of the credit facility.

Debt Covenant Compliance — The 2018 credit facility is subject to certain financial covenants that may limit our ability to borrow up to the total commitment amount. Covenants require us to meet certain requirements with respect to (i) a total leverage ratio and (ii) minimum fixed charge coverage ratio. We are in compliance with all covenants.

Debt Covenant Restrictions — The credit facility also places restrictions on our ability to create liens or other encumbrances, to make certain payments, investments, loans and guarantees and to sell or otherwise dispose of a substantial portion of assets, or to merge or consolidate with an unaffiliated entity.

The credit facility limits our ability to make dividend payments. Historically, we have not paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. Our Board of Directors has discretion over the payment and level of dividends on common stock, subject to the limitations of the credit facility and applicable law. The credit facility contains a provision that, in the event of a defined change in control, the credit facility may be terminated.

Interest Expense — For the years ended December 31, 2018, 2017 and 2016, we recognized interest expense as follows (in thousands):

	2018	2017	2016
Credit facility (1)	\$6,645	\$6,675	\$6,585
2006 Notes (2)	—	—	8
Balance at December 31	\$6,645	\$6,675	\$6,593

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

(2) We redeemed the remaining 3.125% Convertible Senior Subordinated Notes during the second quarter of 2016 under an optional early redemption provision.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

NOTE 10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss at December 31, 2018 and 2017 were as follows (in thousands):

	2018	2017
Net unrealized loss on available-for-sale securities, net		
of income tax benefit of \$183 and \$157, respectively	\$(495)	\$(236)
Net unrealized gain on interest rate swap, net of income		
tax expense of \$213 and \$419, respectively	694	712
Foreign currency translation	(681)	(658)
Accumulated other comprehensive loss	\$(482)	\$(182)

NOTE 11. LEASE COMMITMENTS

Operating Leases — We lease certain of our office facilities and equipment under various operating leases. Future minimum cash commitments under operating leases as of December 31, 2018 were as follows (in thousands):

Year Ending December 31,	Gross Operating Lease Commitments	Sub-Leases	Net Operating Lease Commitments
2019	\$ 34,490	\$234	\$ 34,256
2020	30,653	234	30,419
2021	26,172	—	26,172
2022	20,358	—	20,358
2023	18,981	—	18,981
Thereafter	65,854	—	65,854
Total	\$196,508	\$468	\$196,040

Rent expense for continuing operations incurred under operating leases was \$38 million, \$38.4 million and \$37 million for the years ended December 31, 2018, 2017 and 2016, respectively. Rent expense does not necessarily reflect cash payments, as described under “Operating Leases” in Note 1.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Acquisitions — The purchase price that we normally pay for businesses and client lists consists of two components: an up-front non-contingent portion, and a portion which is contingent upon the acquired businesses or client lists’ future performance. The fair value of the purchase price contingency related to businesses is recorded at the date of acquisition and re-measured each reporting period until the liability is settled. Shares of our common stock that are issued in connection with acquisitions may be contractually restricted from sale for periods up to one year. Acquisitions are further disclosed in Note 19, Acquisitions.

Indemnifications — We have various agreements in which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of representations, warranties, covenants or agreements, related to matters such as

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

title to assets sold and certain tax matters. Payment by us under such indemnification clauses are generally conditioned upon the other party making a claim. Such claims are typically subject to challenge by us and to dispute resolution procedures specified in the particular contract. Further, our obligations under these agreements may be limited in terms of time and/or amount and, in some instances, we may have recourse against third parties for certain payments made by us. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of our obligations and the unique facts of each particular agreement. Historically, we have not made any payments under these agreements that have been material individually or in the aggregate. As of December 31, 2018, we were not aware of any obligations arising under indemnification agreements that would require material payments, and therefore have not recorded a liability.

Employment Agreements — We maintain severance and employment agreements with a certain number of our executive officers, whereby such officers may be entitled to payment in the event of termination of their employment. We also have arrangements with certain non-executive employees which may include severance and other employment provisions. We accrue for amounts payable under these contracts and arrangements as triggering events occur and obligations become known. During the years ended December 31, 2018, 2017 and 2016, payments under such contracts and arrangements were not material.

Letters of Credit and Guarantees — We provide letters of credit to landlords (lessors) of our leased premises in lieu of cash security deposits which totaled \$1.1 million and \$2.3 million at December 31, 2018 and 2017, respectively. In addition, we provide license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding was \$2.9 million and \$2.5 million at December 31, 2018 and 2017, respectively.

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

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

With the exception of claims being pursued by two plaintiffs from the Ashkenazi lawsuit (“Baldino Group”), all other related matters have been dismissed or settled without payment by the CBIZ Parties. The Baldino Group’s claims, which allege damages of approximately \$16.0 million, are currently pending, though no trial date has been set.

On September 16, 2016, CBIZ, Inc. and its subsidiary CBIZ Benefits & Insurance Services, Inc. (“CBIZ Benefits”) were named as defendants in a lawsuit filed in the U.S. District Court for the Western District of Pennsylvania. The federal court case is brought by UPMC, d/b/a University of Pittsburgh Medical Center, and a

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

health system it acquired, UPMC Altoona (formerly, Altoona Regional Health System). The lawsuit asserts professional negligence, breach of contract, and negligent misrepresentation claims against CBIZ, CBIZ Benefits and a former employee of CBIZ Benefits in connection with actuarial services provided by CBIZ Benefits to Altoona Regional Health System. The complaint seeks damages in an amount of no less than \$142.0 million.

We cannot predict the outcome of the above matters or estimate the possible loss or range of possible loss, if any. Although the proceedings are subject to uncertainties inherent in the litigation process and the ultimate disposition of these proceedings is not presently determinable, we intend to vigorously defend these cases. In addition to those items disclosed above, we are, from time to time, subject to claims and suits arising in the ordinary course of business.

NOTE 13. EMPLOYEE BENEFITS

Employee Savings Plan — We sponsor a qualified 401(k) defined contribution plan that covers substantially all of our employees. Participating employees may elect to contribute, on a tax-deferred basis, up to 80% of their pre-tax annual compensation (subject to a maximum permissible contribution under Section 401(k) of the Internal Revenue Code). Matching contributions by us are 50% of the first 6% of base compensation that the participant contributes, and additional amounts may be contributed at the discretion of the Board of Directors. Participants may elect to invest their contributions in various funds including: equity, fixed income, stable value, and balanced-lifecycle funds. Employer contributions (net of forfeitures) made to the plan during the years ended December 31, 2018, 2017 and 2016 were approximately \$10.8 million, \$10.4 million and \$9.6 million, respectively.

Non-qualified Deferred Compensation Plan — We sponsor a non-qualified deferred compensation plan, under which certain members of management and other highly compensated employees may elect to defer receipt of a portion of their annual compensation, subject to maximum and minimum percentage limitations. The amount of compensation deferred under the plan is credited to each participant's deferral account and a non-qualified deferred compensation plan obligation is established by us. An amount equal to each participant's compensation deferral is transferred into a rabbi trust and invested in various debt and equity securities as directed by the participants. The assets of the rabbi trust are held by us and recorded as "Assets of deferred compensation plan" in the accompanying Consolidated Balance Sheets.

Assets of the non-qualified deferred compensation plan consist primarily of investments in mutual funds, money market funds and equity securities. The values of these investments are based on published market prices at the end of the period. Adjustments to the fair value of these investments are recorded in "Other income, net," offset by the same adjustments to compensation expense (recorded as "Operating expenses" or "G&A expenses" in the accompanying Consolidated Statements of Comprehensive Income).

We recorded expense of \$4.9 million for the year ended December 31, 2018 and income of \$12.1 million and \$5.3 million for the years ended December 31, 2017 and 2016, respectively, related to these investments. These investments are specifically designated as available to us solely for the purpose of paying benefits under the non-qualified deferred compensation plan. However, the investments in the rabbi trusts would be available to all unsecured general creditors in the event that we become insolvent.

Deferred compensation plan obligations represent amounts due to plan participants and consist of accumulated participant deferrals and changes in fair value of investments thereon since the inception of the plan, net of withdrawals. This liability is an unsecured general obligation of ours and is recorded as "Deferred compensation plan obligations" in the accompanying Consolidated Balance Sheets.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

The assets and liabilities related to the non-qualified deferred compensation plan at December 31, 2018 and 2017 were \$84.4 million and \$85.6 million, respectively.

NOTE 14. COMMON STOCK

Share Repurchase Program — Our Board of Directors approved various share repurchase programs that were effective during the years ended December 31, 2018, 2017 and 2016. Under these programs, shares may be purchased in the open market or in privately negotiated transactions according to SEC rules.

The Share Repurchase Program does not obligate us to acquire any specific number of shares and may be suspended at any time. Repurchased shares are held in treasury and may be reserved for future use in connection with acquisitions, employee share plans and other general purposes. Under our credit facility, described in Note 9, Debt and Financing Arrangements, share repurchases are unlimited when total leverage is less than 3.0. When leverage is greater than 3.0, the annual share repurchase is limited to \$35.0 million.

Under the Share Repurchase Program, we repurchased 0.8 million and 1.2 million shares on the open market at a cost (including fees and commissions) of \$15.6 million and \$18.3 million during the year ended December 31, 2018 and 2017, respectively. Shares repurchased to settle statutory employee withholding related to vesting of stock awards were 0.1 million shares at a cost of \$1.9 million at December 31, 2018 and 0.1 million shares at a cost of \$1.4 million at December 31, 2017.

NOTE 15. EMPLOYEE SHARE PLANS

Employee Stock Purchase Plan — The 2007 Employee Stock Purchase Plan (“ESPP”), which has a termination date of June 30, 2020, allows qualified employees to purchase shares of common stock through payroll deductions up to a limit of \$25,000 of stock per calendar year. The price an employee pays for shares is 85% of the fair market value of our common stock on the last day of the purchase period. Purchase periods begin on the sixteenth day of the month and end on the fifteenth day of the subsequent month. Other than a one-year holding period from the date of purchase, there are no vesting or other restrictions on the stock purchased by employees under the ESPP. The total number of shares of common stock that can be purchased under the ESPP shall not exceed two million shares.

Stock Awards — We granted various share-based awards through the year ended December 31, 2018 under the CBIZ, Inc. 2014 Stock Incentive Plan (“2014 Plan”). The terms and vesting schedules for the share-based awards vary by type and date of grant. A maximum of 9.6 million stock options, restricted stock or other stock based compensation awards may be granted. Shares subject to award under the 2014 Plan may be either authorized but unissued shares of our common stock or treasury shares. At December 31, 2018, approximately 3.1 million shares were available for future grant under the 2014 Plan.

We utilized the Black-Scholes-Merton option-pricing model to determine the fair value of stock options on the date of grant. The fair value of stock options granted during the years ended December 31, 2018, 2017 and 2016 were \$4.73, \$3.49, \$2.40, respectively. The following weighted average assumptions were utilized:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Expected volatility (1)	22.04%	22.22%	24.88%
Expected option life (years) (2)	4.62	4.61	4.62
Risk-free interest rate (3)	2.80%	1.85%	1.12%
Expected dividend yield (4)	0%	0%	0%

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

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

During the years ended December 31, 2018, 2017 and 2016, we recognized compensation expense (before income tax expense) for these awards as follows (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Stock options	\$2,609	\$2,105	\$2,253
Restricted stock awards	4,257	3,600	3,472
Total share-based compensation expense	<u>\$6,866</u>	<u>\$5,705</u>	<u>\$5,725</u>

Stock Options — Stock options granted during the years ended December 31, 2018, 2017 and 2016 were generally subject to a 25% incremental vesting schedule over a four-year period commencing from the date of grant. Stock options expire six years from the date of grant and are awarded with an exercise price equal to the market value of our common stock on the date of grant. At the discretion of the Compensation Committee of the Board of Directors, options awarded under the 2014 Plan may vest in a time period shorter than four years. Under the 2014 Plan, stock options awarded to non-employee directors have generally been granted with immediate vesting. Stock options may be granted alone or in addition to other awards and may be of two types: incentive stock options and nonqualified stock options. Stock option activity during the year ended December 31, 2018 was as follows (number of options in thousands):

	<u>Number of Options</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Outstanding at December 31, 2017	3,844	\$ 9.67		
Granted	642	\$19.45		
Exercised	(864)	\$ 7.29		
Expired or canceled	<u>0</u>	\$ —		
Outstanding at December 31, 2018	<u>3,622</u>	\$11.97	3.07 years	\$28.0
Vested and exercisable at December 31, 2018	<u>2,011</u>	\$ 9.21	2.05 years	\$21.1

- The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2018, 2017 and 2016 was \$3.0 million, \$2.3 million and \$1.6 million, respectively.
- The aggregate intrinsic value of stock options exercised during each of the years ended December 31, 2018, 2017 and 2016 was \$10.9 million, \$9.4 million and \$4.2 million, respectively. The intrinsic value is calculated as the difference between our stock price on the exercise date and the exercise price of each option exercised.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

- At December 31, 2018, we had unrecognized compensation cost for non-vested stock options of \$5.9 million to be recognized over a weighted average period of approximately 1.3 years.

Restricted Stock Awards — Under the 2014 Plan, certain employees and non-employee directors were granted restricted stock awards. Restricted stock awards are independent of option grants and are granted at no cost to the recipients. The awards are subject to forfeiture if employment terminates prior to the release of restrictions, generally one to four years from the date of grant. Recipients of restricted stock awards are entitled to the same dividend and voting rights as holders of other CBIZ common stock, subject to certain restrictions during the vesting period, and the awards are considered to be issued and outstanding from the date of grant. Shares granted under the 2014 Plan cannot be sold, pledged, transferred or assigned during the vesting period.

Restricted stock award activity during the year ended December 31, 2018 was as follows:

	Number of Shares (in thousands)	Weighted Average Grant-Date Fair Value (1)
Non-vested at December 31, 2017	724	\$11.78
Granted	272	\$18.77
Vested	(364)	\$11.18
Forfeited	0	\$ —
Non-vested at December 31, 2018	632	\$15.35

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

- At December 31, 2018, we had unrecognized compensation cost for restricted stock awards of \$9.7 million to be recognized over a weighted average period of approximately 1.22 years.
- The total fair value of shares vested during the years ended December 31, 2018, 2017 and 2016 was approximately \$4.1 million, \$3.4 million and \$3.3 million, respectively.
- The market value of shares awarded during the years ended December 31, 2018, 2017 and 2016 was \$5.1 million, \$4.4 million and \$3.2 million, respectively. This market value was recorded as unearned compensation and is being expensed ratably over the periods which the restrictions lapse.
- Awards outstanding at December 31, 2018 will be released from restrictions at dates ranging from February 2019 through May 2022.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

NOTE 16. EARNINGS PER SHARE

The following table sets forth the reconciliation of the numerator and the denominator of basic earnings per share and diluted earnings per share from continuing operations for the years ended December 31, 2018, 2017 and 2016 (in thousands, except per share data):

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Numerator:			
Income from continuing operations	\$61,573	\$51,032	\$40,607
Denominator:			
Basic			
Weighted average common shares outstanding	54,561	53,862	52,321
Diluted			
Stock options (1)	1,542	1,499	870
Restricted stock awards	302	328	261
Contingent shares (2)	82	—	61
Diluted weighted average common shares outstanding	<u>56,487</u>	<u>55,689</u>	<u>53,513</u>
Earnings Per Share:			
Basic earnings per share from continuing operations	<u>\$ 1.13</u>	<u>\$ 0.95</u>	<u>\$ 0.78</u>
Diluted earnings per share from continuing operations	<u>\$ 1.09</u>	<u>\$ 0.92</u>	<u>\$ 0.76</u>

- (1) For the years ended December 31, 2018, 2017 and 2016, a total of 0.4 million, 0.5 million and 0.8 million stock based awards, respectively, were excluded from the calculation of diluted earnings per share 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 us once future conditions have been met. For further details, refer to Note 19, Acquisitions.

NOTE 17. SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash paid for interest and income taxes during the years ended December 31, 2018, 2017 and 2016 were as follows (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Interest	<u>\$ 6,340</u>	<u>\$ 6,117</u>	<u>\$ 6,019</u>
Income taxes	<u>\$15,327</u>	<u>\$25,085</u>	<u>\$19,314</u>

NOTE 18. RELATED PARTIES

The following is a summary of certain agreements and transactions between or among us and certain related parties. Management reviews these transactions as they occur and monitors them for compliance with our Code of Conduct, internal procedures and applicable legal requirements. The Audit Committee reviews and ratifies such transactions annually, or as they are more frequently brought to the attention of the Audit Committee by our Director of Internal Audit, General Counsel or other members of Management.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

A number of the businesses acquired by us are located in properties owned indirectly by and leased from persons employed by us, none of whom are members of our senior management. In the aggregate, we paid approximately \$3.0 million, \$3.3 million and \$3.2 million during the years ended December 31, 2018, 2017 and 2016, respectively, under such leases.

Rick L. Burdick, a lead director of CBIZ, is a partner of Akin Gump Strauss Hauer & Feld LLP (“Akin Gump”). Akin Gump performed legal work for us during the years ended December 31, 2018, 2017 and 2016 for which we paid approximately \$0.2 million, \$0.2 million and \$0.1 million, respectively.

We maintain joint-referral relationships and administrative service agreements with independent licensed CPA firms under which we provide administrative services in exchange for a fee. Fees earned by us under the ASAs are recorded as “Revenue” (at net realizable value) in the accompanying Consolidated Statements of Comprehensive Income and were approximately \$154.0 million in 2018, \$156.4 million in 2017 and \$144.8 million in 2016. These firms are owned by licensed CPAs who are employed by our subsidiaries and provide audit and attest services to clients including our clients. The CPA firms with which we maintain administrative service agreements operate as limited liability companies, limited liability partnerships or professional corporations. The firms are separate legal entities with separate governing bodies and officers. We have no ownership interest in any of these CPA firms, and neither the existence of the administrative service agreements nor the providing of services thereunder is intended to constitute control of the CPA firms by us. CBIZ and the CPA firms maintain their own respective liability and risk of loss in connection with performance of each of its respective services, and we do not believe that our arrangements with these CPA firms result in additional risk of loss.

NOTE 19. ACQUISITIONS

During the year ended December 31, 2018, we acquired substantially all of the assets of three businesses; Laurus Transaction Advisors, LLC. (“Laurus”), InR Advisory Services, LLC (“InR”) and Sequoia Financial Group, LLC. (“Sequoia”). Aggregate consideration for such acquisitions was approximately \$27.9 million in cash, \$0.9 million in our common stock and \$13.4 million in contingent consideration.

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 we could be required to make under the contingent arrangements is \$15.3 million. We are required to record the fair value of this obligation at the acquisition date which was determined to be \$13.4 million, of which \$3.9 million was recorded in “Contingent purchase price liability — current” and \$9.5 million was recorded in “Contingent purchase price liability — non-current” in the accompanying Consolidated Balance Sheets at December 31, 2017. Refer to Note 7, Fair Value Measurements, for additional information regarding contingent purchase price liability fair value and fair value adjustments.

First Quarter 2018 — The acquisition of Laurus, located in Denver, Colorado, was effective February 1, 2018. Laurus provides financial and accounting due diligence and advisory services with respect to mergers and acquisition transactions. Operating results are reported in the Financial Services practice group.

Second Quarter 2018 — The acquisition of InR, located in Media, Pennsylvania, was effective April 1, 2018. InR is a pension consultant and provider of investment advisory services for public and private sector clients. Operating results are reported in the Benefits and Insurance practice group.

Fourth Quarter 2018 — The acquisition of Sequoia, located in Cleveland, Ohio, was effective December 1, 2018. Sequoia provides retirement plan and advisory services. Operating results are reported in the Benefits and Insurance practice group.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Annualized revenue for these acquisitions is estimated to be approximately \$11.0 million. Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in aggregate, were not material to our “Income from continuing operations before income taxes.”

During the year ended December 31, 2017, we acquired substantially all of the assets of four businesses; Pacific Coastal Pension and Insurance Services, Inc. (“Pacific Coastal”), CMF Associates, LLC (“CMF”), Slaton Insurance (“Slaton”) and the non-attest business of McKay & Carnahan, Inc. (“McKay”). Aggregate consideration for such acquisitions was approximately \$24.2 million in cash, \$2 million in our common stock and \$19.3 million in contingent consideration.

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 we could be required to make under the contingent arrangements is \$20.3 million. We are required to record the fair value of this obligation at the acquisition date which was determined to be \$19.3 million, of which \$6.3 million was recorded in “Contingent purchase price liability — current” and \$13 million was recorded in “Contingent purchase price liability — non-current” in the accompanying Consolidated Balance Sheets at December 31, 2017. Refer to Note 7, Fair Value Measurements, for additional information regarding contingent purchase price liability fair value and fair value adjustments.

First Quarter 2017 — The acquisition of Pacific Coastal, located in Morgan Hill, California, was effective February 1, 2017. Pacific Coastal provides defined contribution third party administrative and consulting services. Operating results are reported in the Benefits and Insurance practice group.

Second Quarter 2017 — The acquisition of CMF, located in Philadelphia, Pennsylvania, was effective June 1, 2017. CMF provides various financial consulting, executive search and deal origination services. Operating results for CMF are reported in the Financial Services practice group. The acquisition of Slaton, located in West Palm Beach, Florida, was effective June 1, 2017. Slaton is a full service insurance brokerage firm offering clients a complete line of services including commercial lines, risk management and employee benefits. Operating results are reported in the Benefits and Insurance practice group.

Fourth Quarter 2017 — The acquisition of McKay, located in Newport Beach, California, was effective December 1, 2017. McKay is a full service accounting, tax, compliance and financial consulting firm. Operating results are reported in the Financial Services practice group.

Annualized revenue for these acquisitions is estimated to be approximately \$25.7 million. Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in aggregate, were not material to our “Income from continuing operations before income taxes.”

During the year ended December 31, 2016, we acquired substantially all of the assets of six businesses; the non-attest business of Millimaki Eggert, L.L.P. (“Millimaki”), The Savitz Organization (“Savitz”), Flex-Pay Business Services, Inc. (Flex-Pay”), Ed Jacobs & Associates, Inc. (“Ed Jacobs”), Actuarial Consultants, Inc. (“ACI”) and the non-attest business of the Seff Group, P.C. (“Seff”). Aggregate consideration for such acquisitions was approximately \$40 million in cash, \$2.1 million in our common stock, and \$21.1 million in contingent consideration.

The maximum potential undiscounted amount of all future payments that we could be required to make under the contingent arrangements is \$23.5 million. We determined that the fair value of the contingent consideration arrangement was \$21.1 million, of which \$6.6 million was recorded in “Contingent purchase price liability — current” and \$14.5 million was recorded in “Contingent purchase price liability — non-current” in the accompanying Consolidated Balance Sheets at December 31, 2016.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

First Quarter 2016 — The acquisition of Millimaki, located in San Diego, California, was effective January 1, 2016. Millimaki provides professional tax, accounting, and financial services, with a specialty niche practice in the real estate sector, to closely held businesses, their owners, and mid-to-high net worth individuals. Operating results are reported in the Financial Services practice group.

Second Quarter 2016 — The acquisition of Savitz, headquartered in Philadelphia, Pennsylvania, with offices in Atlanta, Georgia, and Newton, Massachusetts, was effective April 1, 2016. Savitz is an employee retirement and health and welfare benefits firm that provides actuarial, consulting and administration outsourcing services. The acquisition of Flex-Pay, located in Winston-Salem, North Carolina, was effective June 1, 2016. Flex-Pay provides payroll processing, Affordable Care Act fulfillment, and human resource solutions to more than 3,600 clients primarily in the Southeast. Operating results for both Savitz and Flex-Pay are reported in the Benefit and Insurance Services practice group.

Third Quarter 2016 — The acquisition of Ed Jacobs, an employee benefits consulting business located in Cleveland, Tennessee, was effective July 1, 2016. Operating results are reported in the Benefit and Insurance Services practice group.

Fourth Quarter 2016 — The acquisition of ACI, based in Torrance, California, was effective November 1, 2016. ACI provides design, consultation and administration of 401(k) plans, profit-sharing plans, nonqualified plan administration and traditional defined benefit plans. Operating results are reported in the Benefit and Insurance Services practice group. The acquisition of Seff, a full service accounting, tax, compliance and financial consulting firm located in Denver, Colorado, was effective November 1, 2016. Operating results attributable to Seff are reported in the Financial Services practice group.

Annualized revenue for these acquisitions is estimated to be approximately \$41.2 million. Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in aggregate, were not material to our “Income from continuing operations before income taxes.”

The following table summarizes the amounts of identifiable assets acquired, liabilities assumed and aggregate purchase price for the acquisitions in 2018, 2017 and 2016 (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash	\$ 306	\$ 843	\$ 10
Accounts receivable, net	1,958	4,338	6,649
Funds held for clients	—	—	37,230
Property and equipment	—	48	440
Other assets	12	221	294
Identifiable intangible assets	5,539	4,229	22,177
Accounts payable	—	(1,283)	—
Accrued liabilities	(1,753)	(3,503)	(1,133)
Client fund obligations	—	—	<u>(37,230)</u>
Total identifiable net assets	\$ 6,062	\$ 4,893	\$ 28,437
Goodwill	36,054	40,587	34,803
Aggregate purchase price	<u>\$42,116</u>	<u>\$45,480</u>	<u>\$ 63,240</u>

The goodwill of \$36.1 million, \$40.6 million and \$34.8 million arising from the acquisitions in 2018, 2017 and 2016, respectively, consists largely of expected future earnings and cash flows from the existing management

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

team, as well as the synergies created by the integration of the new businesses within the CBIZ organization, including cross-selling opportunities expected with our Financial Services group and the Benefit and Insurance Services group, to help strengthen our existing service offerings and expand our market position. All of the goodwill is deductible for income tax purposes for 2018, 2017 and 2016.

Client Lists — In 2018, we purchased one client list, which was recorded in the Financial Services practice group. Total consideration for this client list was \$0.3 million in cash paid at closing and an additional \$0.2 million which in guaranteed future consideration. In 2017, we purchased two client lists, one of which is recorded in the Financial Services practice group and one of which is reported in the Benefit and Insurance Services practice group. Total consideration for these client lists was less than \$0.1 million in cash paid at closing and an additional \$1.4 million which is contingent upon future financial performance of the client list. We purchased seven client lists in 2016, one of which is recorded in the Financial Services practice group and six of which are reported in the Benefit and Insurance Services practice group. Total consideration for these client lists was \$1.2 million cash paid at closing and an additional \$1.2 million in guaranteed future consideration, and \$1.5 million which is contingent upon future financial performance of the client list.

Contingent Earnouts for Previous Acquisitions — Under the terms of the acquisition agreements, we pay cash consideration and issue shares of our common stock as contingent earnout for previous acquisitions. In 2018, 2017 and 2016, we paid cash of \$11.0 million, \$9.8 million and \$7.1 million, respectively, and issued shares of our common stock of approximately 0.1 million shares, 0.3 million shares and 0.4 million shares, respectively.

Change in Contingent Purchase Price Liability for Previous Acquisitions — We are required to evaluate in subsequent reporting periods the fair value of contingent consideration related to previous acquisitions. We increased the fair value of the contingent purchase price liability related to prior acquisitions in 2018 by \$2.6 million due to better than expected results of acquired businesses and the revaluation of stock related to contingent payments. We decreased the fair value of the contingent purchase price liability related to prior acquisitions in 2017 by \$1.5 million due to lower than originally projected future results of the acquired businesses. In 2016, we decreased the fair value of the contingent purchase price liability by \$1.3 million. The increase and decreases are included as income in “Other income, net” in the accompanying Consolidated Statements of Comprehensive Income. For further discussion on contingent purchase price liabilities, refer to Note 7, Fair Value Measurements, to the accompanying consolidated financial statements.

NOTE 20. DISCONTINUED OPERATIONS AND DIVESTITURES

We divest (through sale or closure) business operations that do not contribute to our long-term objectives for growth, or that are not complementary to our target service offerings and markets. Divestitures are classified as discontinued operations provided they meet the criteria and treatment as discontinued operations. Discontinued operations primarily consist of one small businesses under the Financial Services segment that was sold in 2015.

Divested operations and assets that do not qualify for treatment as discontinued operations are recorded as “Gain on sale of operations, net” in the accompanying Consolidated Statements of Comprehensive Income. In 2018, we sold a small office in the Financial Services practice group, along with two small books of business, both in the Benefits and Insurance practice group. We sold one small book of business in the Financial Services practice group in 2017 and two small books of business in the Benefits and Insurance practice group in 2016.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

NOTE 21. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2018 and 2017 (in thousands, except per share amounts).

	2018			
	<u>March 31,</u>	<u>June 30,</u>	<u>September 30,</u>	<u>December 31,</u>
Revenue	\$266,090	\$232,641	\$224,249	\$199,023
Operating expenses	<u>204,750</u>	<u>205,102</u>	<u>198,607</u>	<u>181,824</u>
Gross margin	61,340	27,539	25,642	17,199
Corporate general and administrative expenses	<u>10,028</u>	<u>9,993</u>	<u>10,279</u>	<u>8,873</u>
Operating income	51,312	17,546	15,363	8,326
Other (expense) income:				
Interest expense	(1,780)	(1,817)	(1,614)	(1,434)
Gain on sale of operations, net	663	—	—	362
Other (expense) income, net	<u>(1,229)</u>	<u>630</u>	<u>3,143</u>	<u>(9,631)</u>
Total other (expense) income, net	<u>(2,346)</u>	<u>(1,187)</u>	<u>1,529</u>	<u>(10,703)</u>
Income (loss) from continuing operations before income tax expense	48,966	16,359	16,892	(2,377)
Income tax expense (benefit)	<u>13,156</u>	<u>3,238</u>	<u>3,297</u>	<u>(1,424)</u>
Income (loss) from continuing operations	35,810	13,121	13,595	(953)
Gain (loss) from operations of discontinued operations, net of tax	<u>41</u>	<u>(15)</u>	<u>(9)</u>	<u>(20)</u>
Net income (loss)	<u>\$ 35,851</u>	<u>\$ 13,106</u>	<u>\$ 13,586</u>	<u>\$ (973)</u>
Earnings (loss) per share:				
Basic:				
Continuing operations	\$ 0.66	\$ 0.24	\$ 0.25	\$ (0.02)
Discontinued operations	—	—	—	—
Net income (loss)	<u>\$ 0.66</u>	<u>\$ 0.24</u>	<u>\$ 0.25</u>	<u>\$ (0.02)</u>
Diluted:				
Continuing operations	\$ 0.64	\$ 0.23	\$ 0.24	\$ (0.02)
Discontinued operations	—	—	—	—
Net income (loss)	<u>\$ 0.64</u>	<u>\$ 0.23</u>	<u>\$ 0.24</u>	<u>\$ (0.02)</u>
Basic weighted average common shares	<u>54,071</u>	<u>54,594</u>	<u>54,794</u>	<u>54,775</u>
Diluted weighted average common shares	<u>55,924</u>	<u>56,437</u>	<u>56,740</u>	<u>56,580</u>

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

	2017			
	<u>March 31,</u>	<u>June 30,</u>	<u>September 30,</u>	<u>December 31,</u>
Revenue	\$241,459	\$211,016	\$207,723	\$195,142
Operating expenses	<u>192,766</u>	<u>188,120</u>	<u>184,723</u>	<u>189,975</u>
Gross margin	48,693	22,896	23,000	5,167
Corporate general and administrative expenses	<u>8,768</u>	<u>9,232</u>	<u>7,979</u>	<u>7,316</u>
Operating income (loss)	39,925	13,664	15,021	(2,149)
Other income:				
Interest expense	(1,517)	(1,692)	(1,777)	(1,689)
Gain on sale of operations, net	22	23	—	—
Other income, net	<u>2,737</u>	<u>3,764</u>	<u>2,792</u>	<u>5,196</u>
Total other income, net	<u>1,242</u>	<u>2,095</u>	<u>1,015</u>	<u>3,507</u>
Income from continuing operations before income tax expense	41,167	15,759	16,036	1,358
Income tax expense (benefit)	<u>16,141</u>	<u>4,343</u>	<u>6,172</u>	<u>(3,368)</u>
Income from continuing operations	25,026	11,416	9,864	4,726
(Loss) gain from operations of discontinued operations, net of tax	<u>(152)</u>	<u>(418)</u>	<u>(206)</u>	<u>121</u>
Net income	<u>\$ 24,874</u>	<u>\$ 10,998</u>	<u>\$ 9,658</u>	<u>\$ 4,847</u>
Earnings (loss) per share:				
Basic:				
Continuing operations	\$ 0.47	\$ 0.21	\$ 0.18	\$ 0.09
Discontinued operations	<u>—</u>	<u>(0.01)</u>	<u>—</u>	<u>—</u>
Net income	<u>\$ 0.47</u>	<u>\$ 0.20</u>	<u>\$ 0.18</u>	<u>\$ 0.09</u>
Diluted:				
Continuing operations	\$ 0.45	\$ 0.20	\$ 0.18	\$ 0.08
Discontinued operations	<u>—</u>	<u>(0.01)</u>	<u>—</u>	<u>—</u>
Net income	<u>\$ 0.45</u>	<u>\$ 0.19</u>	<u>\$ 0.18</u>	<u>\$ 0.08</u>
Basic weighted average common shares	<u>53,293</u>	<u>53,968</u>	<u>54,142</u>	<u>54,034</u>
Diluted weighted average common shares ...	<u>55,214</u>	<u>55,831</u>	<u>55,827</u>	<u>55,822</u>

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

NOTE 22. SEGMENT DISCLOSURES

Our business units have been aggregated into three practice groups: (i) Financial Services, (ii) Benefits and Insurance Services and (iii) National Practices, based on the following factors: similarity of the products and services provided to clients, similarity of the regulatory environment 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 practice group is provided in the table below.

<u>Financial Services</u>	<u>Benefits and Insurance Services</u>	<u>National Practices</u>
<ul style="list-style-type: none"> • Accounting and Tax • Government Healthcare Consulting • Financial Advisory • Valuation • Risk & Advisory Services 	<ul style="list-style-type: none"> • Group Health Benefits Consulting • Payroll • Property & Casualty • Retirement Plan Services 	<ul style="list-style-type: none"> • Managed Networking and Hardware Services • Healthcare Consulting

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

Upon consolidation, intercompany accounts and transactions are eliminated, thus inter-segment revenue is not included in the measure of profit or loss for the practice groups. Performance of the practice groups is evaluated on operating income excluding those costs listed above, which are reported in the “Corporate and Other” segment.

We operate in the United States and Canada and revenue generated from such operations during the years ended December 31, 2018, 2017 and 2016 was as follows (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
United States	\$920,481	\$853,802	\$798,420
Canada	1,522	1,538	1,412
Total revenue	<u>\$922,003</u>	<u>\$855,340</u>	<u>\$799,832</u>

There is no one customer that represents a significant portion of our revenue.

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Segment information for the years ended December 31, 2018, 2017 and 2016 is presented below (in thousands). We do not manage our assets on a segment basis, therefore segment assets are not presented below.

	For the Year Ended December 31, 2018				
	Financial Services	Benefits and Insurance Services	National Practices	Corporate and Other	Total
Revenue	\$600,926	\$288,437	\$32,640	\$ —	\$922,003
Operating expenses	508,653	239,646	30,003	11,981	790,283
Gross margin	92,273	48,791	2,637	(11,981)	131,720
Corporate general and administrative expenses	—	—	—	39,173	39,173
Operating income (loss)	92,273	48,791	2,637	(51,154)	92,547
Other (expense) income:					
Interest expense	—	(102)	—	(6,543)	(6,645)
Gain on sale of operations, net	—	—	—	1,025	1,025
Other (expense) income, net	(263)	493	3	(7,320)	(7,087)
Total other (expense) income	(263)	391	3	(12,838)	(12,707)
Income (loss) from continuing operations before					
income tax expense	\$ 92,010	\$ 49,182	\$ 2,640	\$(63,992)	\$ 79,840

	For the Year Ended December 31, 2017				
	Financial Services	Benefits and Insurance Services	National Practices	Corporate and Other	Total
Revenue	\$540,315	\$283,909	\$31,116	\$ —	\$855,340
Operating expenses	468,089	236,317	28,382	22,796	755,584
Gross margin	72,226	47,592	2,734	(22,796)	99,756
Corporate general and administrative expenses	—	—	—	33,295	33,295
Operating income (loss)	72,226	47,592	2,734	(56,091)	66,461
Other income (expense):					
Interest expense	—	(36)	—	(6,639)	(6,675)
Gain on sale of operations, net	—	—	—	45	45
Other income (expense), net	158	442	(8)	13,897	14,489
Total other income (expense)	158	406	(8)	7,303	7,859
Income (loss) from continuing operations before					
income tax expense	\$ 72,384	\$ 47,998	\$ 2,726	\$(48,788)	\$ 74,320

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (continued)

	For the Year Ended December 31, 2016				
	Financial Services	Benefits and Insurance Services	National Practices	Corporate and Other	Total
Revenue	\$501,307	\$267,606	\$30,919	\$ —	\$799,832
Operating expenses	432,254	223,487	27,697	14,288	697,726
Gross margin	69,053	44,119	3,222	(14,288)	102,106
Corporate general and administrative expenses	—	—	—	36,319	36,319
Operating income (loss)	69,053	44,119	3,222	(50,607)	65,787
Other income (expense):					
Interest expense	—	(39)	—	(6,554)	(6,593)
Gain on sale of operations, net	—	—	—	855	855
Other income, net	209	367	3	6,378	6,957
Total other income	209	328	3	679	1,219
Income (loss) from continuing operations before income tax expense	<u>\$ 69,262</u>	<u>\$ 44,447</u>	<u>\$ 3,225</u>	<u>\$(49,928)</u>	<u>\$ 67,006</u>

NOTE 23. SUBSEQUENT EVENTS

Subsequent to December 31, 2018 up to the date of this filing, we repurchased approximately 0.4 million shares of our common stock in the open market at a total cost of approximately \$7.0 million.

On February 6, 2019, our Board of Directors authorized the continuation of the Share Repurchase Program, which has been renewed annually for the past fifteen years. It is effective beginning April 1, 2019, to which the amount of shares to be purchased will be reset to 5.0 million, and expires one year from the respective effective date. This authorization allows us to purchase shares of our common stock (i) in the open market, (ii) in privately negotiated transactions, or (iii) under Rule 10b5-1 trading plans.

Effective January 1, 2019, we acquired substantially all of the assets of The Wenner Group (“Wenner”), located in Greenwood Village, Colorado. Founded in 1961, Wenner provides accounting, tax and consulting services to small and mid-sized businesses. Annualized revenue is estimated to be approximately \$2.4 million. Operating results will be reported in the Financial Services practice group. Effective January 1, 2019, we divested a small office under the Financial Services practice group.

Services & Locations



FINANCIAL SERVICES

- Accounting & Tax
- Government Health Care Consulting
- Financial Advisory
- Valuation
- Risk & Advisory Services

BENEFITS & INSURANCE SERVICES

- Group Health Benefits Consulting
- Payroll
- Property & Casualty
- Retirement Plan Services

National Resources; Personal Service



4,800 associates | 100+ offices

WITH 4,800 ASSOCIATES IN MORE THAN 100 OFFICES ACROSS THE COUNTRY, CBIZ'S RESOURCES AND SERVICES ARE UNIQUELY SUITED TO SUPPORT THE GROWTH AND SUCCESS OF OUR CLIENTS.

CBIZ, Inc.

BOARD OF DIRECTORS

Steven L. Gerard – *Chairman*

Rick L. Burdick – *Lead Director and Vice Chairman*

Michael H. DeGroot

Joseph S. DiMartino

Gina D. France

Jerome P. Grisko Jr.

Sherrill W. Hudson

Todd J. Slotkin

Donald V. Weir

Benaree Pratt Wiley

EXECUTIVE TEAM

Jerome P. Grisko Jr.

President and Chief Executive Officer

Ware H. Grove

Senior Vice President and Chief Financial Officer

Chris Spurio

President, Financial Services

Michael P. Kouzelos

President, Benefits and Insurance Services

Michael W. Gleespen

Secretary and General Counsel

John A. Fleischer

Senior Vice President and Chief Information Officer

Mark M. Waxman

Senior Vice President and Chief Marketing Officer

Teresa E. Bur

Senior Vice President and Chief Human Resources Officer

EXECUTIVE OFFICE

CBIZ, Inc.

6050 Oak Tree Blvd., South, Suite 500
Cleveland, OH 44131 | 216.447.9000

SECURITY MARKETS

Shares of CBIZ, Inc. are listed on the New York Stock Exchange under the ticker symbol “CBZ.”

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SHAREHOLDER INFORMATION

Copies of reports filed with the Securities and Exchange Commission are available online at www.sec.gov, www.cbiz.com or by written request to:

CBIZ, Inc.

Attn: Investor Relations

6050 Oak Tree Blvd., South, Suite 500
Cleveland, OH 44131

ANNUAL MEETING

Thursday, May 9, 2019, 8:00 a.m.

6050 Oak Tree Blvd., South, Lower Level
Independence, OH 44131

INDEPENDENT PUBLIC ACCOUNTANTS

KPMG, LLP

