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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION	13 OR 15(d) OF THE	SECURITIES EXCH	ANGE ACT OF
1934			
For the quarterly period ended September 30, 2018			

OR

TRANSITION REPORT PURSUANT	TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934	
For the transition period from	to

Commission File Number 1-32961

CBIZ, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation	22-2769024 (I.R.S. Employer
or organization)	Identification No.)
6050 Oak Tree Boulevard, South, Suite 500, Cleveland, Ohio (Address of principal executive offices)	44131 (Zip Code)

(216) 447-9000

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filerAccelerated filerNon-accelerated filerSmaller reporting companyEmerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class of Common StockOutstanding at October 31, 2018Common Stock, par value \$0.01 per share55,491,554

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)

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

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Other non-current liabilities	17,880	15,465	
Total non-current liabilities	306,144	311,106	
Total liabilities	587,941	645,352	
STOCKHOLDERS' EQUITY			
Common stock	1,314	1,301	
Additional paid in capital	690,140	675,504	
Retained earnings	409,467	345,302	
Treasury stock	(499,167) (491,046)
Accumulated other comprehensive income (loss)	161	(182)
Total stockholders' equity	601,915	530,879	
Total liabilities and stockholders' equity	\$ 1,189,856	\$ 1,176,231	
Fotal habilities and stockholders' equity	ψ1,107,050	ϕ 1,170,231	

See the accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands, except per share data)

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

See the accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(In thousands)

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

See the accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

Cash flows from operating activities: %62,543 \$45,530 Adjustments to reconcile net income to net cash provided by operating activities: Depreciation and amoritzation expense 17,528 17,167 Bad debt expense, net of recoveries 3,697 4,265 Adjustment to contingent earnout liability 3,290 (221 Stock-based compensation expense 5,358 4,247 Other noncash adjustments (1,989) (3,273 Changes in assets and liabilities, net of acquisitions and divestitures: Accounts receivable, net (38,937) (38,095 Other assets (3,474) 2,293 Accounts payable 108 (61 Income taxes payable 9,458 12,509 Accrued personnel costs 8,986 (7,368 Other liabilities (3,134) 1,606) (748 Net cash provided by continuing operations (162) (748 Net cash provided by operating activities 63,272 37,851 Cash flows row load in discontinued operations (162) (748 Net cash provided by operating activities		Nine Months Ended September 30,	
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Income taxes payable $9,458$ $12,509$ Accrued personnel costs $8,986$ $(7,368)$ Other liabilities $(3,134)$ $1,606$ Operating cash flows provided by continuing operations $63,434$ $38,599$ Operating cash flows used in discontinued operations (162) (748) Net cash provided by operating activities $63,272$ $37,851$ Cash flows from investing activities $63,272$ $37,851$ Business acquisitions and purchases of client lists, net of cash acquired $(24,612)$ $(27,406)$ Purchases of client fund investments $(10,745)$ $(14,046)$ Proceeds from the sales and maturities of client fund investments $8,701$ $6,495$ Proceeds from sales of divested operations 332 45 Increase in funds held for clients $78,307$ $87,224$ Additions to property and equipment, net $(9,800)$ $(8,870)$ Collection of notes receivable 18 21 Net cash provided by investing activities $42,201$ $43,463$ Cash flows from financing activities $563,800$ $425,400$ Payment of bank debt $(575,200)$ $(410,800)$ Payment of contingent consideration for acquisitions $(10,677)$ $(9,827)$ Proceeds from exercise of stock options $6,076$ $6,227$ Payment of contingent consideration for acquisitions $(11,677)$ $(9,827)$ Other, net $(1,431)$ (309) Net cash used in financing activities and restricted cash $2,635$ $2,008$ Cash used in financing a	Other assets	(3,474)	2,293
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Other liabilities $(3,134)$ $1,606$ Operating cash flows provided by continuing operations $63,434$ $38,599$ Operating cash flows used in discontinued operations (162) (748) Net cash provided by operating activities $63,272$ $37,851$ Cash flows from investing activities: $63,272$ $37,851$ Business acquisitions and purchases of client lists, net of cash acquired $(24,612)$ $(27,406)$ Purchases of client fund investments $(10,745)$ $(14,046)$ Proceeds from the sales and maturities of client fund investments $8,701$ $6,495$ Proceeds from sales of divested operations 332 45 Increase in funds held for clients $78,307$ $87,224$ Additions to property and equipment, net $(9,800)$ $(8,870)$ Collection of notes receivable 18 21 Net cash provided by investing activities $42,201$ $43,463$ Cash flows from financing activities: $76,285$ $(79,736)$ Proceeds from bank debt $(553,200)$ $(410,800)$ Payment of caquisition of treasury stock $(8,121)$ $(10,261)$ Decrease in client funds obligations $(76,285)$ $(79,736)$ Proceeds from exercise of stock options $6,076$ $6,227$ Payment of contingent consideration for acquisitions $(11,677)$ $(9,827)$ Other, net $(14,31)$ (309) Net cash used in financing activities $2,635$ $2,008$ Cash, cash equivalents and restricted cash $2,635$ $2,008$ <td>Income taxes payable</td> <td>9,458</td> <td>12,509</td>	Income taxes payable	9,458	12,509
Operating cash flows provided by continuing operations63,43438,599Operating cash flows used in discontinued operations(162)(748Net cash provided by operating activities63,27237,851Cash flows from investing activities:(24,612)(27,406Purchases of client fund investments(10,745)(14,046Proceeds from the sales and maturities of client fund investments8,7016,495Proceeds from sales of divested operations33245Increase in funds held for clients78,30787,224Additions to property and equipment, net(9,800)(8,870)Collection of notes receivable1821Net cash provided by investing activities:563,800425,400Payment of bank debt563,800425,400Payment of bank debt(575,200)(410,800)Payment for acquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(14,31)(309)Net cash used in financing activities(102,838)Proceeds from exercise of stock options6,0752,008Cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash2,6352,008	Accrued personnel costs	8,986	(7,368)
Operating cash flows used in discontinued operations(162)(748Net cash provided by operating activities63,27237,851Cash flows from investing activities:78,30778,272Business acquisitions and purchases of client lists, net of cash acquired(24,612)(27,406)Purchases of client fund investments(10,745)(14,046)Proceeds from the sales and maturities of client fund investments8,7016,495Proceeds from sales of divested operations33245Increase in funds held for clients78,30787,224Additions to property and equipment, net(9,800)(8,870)Collection of notes receivable1821Net cash provided by investing activities42,20143,463Cash flows from financing activities:563,800425,400Payment of bank debt(575,200)(410,800)Payment for acquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash2,6352,008	Other liabilities	(3,134)	1,606
Net cash provided by operating activities63,27237,851Cash flows from investing activities:332245Business acquisitions and purchases of client fund investments8,7016,495Proceeds from the sales and maturities of client fund investments33245Increase in funds held for clients78,30787,224Additions to property and equipment, net(9,800)(8,870)Collection of notes receivable1821Net cash provided by investing activities42,20143,463Cash flows from financing activities:563,800425,400Payment of bank debt563,800425,400Payment of caquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)Net cash used in financing activities2,6352,008Cash, cash equivalents and restricted cash2,6352,008	Operating cash flows provided by continuing operations	63,434	38,599
Net cash provided by operating activities63,27237,851Cash flows from investing activities:332245Business acquisitions and purchases of client fund investments8,7016,495Proceeds from the sales and maturities of client fund investments33245Increase in funds held for clients78,30787,224Additions to property and equipment, net(9,800)(8,870)Collection of notes receivable1821Net cash provided by investing activities42,20143,463Cash flows from financing activities:563,800425,400Payment of bank debt563,800425,400Payment of caquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)Net cash used in financing activities2,6352,008Cash, cash equivalents and restricted cash2,6352,008		(162)	
Cash flows from investing activities:224,612(27,406Business acquisitions and purchases of client lists, net of cash acquired(24,612)(27,406Purchases of client fund investments(10,745)(14,046Proceeds from the sales and maturities of client fund investments8,7016,495Proceeds from sales of divested operations33245Increase in funds held for clients78,30787,224Additions to property and equipment, net(9,800)(8,870)Collection of notes receivable1821Net cash provided by investing activities42,20143,463Cash flows from financing activities:563,800425,400Payment of bank debt(575,200)(410,800)Payment for acquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash2,6352,008		63,272	37,851
Purchases of client fund investments $(10,745)$ $(14,046)$ Proceeds from the sales and maturities of client fund investments $8,701$ $6,495$ Proceeds from sales of divested operations 332 45 Increase in funds held for clients $78,307$ $87,224$ Additions to property and equipment, net $(9,800)$ $(8,870)$ Collection of notes receivable 18 21 Net cash provided by investing activities $22,201$ $43,463$ Cash flows from financing activities: $563,800$ $425,400$ Proceeds from bank debt $563,800$ $425,400$ Payment of bank debt $(575,200)$ $(410,800)$ Payment for acquisition of treasury stock $(8,121)$ $(10,261)$ Decrease in client funds obligations $(76,285)$ $(79,736)$ Proceeds from exercise of stock options $6,076$ $6,227$ Payment of contingent consideration for acquisitions $(11,677)$ $(9,827)$ Other, net $(14,31)$ (309) Net cash used in financing activities $(102,838)$ $(79,306)$ Net cash used in financing activities $2,635$ $2,008$ Cash, cash equivalents and restricted cash $2,635$ $2,008$ Cash, cash equivalents and restricted cash at beginning of year $33,409$ $31,374$			
Purchases of client fund investments $(10,745)$ $(14,046)$ Proceeds from the sales and maturities of client fund investments $8,701$ $6,495$ Proceeds from sales of divested operations 332 45 Increase in funds held for clients $78,307$ $87,224$ Additions to property and equipment, net $(9,800)$ $(8,870)$ Collection of notes receivable 18 21 Net cash provided by investing activities $22,201$ $43,463$ Cash flows from financing activities: $563,800$ $425,400$ Proceeds from bank debt $563,800$ $425,400$ Payment of bank debt $(575,200)$ $(410,800)$ Payment for acquisition of treasury stock $(8,121)$ $(10,261)$ Decrease in client funds obligations $(76,285)$ $(79,736)$ Proceeds from exercise of stock options $6,076$ $6,227$ Payment of contingent consideration for acquisitions $(11,677)$ $(9,827)$ Other, net $(14,31)$ (309) Net cash used in financing activities $(102,838)$ $(79,306)$ Net cash used in financing activities $2,635$ $2,008$ Cash, cash equivalents and restricted cash $2,635$ $2,008$ Cash, cash equivalents and restricted cash at beginning of year $33,409$ $31,374$	Business acquisitions and purchases of client lists, net of cash acquired	(24,612)	(27,406)
Proceeds from the sales and maturities of client fund investments8,7016,495Proceeds from sales of divested operations33245Increase in funds held for clients78,30787,224Additions to property and equipment, net(9,800)(8,870Collection of notes receivable1821Net cash provided by investing activities42,20143,463Cash flows from financing activities:563,800425,400Proceeds from bank debt563,800425,400Payment of bank debt(575,200)(410,800)Payment for acquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)Net cash used in financing activities2,6352,008Cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash33,40931,374			(14,046)
Proceeds from sales of divested operations33245Increase in funds held for clients78,30787,224Additions to property and equipment, net(9,800)(8,870)Collection of notes receivable1821Net cash provided by investing activities42,20143,463Cash flows from financing activities:563,800425,400Proceeds from bank debt563,800425,400Payment of bank debt(575,200)(410,800)Payment for acquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)1Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374	Proceeds from the sales and maturities of client fund investments		
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Additions to property and equipment, net(9,800)(8,870)Collection of notes receivable1821Net cash provided by investing activities42,20143,463Cash flows from financing activities:563,800425,400Payment of bank debt563,800425,400Payment for acquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374		78,307	
Collection of notes receivable1821Net cash provided by investing activities42,20143,463Cash flows from financing activities:563,800425,400Payment of bank debt563,800425,400Payment of bank debt(575,200)(410,800)Payment for acquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374	Additions to property and equipment, net		
Cash flows from financing activities:Proceeds from bank debt563,800425,400Payment of bank debt(575,200)(410,800)Payment for acquisition of treasury stock(8,121)(10,261)Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374			
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Proceeds from bank debt $563,800$ $425,400$ Payment of bank debt $(575,200)$ $(410,800)$ Payment for acquisition of treasury stock $(8,121)$ $(10,261)$ Decrease in client funds obligations $(76,285)$ $(79,736)$ Proceeds from exercise of stock options $6,076$ $6,227$ Payment of contingent consideration for acquisitions $(11,677)$ $(9,827)$ Other, net $(1,431)$ (309) Net cash used in financing activities $(102,838)$ $(79,306)$ Net increase in cash, cash equivalents and restricted cash $2,635$ $2,008$ Cash, cash equivalents and restricted cash at beginning of year $33,409$ $31,374$,
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Payment for acquisition of treasury stock(8,121)(10,261Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374	Payment of bank debt	-	
Decrease in client funds obligations(76,285)(79,736)Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374	•		
Proceeds from exercise of stock options6,0766,227Payment of contingent consideration for acquisitions(11,677)(9,827)Other, net(1,431)(309)Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374			
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Other, net(1,431)(309Net cash used in financing activities(102,838)(79,306Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374			
Net cash used in financing activities(102,838)(79,306)Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374	• • •		
Net increase in cash, cash equivalents and restricted cash2,6352,008Cash, cash equivalents and restricted cash at beginning of year33,40931,374			
Cash, cash equivalents and restricted cash at beginning of year33,40931,374			
	Cash, cash equivalents and restricted cash at end of period	\$36,044	21,27