

CROSS COUNTRY HEALTHCARE INC  
Form 10-Q  
May 07, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended March 31, 2015

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

CROSS COUNTRY HEALTHCARE, INC.  
(Exact name of registrant as specified in its charter)

|   |                           |  |
|---|---------------------------|--|
| Delaware  | 0-33169                   | 13-4066229                                 |
| (State or other jurisdiction of<br>Incorporation or organization) | Commission<br>file number | (I.R.S. Employer<br>Identification Number) |

6551 Park of Commerce Blvd, N.W.

Boca Raton, Florida 33487

(Address of principal executive offices)(Zip Code)

(561) 998-2232

(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 Sections 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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The registrant had outstanding 32,166,819 shares of Common Stock, par value \$0.0001 per share, as of April 30, 2015.



## INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-Q contains statements relating to our future results (including certain projections and business trends) that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the “safe harbor” created by those sections. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, “suggests”, “seeks”, “will”, and variations of such words and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following: our ability to attract and retain qualified nurses, physicians and other healthcare personnel, costs and availability of short-term housing for our travel healthcare professionals, demand for the healthcare services we provide, both nationally and in the regions in which we operate, the functioning of our information systems, the effect of cyber security risks and cyber incidents on our business, the effect of existing or future government regulation and federal and state legislative and enforcement initiatives on our business, our clients’ ability to pay us for our services, our ability to successfully implement our acquisition and development strategies, including our ability to successfully integrate acquired businesses and realize synergies from such acquisitions, the effect of liabilities and other claims asserted against us, the effect of competition in the markets we serve, our ability to successfully defend the Company, its subsidiaries, and its officers and directors on the merits of any lawsuit or determine its potential liability, if any, and other factors set forth in Item 1.A. “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as filed and updated in our Quarterly Reports on Form 10-Q and other filings with the Securities and Exchange Commission.

Although we believe that these statements are based upon reasonable assumptions, we cannot guarantee future results and readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date of this filing. There can be no assurance that (i) we have correctly measured or identified all of the factors affecting our business or the extent of these factors’ likely impact, (ii) the available information with respect to these factors on which such analysis is based is complete or accurate, (iii) such analysis is correct or (iv) our strategy, which is based in part on this analysis, will be successful. The Company undertakes no obligation to update or revise forward-looking statements.

All references to “the Company”, “we”, “us”, “our”, or “Cross Country” in this Quarterly Report on Form 10-Q mean Cross Country Healthcare, Inc., and its consolidated subsidiaries.

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CROSS COUNTRY HEALTHCARE, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CROSS COUNTRY HEALTHCARE, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited, amounts in thousands)

|  | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
| Assets   |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$7,465           | \$4,995              |
| Accounts receivable, less allowance for doubtful accounts of \$2,437 in 2015 and \$1,425 in 2014               | 121,145           | 113,129              |
| Income taxes receivable  | 238               | 307                  |
| Prepaid expenses   | 5,862             | 6,073                |
| Insurance recovery receivable  | 5,893             | 5,624                |
| Other current assets   | 693               | 1,055                |
| Total current assets   | 141,296           | 131,183              |
| Property and equipment, net of accumulated depreciation of \$48,554 in 2015 and \$47,590 in 2014               | 11,756            | 12,133               |
| Trade names, net   | 38,201            | 38,201               |
| Goodwill   | 90,647            | 90,647               |
| Other identifiable intangible assets, net of accumulated amortization of \$35,191 in 2015 and \$34,209 in 2014 | 32,841            | 33,823               |
| Debt issuance costs, net   | 1,163             | 1,257                |
| Other non-current assets   | 17,594            | 17,889               |
| Total assets   | \$333,498         | \$325,133            |
| Liabilities and Stockholders' Equity   |                   |                      |
| Current liabilities:   |                   |                      |
| Accounts payable and accrued expenses  | \$24,265          | \$27,314             |
| Accrued compensation and benefits  | 36,230            | 28,731               |
| Current portion of long-term debt and capital lease obligations  | 6,608             | 3,607                |
| Sales tax payable  | 2,636             | 2,573                |
| Deferred purchase price  | 2,223             | —                    |
| Deferred tax liabilities   | 1,716             | 1,981                |
| Other current liabilities  | 2,761             | 2,790                |
| Total current liabilities  | 76,439            | 66,996               |
| Long-term debt and capital lease obligations, less current portion   | 68,664            | 70,467               |
| Non-current deferred tax liabilities   | 19,142            | 18,038               |
| Long-term accrued claims   | 30,427            | 32,068               |
| Long-term deferred purchase price  | —                 | 2,333                |
| Other long-term liabilities  | 5,249             | 4,899                |
| Total liabilities  | 199,921           | 194,801              |
| Commitments and contingencies  |                   |                      |

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|   |           |            |   |
|---|-----------|------------|---|
| Stockholders' equity:                               |           |            |   |
| Common stock  | 3         | 3          |   |
| Additional paid-in capital                          | 247,778   | 247,467    |   |
| Accumulated other comprehensive loss                | (1,104    | ) (1,118   | ) |
| Accumulated deficit                                 | (113,540  | ) (116,474 | ) |
| Total Cross Country Healthcare stockholders' equity | 133,137   | 129,878    |   |
| Noncontrolling interest                             | 440       | 454        |   |
| Total stockholders' equity                          | 133,577   | 130,332    |   |
| Total liabilities and stockholders' equity          | \$333,498 | \$325,133  |   |

See accompanying notes to the condensed consolidated financial statements

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CROSS COUNTRY HEALTHCARE, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, amounts in thousands, except per share data)

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2015                            | 2014       |
| Revenue from services   | \$ 185,964                      | \$ 118,091 |
| Operating expenses:   |                                 |            |
| Direct operating expenses   | 138,927                         | 87,641     |
| Selling, general and administrative expenses                              | 41,166                          | 29,455     |
| Bad debt expense  | 91                              | 432        |
| Depreciation  | 960                             | 974        |
| Amortization  | 982                             | 785        |
| Acquisition and integration costs   | 118                             | 295        |
| Total operating expenses  | 182,244                         | 119,582    |
| Income (loss) from operations   | 3,720                           | (1,491 )   |
| Other expenses (income):  |                                 |            |
| Interest expense  | 1,737                           | 255        |
| Gain on derivative liability  | (2,147 )                        | —          |
| Other expense, net  | 43                              | 107        |
| Income (loss) before income taxes   | 4,087                           | (1,853 )   |
| Income tax expense (benefit)  | 1,037                           | (1,071 )   |
| Consolidated net income (loss)  | 3,050                           | (782 )     |
| Less: Net income attributable to noncontrolling interest in subsidiary    | 116                             | —          |
| Net income (loss) attributable to common shareholders                     | \$2,934                         | \$(782 )   |
| Net income (loss) per share attributable to common shareholders - Basic   | \$0.09                          | \$(0.03 )  |
| Net income (loss) per share attributable to common shareholders - Diluted | \$0.05                          | \$(0.03 )  |
| Weighted average common shares outstanding:                               |                                 |            |
| Basic   | 31,294                          | 31,098     |
| Diluted   | 35,454                          | 31,098     |

See accompanying notes to the condensed consolidated financial statements

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CROSS COUNTRY HEALTHCARE, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (Unaudited, amounts in thousands)

|  | Three Months Ended<br>March 31, |         |   |
|--|---------------------------------|---------|---|
|  | 2015                            | 2014    |   |
| Net income (loss)  | \$3,050                         | \$(782) | ) |
| Other comprehensive income, before income tax:                         |                                 |         |   |
| Unrealized foreign currency translation gain                           | 14                              | 95      |   |
| Other comprehensive income, before income taxes                        | 14                              | 95      |   |
| Income tax expense related to items of other comprehensive income      | —                               | 162     |   |
| Other comprehensive income (loss), net of tax                          | 14                              | (67)    | ) |
| Comprehensive income (loss)  | 3,064                           | (849)   | ) |
| Less: Net income attributable to noncontrolling interest in subsidiary | 116                             | —       |   |
| Comprehensive income (loss) attributable to common shareholders        | \$2,948                         | \$(849) | ) |

See accompanying notes to the condensed consolidated financial statements

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CROSS COUNTRY HEALTHCARE, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited, amounts in thousands)

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2015                            | 2014       |
| Cash flows from operating activities   |                                 |            |
| Consolidated net income (loss)   | \$3,050                         | \$(782)    |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                 |            |
| Depreciation and amortization  | 1,942                           | 1,759      |
| Amortization of debt discount and debt issuance costs  | 466                             | 57         |
| Bad debt expense   | 91                              | 432        |
| Deferred income tax expense  | 838                             | 681        |
| Gain on derivative liability   | (2,147)                         | ) —        |
| Equity compensation  | 376                             | 452        |
| Other non-cash costs   | —                               | 97         |
| Changes in operating assets and liabilities:   |                                 |            |
| Accounts receivable  | (8,106)                         | ) (11,897) |
| Prepaid expenses and other assets  | 598                             | (556)      |
| Income taxes   | 87                              | (2,239)    |
| Accounts payable and accrued expenses  | 2,820                           | 2,190      |
| Other liabilities  | 255                             | 572        |
| Net cash provided by (used in) operating activities  | 270                             | (9,234)    |
| Cash flows from investing activities   |                                 |            |
| Purchases of property and equipment  | (582)                           | ) (2,588)  |
| Net cash used in investing activities  | (582)                           | ) (2,588)  |
| Cash flows from financing activities   |                                 |            |
| Repurchase of stock for tax withholdings   | (65)                            | ) —        |
| Repayments on Senior Secured Asset-Based revolving credit facility                                 | (18,300)                        | ) (9,700)  |
| Borrowings under Senior Secured Asset-Based revolving credit facility                              | 21,300                          | 20,600     |
| Repayments of capital lease obligations  | (27)                            | ) (42)     |
| Cash payment to noncontrolling shareholder   | (130)                           | ) —        |
| Net cash provided by financing activities  | 2,778                           | 10,858     |
| Effect of exchange rate changes on cash  | 4                               | 67         |
| Change in cash and cash equivalents  | 2,470                           | (897)      |
| Cash and cash equivalents at beginning of period   | 4,995                           | 8,055      |
| Cash and cash equivalents at end of period   | \$7,465                         | \$7,158    |

See accompanying notes to the condensed consolidated financial statements

CROSS COUNTRY HEALTHCARE, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Cross Country Healthcare, Inc. and its direct and indirect wholly-owned subsidiaries (collectively, the Company). The condensed consolidated financial statements include all assets, liabilities, revenue, and expenses of IntelliStaf of Oklahoma, LLC, which is controlled by the Company but not wholly owned. The Company records the ownership interest of the noncontrolling shareholder as noncontrolling interest in subsidiary. All intercompany transactions and balances have been eliminated in consolidation. In the opinion of management, all entries necessary for a fair presentation of such unaudited condensed consolidated financial statements have been included. These entries consisted of all normal recurring items.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. These operating results are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The December 31, 2014 condensed consolidated balance sheet included herein was derived from the December 31, 2014 audited consolidated balance sheet included in the Company's Annual Report on Form 10-K.

Certain prior year amounts have been reclassified to conform to the current period presentation. See Note 10 – Segment Data for further information.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Use of Estimates

The preparation of consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the valuation of accounts receivable, goodwill and intangible assets, other long-lived assets, share-based compensation, accruals for health, workers' compensation and professional liability claims, valuation of deferred tax assets, derivative liability, legal contingencies, future contingent considerations, income taxes and sales and other non-income tax liabilities. Accrued insurance claims and reserves include estimated settlements from known claims and actuarial estimates for claims incurred but not reported. Actual results could differ from those estimates.

### 3. ACQUISITIONS

#### Medical Staffing Network

On June 30, 2014, the Company acquired substantially all of the assets and certain liabilities of Medical Staffing Network Healthcare, LLC (MSN) for an aggregate purchase price of \$47.1 million, net of \$1.0 million cash acquired. The Company paid \$44.6 million, net of cash acquired, and an additional \$2.5 million was deferred and is due to the seller 21 months from the acquisition date, less any COBRA expenses incurred by the Company on behalf of former

MSN employees over that period.

The Company financed the purchase price using \$55.0 million in new subordinated debt consisting of a \$30.0 million, 5-year term loan and \$25.0 million of convertible notes having a 6-year maturity and a conversion price of \$7.10. The Company also amended its loan agreement with Bank of America, N.A. to increase its borrowing capacity under its senior secured asset-based revolving credit facility from \$65.0 million to \$85.0 million. See Note 6 - Debt for further information.

The acquisition has been accounted for in accordance with FASB ASC 805, Business Combinations, using the acquisition method of accounting. The results of the acquisition's operations are included in the consolidated statements of operations from July 1, 2014. The acquisition results are substantially reported through the Company's Nurse and Allied Staffing business segment. As such, the associated goodwill related to the acquisition of MSN is fully allocated to Nurse and Allied Staffing.

## Results of Recent Acquisition

The Company is integrating the acquired businesses into its current operations, including the consolidation of branch and corporate offices and therefore, it is impracticable to separate their results from their respective dates of acquisition. As of December 31, 2014, the Company had accrued integration liabilities of \$1.9 million, including \$0.8 million of ongoing post-employment benefits and \$0.9 million for exit costs related to redundant facilities. During the three months ended March 31, 2015, the Company accrued \$0.1 million for additional exit liabilities and paid \$0.3 million for exit liabilities and \$0.5 million in post-employment benefits. As of March 31, 2015, the balance in accrued integration liabilities was \$1.0 million, including \$0.3 million of ongoing post-employment benefits and \$0.7 million for exit liabilities.

The following unaudited pro forma financial information approximates the consolidated results of operations of the Company as if the MSN acquisition had occurred as of January 1, 2014, after giving effect to certain adjustments, including additional interest expense on the amount the Company borrowed on the date of the transaction, the amortization of acquired intangible assets, and the elimination of certain expenses that will not be recurring in post-acquisition periods, net of an estimated income tax impact. These adjustments include removing transaction-related expenses of approximately \$0.2 million in 2014, related to the MSN acquisition. These results are not necessarily indicative of future results as they do not include incremental investments in support functions, elimination of costs for integration or operating synergies, estimates of the changes in the fair value of the embedded derivative in our Convertible Notes or an estimate of any impact on interest expense resulting from the operating cash flow of the acquired business, among other adjustments that could be made in the future but are not factually supportable on the date of the transaction.

|  | Three Months Ended<br>March 31, 2014<br>(unaudited, amounts in<br>thousands) |
|--|--|
| Revenue from services  | \$ 177,290   |
| Net loss   | \$(1,541 )   |
| Net loss per share attributable to common shareholders - Basic   | \$(0.05 )  |
| Net loss per share attributable to common shareholders - Diluted | \$(0.05 )  |

## 4. COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) includes net income or loss and foreign currency translation adjustments, net of any related deferred taxes. Certain of the Company's foreign subsidiaries use their respective local currency as their functional currency. In accordance with the Foreign Currency Matters Topic of the FASB ASC, assets and liabilities of these operations are translated at the exchange rates in effect on the balance sheet date. Income statement items are translated at the average exchange rates for the period. The cumulative impact of currency fluctuations related to the balance sheet translation is included in accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets and was approximately \$1.1 million at both March 31, 2015 and December 31, 2014.

There was no income tax impact related to foreign currency translation adjustments for the three months ended March 31, 2015. During the three months ended March 31, 2014, the Company's condensed consolidated statements of other comprehensive income (loss) included income tax expense of \$0.2 million related to foreign currency translation adjustments.

## 5. EARNINGS PER SHARE

In accordance with the requirements of the Earnings Per Share Topic of the FASB ASC, basic earnings per share is computed by dividing net income available to common shareholders (numerator) by the weighted average number of vested unrestricted common shares outstanding during the period (denominator). Diluted earnings per share gives effect to all dilutive potential common shares outstanding during the period including stock appreciation rights and options and unvested restricted stock, as calculated utilizing the treasury stock method, and Convertible Notes using the if-converted method. During the three months ended March 31, 2015, 3,521,126 shares, related to the Convertible Notes issued in June 2014 in conjunction with the MSN acquisition, were included in diluted weighted average shares because their effect was dilutive. During the three months ended March 31, 2015 and March 31, 2014, 406,150 shares and 347,822 shares, respectively, of common stock that are issuable upon

the exercise of options and vesting of restricted stock were excluded from the diluted weighted average shares because their effect would have been anti-dilutive. For purposes of calculating net (loss) income per common share for the three months ended March 31, 2014, the Company excluded 452,242 potentially dilutive shares from the calculation as their effect would have been anti-dilutive due to the Company's net loss for that period.

The following table sets forth the components of the numerator and denominator for the computation of the basic and diluted earnings per share:

|   | Three Months Ended<br>March 31,               |           |
|---|---|-----------|
|   | 2015  | 2014      |
|   | (amounts in thousands, except per share data) |           |
| Numerator:  |   |           |
| Net income (loss) attributable to common shareholders                     | \$2,934                                       | \$(782 )  |
| Interest on Convertible Notes   | 829   | —         |
| Gain on derivative liability  | (2,147 )                                      | —         |
| Net income (loss) attributable to common shareholders                     | \$1,616                                       | \$(782 )  |
| Denominator:  |   |           |
| Basic weighted average common shares                                      | 31,294  | 31,098    |
| Effective of dilutive shares:   |   |           |
| Share-based awards  | 639   | —         |
| Convertible Notes   | 3,521   | —         |
| Diluted weighted average common shares outstanding                        | 35,454  | 31,098    |
| Net income (loss) per share attributable to common shareholders - Basic   | \$0.09  | \$(0.03 ) |
| Net income (loss) per share attributable to common shareholders - Diluted | \$0.05  | \$(0.03 ) |

For the periods presented, no tax benefits have been assumed in the weighted average share calculation due to a full valuation allowance on the Company's deferred tax assets.

## 6. DEBT

At March 31, 2015 and December 31, 2014, long-term debt consists of the following:

|  | March 31,<br>2015      | December 31,<br>2014 |
|--|------------------------|----------------------|
|  | (amounts in thousands) |                      |
| Senior Secured Asset-Based, interest 3.13% and 2.61% at March 31, 2015 and December 31, 2014, respectively | \$6,500                | \$3,500              |
| Second Lien Term Loan, net of unamortized discount of \$956, interest 7.50% at March 31, 2015              | 29,044                 | 28,989               |
| Convertible Notes, net of unamortized discount of \$6,737, interest 8.00% at March 31, 2015                | 18,263                 | 17,947               |
| Convertible Notes derivative liability   | 21,289                 | 23,436               |
| Capital lease obligations  | 176                    | 202                  |
| Total debt   | 75,272                 | 74,074               |
| Less current portion   | (6,608 )               | (3,607 )             |
| Long-term debt   | \$68,664               | \$70,467             |



## Senior Credit Facility

On June 30, 2014, the Company and certain of its subsidiaries, as borrowers, entered into a third amendment (the Amendment) to the Company's First Lien Loan Agreement with Bank of America, N.A., as agent, in order to, among other things, increase the Company's borrowing capacity under the First Lien Loan Agreement and to consent to the consummation of the MSN acquisition and the incurrence by the Company of the indebtedness contemplated pursuant to the Second Lien Term Loan Agreement and the Note Purchase Agreement. The Amendment provided for, among other things, increasing the revolving credit facility under the First Lien Loan Agreement from \$65.0 million to \$85.0 million and increasing the letter of credit subline under the First Lien Loan Agreement from \$20.0 million to \$35.0 million. In addition, the termination date of the revolving credit facility under the First Lien Loan Agreement has been extended to June 30, 2017.

The Company used the increased availability under the letter of credit subline to collateralize certain insurance obligations related to the MSN acquisition. The revolving credit facility and letter of credit subline will be used to provide ongoing working capital and for other general corporate purposes of the Company and its subsidiaries.

As of the June 30, 2014 amendment, the First Lien Loan Agreement provides for: a three-year senior secured asset-based revolving credit facility in the aggregate principal amount of up to \$85.0 million, which includes a subfacility for swingline loans up to an amount equal to 10% of the aggregate Revolver Commitments, as defined in the agreement, and a \$35.0 million subfacility for standby letters of credit. Swingline loans and letters of credit issued under the First Lien Loan Agreement reduce available revolving credit commitments on a dollar-for-dollar basis. Pursuant to the First Lien Loan Agreement, the aggregate amount of advances under the revolving credit facility (Borrowing Base) cannot exceed the lesser of (a) (i) \$85.0 million, or (ii) 85% of eligible billed accounts receivable as defined in the First Lien Loan Agreement; plus (b) the lesser of (i) 85% of eligible unbilled accounts receivable and (ii) \$18.0 million; minus (c) reserves as defined by the First Lien Loan Agreement, which include one week's worth of W-2 payroll of field employees and fees payable to independent contractors.

The revolving credit facility can be used to provide ongoing working capital and for other general corporate purposes of the Company and its subsidiaries. As of March 31, 2015, the interest rate spreads and fees under the First Lien Loan Agreement are based on LIBOR plus 1.50% or Base Rate plus 0.50%. The LIBOR and Base Rate margins are subject to performance pricing adjustments, pursuant to a pricing matrix based on the Company's excess availability under the revolving credit facility, and could increase by 200 basis points if an event of default exists. The Company is required to pay a monthly commitment fee on the average daily unused portion of the revolving loan facility, which, as of March 31, 2015, was 0.375%.

The First Lien Loan Agreement contains customary representations, warranties, and affirmative covenants. The First Lien Loan Agreement also contains customary negative covenants, including covenants with respect to, among other things: (i) indebtedness, (ii) liens, (iii) investments, (iv) significant corporate changes, including mergers and acquisitions, (v) dispositions, (vi) dividend, distributions and other restricted payments, (vii) transactions with affiliates and (viii) restrictive agreements. In addition, if the Company's availability under the revolving credit facility is less than the greater of (i) 12.5% of the Loan Cap, as defined, and (ii) \$8.3 million, or availability is less than \$4.0 million, the Company is required to meet a minimum fixed charge coverage ratio of 1.0, as defined in the First Lien Loan Agreement. The First Lien Loan Agreement also contains customary events of default, such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control and the failure to observe covenants or conditions under the credit facility documents.

The Company's obligations under the First Lien Loan Agreement are guaranteed by all material domestic subsidiaries of the Company that are not co-borrowers (Subsidiary Guarantors). As collateral security for their obligations under the First Lien Loan Agreement and guarantees thereof, the Company and the Subsidiary Guarantors have granted to



Bank of America, N.A. a security interest in substantially all of their tangible and intangible assets.

As of March 31, 2015, the Gross Availability, as defined in the First Lien Loan Agreement, was approximately \$72.0 million based on the Company's accounts receivable balance as of February 28, 2015. The Company had \$26.5 million letters of credit outstanding and \$6.5 million drawn under its revolving credit facility, leaving \$39.0 million available as of March 31, 2015. The letters of credit relate to the Company's workers' compensation and professional liability insurance policies.

#### Second Lien Term Loan

The Second Lien Term Loan Agreement provides for a five-year senior secured term loan facility in an aggregate principal amount of \$30.0 million (the loans thereunder, the Second Lien Term Loan). After deducting a debt discount of \$1.1 million, the net proceeds of \$28.9 million from the Second Lien Term Loan facility were used by the Company to pay a portion of the

consideration for the MSN Acquisition and related fees and expenses. In connection with the financing, the Company incurred \$0.4 million of debt issuance costs.

Amounts borrowed under the Second Lien Term Loan facility that are repaid or prepaid may not be re-borrowed. The Second Lien Term Loan bears interest at a rate equal to adjusted LIBOR (defined as the 3-month London interbank offered rate for U.S. dollars, adjusted for customary Eurodollar reserve requirements, if any, and subject to a floor of 1.00%) plus 6.50%. The interest rate would increase by 200 basis points if an event of default exists under the Second Lien Term Loan Agreement.

The Company may, at its option, elect to prepay the Second Lien Term Loan on or before June 30, 2015, subject to a prepayment premium in an amount equal to (i) the amount of the principal amount of the Second Lien Term Loan being repaid, plus (ii) the accrued but unpaid interest on the principal amount so prepaid, if any, to the date of the prepayment, plus (iii) any associated administrative amounts or charges owed to the lenders as a result of the redeployment of funds or fees payable to terminate matching deposits, plus (iv) a “make whole” amount equal to the excess, if any, of (a) the present value at the prepayment date of (1) 103% of the aggregate principal amount of the Second Lien Term Loan then being prepaid, plus (2) all remaining scheduled interest payments due on the principal amount of such Second Lien Term Loan being prepaid through June 30, 2015 (excluding accrued but unpaid interest to the date of such prepayment), computed using a discount rate equal to the Treasury rate as of such prepayment date plus 50 basis points over (b) the outstanding principal amount of such Second Lien Term Loan being prepaid. The Company may, at its option at any time after June 30, 2015, prepay the Second Lien Term Loan in whole or in part at the redemption prices set forth therein, which range from 103% of the principal amount thereof for prepayments during the period July 1, 2015 through June 30, 2016, 102% of the principal amount thereof for prepayments during the period July 1, 2016 through June 30, 2017, and 100% of the principal amount thereof for prepayments after such date.

Subject to certain exceptions, the Second Lien Term Loan is required to be prepaid with: (a) 50% of excess cash flow (as defined in the Second Lien Term Loan Agreement) above \$5.0 million for each fiscal year of the Company (commencing with the fiscal year ending December 31, 2015), provided that voluntary prepayments of the Second Lien Term Loan made during such fiscal year will reduce the amount of excess cash flow prepayments required for such fiscal year on a dollar-for-dollar basis; (b) 100% of the net cash proceeds of all asset sales or other dispositions of property by the Company and its subsidiaries, as set forth in the agreement, in excess of a defined threshold and subject to the right of the Company to reinvest such proceeds within 12 months; (c) 100% of the net cash proceeds of issuances of debt offerings of the Company and its subsidiaries (except the net cash proceeds of any permitted debt); and (d) 50% of the net cash proceeds of equity offerings of the Company.

The Second Lien Term Loan Agreement contains customary representations, warranties, and affirmative covenants. Among other things, the agreement also includes a financial covenant limiting the Company’s maximum “debt” to “EBITDA” (each, as defined therein) ratio to no greater than 4.50:1.00, subject to customary equity cure rights. The financial covenant will be tested quarterly, commencing with the quarter ended June 30, 2015 and each quarter thereafter for so long as any Second Lien Term Loan is outstanding. The agreement also contains customary negative covenants; including covenants with respect to, among other things, (i) indebtedness, (ii) liens, (iii) investments, (iv) fundamental corporate changes, (v) dispositions, (vi) dividends, distributions and other restricted payments, (vii) transactions with affiliates and (viii) restrictive agreements. The agreement contains customary events of default, such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control and the failure to observe covenants or conditions under the Second Lien Term Loan Facility documents.

The Company’s obligations under the Second Lien Term Loan Agreement are guaranteed by all material domestic subsidiaries of the Company (Subsidiary Guarantors). As collateral security for their obligations under the Second Lien Term Loan Agreement and guarantees thereof, the Company and the Subsidiary Guarantors have granted a

second-priority security interest in substantially all their tangible and intangible assets.

#### Private Placement of Convertible Notes

On June 30, 2014, the Company and certain of its domestic subsidiaries entered into a Convertible Note Purchase Agreement (the Note Purchase Agreement), with certain note holders (collectively, the Noteholders). Pursuant to the Note Purchase Agreement, the Company sold to the Noteholders an aggregate of \$25.0 million of convertible senior notes (the Convertible Notes). After deducting a debt discount of \$0.9 million, the net proceeds of \$24.1 million were used by the Company for the MSN Acquisition and related fees and expenses. In connection with the financing, the Company incurred \$0.3 million of debt issuance costs. As a result of the conversion and redemption features, the Company recorded \$6.8 million as additional discount for the fair value of these features.

The Convertible Notes are convertible at the option of the holders thereof at any time into shares of the Company's common stock, par value \$0.0001 per share (Common Stock), at an initial conversion price of \$7.10 per share, or 3,521,126 shares of Common Stock. After three years, the Company has the right to force a conversion of the Convertible Notes if the volume-weighted average price (VWAP) per share of its Common Stock exceeds 125% of the then conversion price for 20 days of a 30 day trading period. The conversion price is subject to adjustment pursuant to customary weighted average anti-dilution provisions including adjustments for the following: Common Stock dividends or distributions; issuance of any rights, warrants or options to acquire Common Stock; distributions of property; tender offer or exchange offer payments; cash dividends; or certain issuances of Common Stock at less than the conversion price. Upon conversion of the Convertible Notes, the Company will exchange, for the applicable conversion amount thereof a number of shares of Common Stock, with no maximum, on amount, equal to the amount determined by dividing (i) such conversion amount by (ii) the conversion price in effect at the time of conversion. No fractional shares of Common Stock will be issued upon conversion of the Conversion Notes. In lieu of fractional shares, the Company shall pay cash in respect of each fractional share equal to such fractional amount multiplied by the 30-day VWAP as of the closing of business on the Business Day immediately preceding the conversion date as well as any unpaid accrued interest.

The Convertible Notes bear interest at a rate of 8.00% per annum, payable in quarterly cash installments; provided, however, that, at the Company's option, up to 4.00% of the interest payable may be "paid-in-kind" through a quarterly addition of such "paid-in-kind" interest amount to the principal amount of the Convertible Notes. The Convertible Notes will mature on June 30, 2020, unless earlier repurchased, redeemed or converted. Subject to certain exceptions, the Company is not permitted to redeem the Convertible Notes until June 30, 2017. If the Company redeems the Convertible Notes on or after June 30, 2017, the Company is required to pay a premium of 15% of the amount of principal of the Convertible Notes redeemed.

If the Convertible Notes are redeemed prior to June 30, 2017, pursuant to a Prohibited Transaction, as defined by the agreement, the Company is required to pay a premium equal to the greater of (i) the sum of (a) the amount of principal of the Convertible Notes redeemed, plus (b) the accrued but unpaid interests on the principal amount so redeemed to the date of the redemption, plus (c) a "make whole" amount (described below) and (ii) the sum of (x) the average 30-day VWAP per share of Common Stock multiplied by the number of shares of Common Stock that the redeemed Convertible Notes are then convertible into, with no maximum, and (y) the accrued but unpaid interest on the Convertible Notes. The "make whole" amount is equal to the excess, if any, of (1) the present value at the date of redemption of (A) 115% of the principal amount of the Convertible Notes redeemed, plus (B) all remaining scheduled interest due on the principal amount of the notes being redeemed through June 30, 2017 computed using a discount rate equal to the Treasury rate as of the date of redemption plus 50 basis points over (2) the outstanding principal amount of the Convertible Notes then redeemed.

The Company granted the Noteholders preemptive rights with respect to future equity issuances by the Company, subject to customary exceptions.

In connection with the placement of the Convertible Notes, on June 30, 2014, the Company entered into a registration rights agreement (the Registration Rights Agreement) with the Noteholders, which sets forth the rights of the Noteholders to have the shares of Common Stock issuable upon conversion of the Convertible Notes registered with the Securities and Exchange Commission (the SEC) for public resale under the Securities Act of 1933, as amended. Pursuant to the Registration Rights Agreement, the Company was required to file a registration statement with the SEC (the Initial Registration Statement) registering the shares of Common Stock issuable upon conversion of the Convertible Notes. The Initial Registration Statement was filed with the SEC and became effective in the fourth quarter of 2014. In addition, the agreement gives the Noteholders the ability to exercise certain piggyback registration rights in connection with registered offerings by the Company.

## 7. CONVERTIBLE NOTES DERIVATIVE LIABILITY

Derivative financial instruments, as defined in ASC 815, Accounting for Derivative Financial Instruments and Hedging Activities, consist of financial instruments or other contracts that contain a notional amount and one or more underlyings (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets.

The Company does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company issued Convertible Notes with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by ASC 815, in certain instances, these instruments are required to be carried as derivative liabilities, at fair value, in the financial statements.

The Convertible Notes issued in conjunction with the MSN acquisition are subject to anti-dilution adjustments that allow for the reduction in the Conversion Price, as defined in the agreement, in the event the Company subsequently issues equity securities including Common Stock or any security convertible or exchangeable for shares of Common Stock for a price less than the current conversion price. In addition, the Convertible Notes allow the issuer to exercise optional redemption features and the holder to exercise an offer to purchase feature, under certain conditions. The Company accounted for the conversion option in accordance with ASC 815. Since this conversion feature is not considered to be solely indexed to the Company's own stock the derivative was recorded as a liability.

The Company's Convertible Notes derivative liability is measured at fair value using a trinomial lattice model. The optional redemption features, along with the offer to purchase features are incorporated into the valuation model. Inputs into the model require estimates, including such items as estimated volatility of the Company's stock, estimated probabilities of change of control and issuance of additional financing, risk-free interest rate, and the estimated life of the financial instruments being fair valued. In addition, since the conversion price contains an anti-dilution adjustment, the probability that the Conversion Price of the Notes would decrease as the share price decreased is incorporated into the valuation calculation.

The inputs into the valuation model are as follows:

|                     | March 31, 2015 |
|---------------------|----------------|
| Closing share price | \$11.86        |
| Conversion price    | \$7.10         |
| Risk-free rate      | 1.57%          |
| Expected volatility | 40%            |
| Dividend yield      | —%             |
| Expected life       | 5.25 years     |

The fair value of this derivative liability is primarily determined by fluctuations in our stock price. As of March 31, 2015, a \$1 increase or decrease in our stock price would result in a corresponding increase or decrease of approximately \$3.1 million in the fair value of the derivative liability, and a 1% increase or decrease in interest rates would result in an inverse increase or decrease of approximately \$0.7 million in the fair value of the derivative liability. These fluctuations result in a current period gain or loss that is presented on the condensed consolidated statement of operations as (gain) loss on derivative liability.

## 8. FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Fair Value Measurements and Disclosures Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Items Measured at Fair Value on a Recurring Basis

At March 31, 2015 and December 31, 2014, the Company's financial assets/liabilities required to be measured on a recurring basis were its deferred compensation liability included in other long-term liabilities and Convertible Notes derivative liability, included in long-term debt and capital lease obligations on the condensed consolidated balance sheets.

Deferred compensation—The Company utilizes Level 1 inputs to value its deferred compensation liability. The Company’s deferred compensation liability is measured using publicly available indices that define the liability amounts, as per the plan documents.

Convertible Notes derivative liability—The Company utilizes Level 3 inputs to value its Convertible Notes derivative liability. See Note 7 - Convertible Notes Derivative Liability.

The table which follows summarizes the estimated fair value of the Company’s financial assets and liabilities measured on a recurring basis as of March 31, 2015 and December 31, 2014:

Fair Value Measurements

|  | March 31, 2015         | December 31, 2014 |
|--|------------------------|-------------------|
| Financial Liabilities:                 | (amounts in thousands) |                   |
| (Level 1)                              |                        |                   |
| Deferred compensation                  | \$1,507                | \$1,510           |
| (Level 3)                              |                        |                   |
| Convertible Notes derivative liability | \$21,289               | \$23,436          |

The table which follows reconciles the opening balances to the closing balances for fair value measurements categorized within Level 3 of the fair value hierarchy:

|                      |                          |   |
|----------------------|--------------------------|---|
|                      | Convertible Notes        |   |
|                      | Derivative Liability (a) |   |
|                      | (amounts in thousands)   |   |
| December 31, 2014    | \$23,436                 |   |
| Purchases / Sales    | —                        |   |
| Settlements          | —                        |   |
| Valuation adjustment | (2,147                   | ) |
| March 31, 2015       | \$21,289                 |   |

Gain on the valuation of the derivative liability for the three months ended March 31, 2015 was \$2.1 million and is (a) included as a line item as part of other expenses (income) on the condensed consolidated statements of operations.

See Note 7 - Convertible Notes Derivative Liability.



## Items Measured at Fair Value on a Non-Recurring Basis

Goodwill, trade names, and other identifiable intangible assets are reviewed for impairment annually, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the testing performed indicates that impairment has occurred, the Company records a non-cash impairment charge for the difference between the carrying amount of the goodwill or other intangible assets and the implied fair value of the goodwill or other intangible assets in the period the determination is made.

As of October 1, 2014, in conjunction with the annual testing of indefinite-lived intangible assets not subject to amortization, the Company recorded a pretax non-cash impairment charge of approximately \$10.0 million related to its Medical Doctor Associates (MDA) trade name. The Company reduced its long-term revenue forecast for these businesses as part of its forecasting process in the fourth quarter and as a result, the calculation of estimated fair value was less than the carrying amount of the trade names, resulting in an impairment charge.

The table below presents the fair value of the MDA trade names as of December 31, 2014.

## Fair Value Measurements

|                 | December 31, 2014<br>(amounts in thousands) |
|-----------------|---|
| (Level 3)       |   |
| MDA Trade names | \$17,699                                    |

## Other Fair Value Disclosures

Financial instruments not measured or recorded at fair value in the accompanying condensed consolidated balance sheets consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and short and long-term debt. The estimated fair value of accounts receivable, accounts payable and accrued expenses approximate their carrying amount due to the short-term nature of these instruments. The fair value of the Company's term loan and revolver credit facility included in the current portion of long-term debt on its condensed consolidated balance sheet is estimated using Level 2 inputs utilizing interest rates that were indirectly observable in markets for similar liabilities. The estimated fair value of the Company's debt was calculated using discounted cash flow analysis and appropriate valuation methodologies using Level 2 inputs from available market information.

The following table represents the carrying amounts and estimated fair value of the Company's significant financial instruments that were not measured at fair value:

|                                     | March 31, 2015     |                        | December 31, 2014  |               |
|-------------------------------------|--------------------|------------------------|--------------------|---------------|
|                                     | Carrying<br>Amount | Fair<br>Value          | Carrying<br>Amount | Fair<br>Value |
| Financial Liabilities:              |                    | (amounts in thousands) |                    |               |
| (Level 2)                           |                    |                        |                    |               |
| Second Lien Term Loan, net (a)      | \$29,044           | \$30,100               | \$28,989           | \$29,900      |
| Convertible Notes, net (a)          | \$18,263           | \$19,600               | \$17,947           | \$19,200      |
| Senior Secured Asset-Based Loan (b) | \$6,500            | \$6,500                | \$3,500            | \$3,500       |

(a) The Second Lien Term Loan and Convertible Notes are reported at their carrying value in the accompanying condensed consolidated balance sheets. The Company determined their fair value, as presented in the table using an income approach, utilizing a discounted cash flow analysis based on current market interest rates for debt issuances with similar remaining years to maturity, adjusted for credit risk.

(b)

Carrying value of the Senior Secured Asset-Based Loan approximates estimated fair value based on the short-term nature and the pricing at varying interest rates.

## Concentration of Risk

The Company has invested its excess cash in highly-rated overnight funds and other highly-rated liquid accounts. The Company has been exposed to credit risk associated with these investments. The Company minimizes its credit risk relating to these positions by monitoring the financial condition of the financial institutions involved and by primarily conducting business with large, well established financial institutions and diversifying its counterparties.

The Company generally does not require collateral and mitigates its credit risk by performing credit evaluations and monitoring at-risk accounts. The allowance for doubtful accounts represents the Company's estimate of uncollectible receivables based on a review of specific accounts and the Company's historical collection experience. The Company writes off specific accounts based on an ongoing review of collectability as well as past experience with the customer. The Company's contract terms typically require payment between 15 to 60 days from the date services are provided and are considered past due based on the particular negotiated contract terms. Overall, based on the large number of customers in differing geographic areas, primarily throughout the United States and its territories, the Company believes the concentration of credit risk is limited.

## 9. STOCKHOLDERS' EQUITY

### Stock Repurchase Program

During both the three months ended March 31, 2015 and 2014, the Company did not repurchase any shares of its Common Stock under its February 2008 Board authorization.

As of March 31, 2015, the Company may purchase up to an additional 942,443 shares of Common Stock under the February 2008 Board authorization, subject to certain conditions in the Company's First Lien Loan Agreement and Second Lien Term Loan Agreement. Subject to certain conditions as described in its First Lien Loan Agreement entered into on January 9, 2013, the Company may repurchase up to an aggregate amount of \$5.0 million of its Equity Interests. See Note 6 - Debt for further information. At March 31, 2015, the Company had 31,307,755 shares of Common Stock outstanding.

### Share-Based Payments

During the three months ended March 31, 2015, 163,340 of both restricted stock awards and performance stock awards were granted under the 2014 Omnibus Incentive Plan to the Company's non-employee Directors and management team. In 2015, the Company changed the timing of its annual grants to management from June to March. Pursuant to the 2014 Omnibus Plan the number of target shares that are issued for performance-based stock awards are determined based on the level of attainment of the targets. If the minimum level of performance is attained for the 2015 awards, restricted stock will be issued with a vesting date of December 31, 2017, subject to the employee's continuing employment. During the first quarter of 2015, the Company's Compensation Committee of the Board of Directors approved a 41.4% level of attainment for the 2014 performance-based share awards, resulting in the issuance of 86,661 shares of restricted stock that will vest on December 31, 2016.

The following table summarizes restricted stock awards and performance stock awards activity for the three months ended March 31, 2015:

| Restricted Stock Awards |                             | Performance Stock Awards |                             |
|-------------------------|-----------------------------|--------------------------|-----------------------------|
| Number of Shares        | Weighted Average Grant Date | Number of Target Shares  | Weighted Average Grant Date |

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|   |         | Fair Value |          | Fair Value |
|---|---------|------------|----------|------------|
| Unvested restricted stock awards, January 1, 2015 | 659,650 | \$5.72     | 218,175  | \$5.82     |
| Granted   | 163,340 | \$11.86    | 163,340  | \$11.86    |
| Vested  | (19,993 | ) \$6.26   | —        | \$—        |
| Forfeited   | (21,182 | ) \$5.51   | (131,514 | ) \$5.82   |
| Unvested restricted stock awards, March 31, 2015  | 781,815 | \$7.00     | 250,001  | \$9.77     |

During the three months ended March 31, 2015, \$0.4 million was included in selling, general and administrative expenses related to share-based payments and a net of 14,459 shares of Common Stock were issued upon the vesting of restricted stock.

During the three months ended March 31, 2014, \$0.5 million was included in selling, general and administrative expenses related to share-based payments.

## 10. SEGMENT DATA

In accordance with the Segment Reporting Topic of the FASB ASC, the Company reports three business segments – Nurse and Allied Staffing, Physician Staffing, and Other Human Capital Management Services. The Company manages and segments its business based on the services it offers to its customers as described below:

**Nurse and Allied Staffing** – Nurse and Allied Staffing provides traditional staffing, including temporary and permanent placement of travel nurses and allied professionals and branch-based local nurses and allied staffing. Its clients include: public and private acute-care and non-acute care hospitals, government facilities, schools, outpatient clinics, ambulatory care facilities, retailers, and many other healthcare providers throughout the U.S.

**Physician Staffing** – Physician Staffing provides physicians in many specialties, certified registered nurse anesthetists (CRNAs), nurse practitioners (NPs), and physician assistants (PAs) under the Company's MDA and Saber-Salisbury brands as independent contractors on temporary assignments throughout the U.S. at various healthcare facilities, such as acute and non-acute care facilities, medical group practices, government facilities, and managed care organizations.

**Other Human Capital Management Services** – Other Human Capital Management Services provides education and training programs to the healthcare industry and retained and contingent search services for physicians and healthcare executives within the U.S.

The Company's management evaluates performance of each segment primarily based on revenue and contribution income. The Company's management does not evaluate, manage or measure performance of segments using asset information; accordingly, total asset information by segment is not prepared or disclosed. The information in the following table is derived from the segments' internal financial information as used for corporate management purposes. Certain corporate expenses are not allocated to and/or among the operating segments.

Information on operating segments and a reconciliation to income (loss) from operations for the periods indicated are as follows:

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2015                            | 2014       |
|   | (amounts in thousands)          |            |
| Revenues:                               |                                 |            |
| Nurse and Allied Staffing (a)           | \$ 149,112                      | \$ 80,730  |
| Physician Staffing (a)                  | 27,347                          | 28,599     |
| Other Human Capital Management Services | 9,505                           | 8,762      |
|   | \$ 185,964                      | \$ 118,091 |
| Contribution income: (b)                |                                 |            |
| Nurse and Allied Staffing (a)           | \$ 10,602                       | \$ 5,989   |
| Physician Staffing (a)                  | 2,116                           | 731        |
| Other Human Capital Management Services | 602                             | 166        |
|   | 13,320                          | 6,886      |
| Unallocated corporate overhead          | 7,540                           | 6,323      |
| Depreciation                            | 960                             | 974        |

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|                                   |         |          |   |
|-----------------------------------|---------|----------|---|
| Amortization                      | 982     | 785      |   |
| Acquisition and integration costs | 118     | 295      |   |
| Income (loss) from operations     | \$3,720 | \$(1,491 | ) |

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(a) Effective January 1, 2015, the portion of MDA's allied health staffing business with attributes similar to the Nurse and Allied Staffing business is reported in the Nurse and Allied Staffing segment. Prior year amounts of \$0.5 million of revenue and an immaterial amount of contribution income have been reclassified to conform to the current period presentation.

(b) The Company defines contribution income as income or loss from operations before depreciation, amortization, acquisition and integration costs, impairment charges and corporate expenses not specifically identified to a reporting segment. Contribution income is a financial measure used by management when assessing segment performance and is provided in accordance with ASC 280, Segment Reporting Topic of the FASB ASC.

## 11. COMMITMENTS AND CONTINGENCIES

### Commitments

The Company has entered into non-cancelable operating lease agreements for the rental of office space and equipment. Certain of these leases include options to renew as well as rent escalation clauses and in certain cases, incentives from the landlord for rent-free months and allowances for tenant improvements.

### Legal Contingencies

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. The Company does not believe the outcome of these matters will have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

### Sales and Other State Non-income Tax Liabilities

The Company's sales and other state non-income tax filings are subject to routine audits by authorities in the jurisdictions where it conducts business in the United States which may result in assessments of additional taxes. The Company accrues sales and other non-income tax liabilities based on the Company's best estimate of its probable liability utilizing currently available information and interpretation of relevant tax regulations. Given the nature of the Company's business, significant subjectivity exists as to both whether sales and other state non-income taxes can be assessed on its activity and how the sales tax will ultimately be measured by the relevant jurisdictions. The Company makes a determination for each reporting period whether the estimates for sales and other non-income taxes in certain states should be revised. The expense is included in selling, general and administrative expenses on its condensed consolidated statements of operations and the liability is reflected in sales tax payable as of December 31, 2014 and March 31, 2015, on its condensed consolidated balance sheets.

## 12. INCOME TAXES

For the periods ended March 31, 2015 and 2014, the Company has calculated its effective tax rate based on year-to-date results (under ASC 740-270-30-18) as opposed to estimating its annual effective tax rate. The Company's effective tax rate for the three months ended March 31, 2015 and March 31, 2014 was 25.4% and 57.8%, respectively, including the impact of discrete items. Excluding discrete items, the Company's effective tax rate for the three months ended March 31, 2015 and March 31, 2014 was 17.4% and a negative 37.4%, respectively. The effective tax rates are different than the statutory rates primarily due to the impact from amortization of indefinite-lived intangible assets for tax purposes, the partial non-deductibility of certain per diem expenses and international and state minimum taxes, which were partly offset by the reduction in unrecognized tax benefits due to the expiration of certain statutes of limitations.

The Company records valuation allowances to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The assessment of whether or not a valuation allowance is required often requires

significant judgment, including the long-range forecast of future taxable income and the evaluation of tax planning initiatives. Adjustments to the deferred tax valuation allowances are made to earnings in the period when such assessments are made. Due to the historical losses from the Company's operations, it has recorded a full valuation allowance on its deferred tax assets. In the first quarter of 2014, the Company recorded a non-cash adjustment of \$1.7 million primarily related to an overstatement of the valuation allowance established as of December 31, 2013.

As of March 31, 2015, the Company had approximately \$4.0 million of unrecognized tax benefits included in other current liabilities and other long-term liabilities (\$3.6 million, net of deferred taxes, which would affect the effective tax rate if



recognized). During the three months ended March 31, 2015, the Company had gross increases of \$0.2 million to its current year unrecognized tax benefits related to federal and state tax issues.

The tax years of 2004, 2005, 2008, and 2010 through 2013 remain open to examination by certain taxing jurisdictions to which the Company is subject to tax, other than certain states in which the statute of limitations has been extended.

### 13. RELATED PARTY TRANSACTIONS

The Company provides services to hospitals which are affiliated with certain members of the Company's Board of Directors. Management believes the pricing for the Company's services is consistent with its other hospital customers. Revenue related to these transactions was \$3.6 million and \$2.3 million for the three months ended March 31, 2015 and March 31, 2014, respectively. Accounts receivable due from these hospitals at March 31, 2015 and December 31, 2014 were approximately \$2.6 million and \$2.0 million, respectively.

In connection with the acquisition of MSN, the Company acquired a 68% ownership interest in InteliStaf of Oklahoma, LLC, a joint venture between the Company and a hospital system. The Company provides staffing services to the hospital system. Revenue related to these services was \$2.2 million for the three months ended March 31, 2015. At March 31, 2015 and December 31, 2014, the Company had a receivable balance of \$0.7 million and \$0.9 million, respectively, and a payable balance of \$0.1 million at the end of each period, relating to these staffing services.

### 14. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other -Internal-Use Software (Subtopic 350-40), Customers Accounting for Fees Paid in a Cloud Computing Arrangement, to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license element, then the customer should account for the software license element arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments are effective for the Company for annual and interim periods beginning after December 15, 2015. A Company can elect prospective or retrospective adoption and early adoption is permitted. The Company expects to adopt this standard in its first quarter of 2016. The Company is currently evaluating the potential impact of the new guidance.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance is effective for the Company for fiscal years and interim periods beginning after December 15, 2015, and requires retrospective application. We expect to adopt this guidance when effective, and do not expect this guidance to have a significant impact on our financial statements, although it will change the financial statement classification of our debt issuance costs. As of March 31, 2015 and December 31, 2014, the Company had \$1.2 million and \$1.3 million of net debt issuance costs included on its condensed consolidated balance sheets. Under the new guidance, the net debt issuance costs would offset the carrying amount of the respective debt on the condensed consolidated balance sheets.

In May 2014, the FASB and the International Accounting Standards Board (IASB) jointly issued ASU No. 2014-9, Revenue from Contracts with Customers (Topic 606), which clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP and International Financial Reporting Standards (IFRS). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU is effective for public entities for annual and interim periods

beginning after December 15, 2016. Early adoption is not permitted under GAAP and retrospective application is permitted, but not required. The Company is currently evaluating the impact of adopting this guidance on its financial position and results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of the following Management's Discussion and Analysis (MD&A) is to help facilitate the understanding of significant factors influencing the quarterly operating results, financial condition and cash flows of Cross Country Healthcare, Inc. Additionally, the MD&A also conveys our expectations of the potential impact of known trends, events or uncertainties that may impact future results. This discussion supplements the detailed information presented in the condensed consolidated financial statements and notes thereto which should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K, filed for the year ended December 31, 2014.

### Business Overview

Cross Country Healthcare, Inc., is a national leader in providing leading-edge healthcare workforce solutions. Our solutions are geared towards assisting our clients solve labor cost issues while maintaining high quality outcomes. With more than 30 years of experience, we are dedicated to placing highly qualified nurses and physicians as well as allied health, advanced practice, clinical research, and case management professionals. We provide both retained and contingent placement services for physicians, as well as retained search services for healthcare executives. We have more than 6,000 active contracts with a broad range of clients, including acute care hospitals, physician practice groups, nursing facilities, rehabilitation and sports medicine clinics, government facilities, as well as nonclinical settings such as homecare and schools. Through our national staffing teams and network of more than 70 branch office locations, we are able to place clinicians for travel and per diem assignments, local short-term contracts and permanent positions. We are a market leader in providing flexible workforce management solutions, which include managed services programs (MSP), workforce assessments, internal resource pool consulting and development, electronic medical record (EMR) transition staffing and recruitment process outsourcing. In addition, we provide education and training programs for healthcare professionals through seminars and e-learning tools.

We manage and segment our business based on the nature of our services we offer to our customers. As a result, in accordance with ASC 280, Segment Reporting Topic of the FASB ASC, we report three business segments – Nurse and Allied Staffing, Physician Staffing, and Other Human Capital Management Services, described below:

**Nurse and Allied Staffing** – Nurse and Allied Staffing represented approximately 80% of our total revenue in the first quarter of 2015. Nurse and Allied Staffing provides traditional staffing, including temporary and permanent placement of travel nurses and allied professionals and branch-based local nurses and allied staffing. Our services include the placement of travel and per diem nurses, allied healthcare professionals, such as rehabilitation therapists, radiology technicians, and respiratory therapists. Our clients include: public and private acute care and non-acute care hospitals, government facilities, schools, outpatient clinics, ambulatory care facilities, retailers, and many other healthcare providers throughout the U.S.

**Physician Staffing** – Physician Staffing represented approximately 15% of our total revenue in the first quarter of 2015. Physician Staffing provides physicians in many specialties, certified registered nurse anesthetists (CRNAs), nurse practitioners (NPs) and physician assistants (PAs) under our Medical Doctor Associates (MDA) and Saber-Salisbury brands as independent contractors on temporary assignments throughout the U.S. at various healthcare facilities, such as acute and non-acute care facilities, medical group practices, government facilities, and managed care organizations.

**Other Human Capital Management Services** – Other Human Capital Management Services represented approximately 5% of our total revenue in the first quarter of 2015. Other Human Capital Management Services provides education and training programs to the healthcare industry and retained and contingent search services for physicians and healthcare executives within the U.S.



## Executive Summary of Operations

For the quarter ended March 31, 2015, revenue from services was \$186.0 million, and net income attributable to common shareholders was \$2.9 million, or \$0.05 per diluted share. Cash flow provided by operations for the three months ended March 31, 2015 was \$0.3 million. We ended the first quarter of 2015 with \$7.5 million of cash and cash equivalents and total debt of \$75.3 million (including \$14.5 million related to the cumulative change in valuation of the embedded derivative liability in our Convertible Notes less \$0.9 million of debt discount).

The integration of our June 2014 acquisition of Medical Staffing Network Healthcare, LLC (MSN) is essentially complete and has transformed the Company driving a year-over-year increase in revenue of 57%. We are beginning the next phase of our optimization efforts to position the Company for continued margin expansion. The plans include further centralization of back-office and support function, the closure or reduction in excess facility space, and outsourcing certain non-core functions. In addition, we expect to invest in our Information Technology infrastructure.

## Business Metrics

In general, we evaluate our financial condition and operating results by revenue, contribution income (see Segment Information), and consolidated net income (loss). We also use measurement of our cash flow generation and operating and leverage ratios to help us assess our financial condition. In addition to the metrics identified below, we monitor other volume and profitability indicators such as number of open orders, candidate applications, contract bookings, bill rates, and pay rates.

### Business Segment

### Business Measurement

#### Nurse and Allied Staffing

FTEs represent the average number of Nurse and Allied Staffing contract personnel on a full-time equivalent basis. Average revenue per FTE per day is calculated by dividing the Nurse and Allied Staffing revenue by the number of days worked in the respective periods. Nurse and Allied Staffing revenue also includes revenue from the permanent placement of nurses.

#### Physician Staffing

Days filled is calculated by dividing the total hours filled during the period by 8 hours and excludes accrued days filled. Revenue per day filled is calculated by dividing the actual revenue invoiced by Physician Staffing by days filled for the period presented. Revenue per day filled excludes permanent placement and accrued revenue.

## Other Financial Data (unaudited)

|   | Three Months Ended |                |        | Percent Change |    |
|---|--------------------|----------------|--------|----------------|----|
|   | March 31, 2015     | March 31, 2014 | Change |                |    |
| Nurse and Allied Staffing statistical data:               |                    |                |        |                |    |
| FTEs  | 6,454              | 3,119          | 3,335  | 106.9          | %  |
| Average Nurse and Allied Staffing revenue per FTE per day | \$257              | \$288          | (31 )  | (10.8          | )% |

Physician Staffing statistical data:

|                        |         |         |        |   |       |    |
|------------------------|---------|---------|--------|---|-------|----|
| Days filled            | 17,413  | 20,123  | (2,710 | ) | (13.5 | )% |
| Revenue per day filled | \$1,587 | \$1,444 | 143    |   | 9.9   | %  |

## Results of Operations

The following table summarizes, for the periods indicated, selected condensed consolidated statements of operations data expressed as a percentage of revenue. Our historical results of operations are not necessarily indicative of future operating results.

|  | Three Months Ended |         |    |   |
|--|--------------------|---------|----|---|
|  | March 31,          |         |    |   |
|  | 2015               | 2014    |    |   |
| Revenue from services  | 100.0              | % 100.0 |    | % |
| Direct operating expenses  | 74.7               | 74.2    |    |   |
| Selling, general and administrative expenses                           | 22.1               | 24.9    |    |   |
| Bad debt expense   | —                  | 0.4     |    |   |
| Depreciation and amortization  | 1.1                | 1.5     |    |   |
| Acquisition and integration costs                                      | 0.1                | 0.3     |    |   |
| Income (loss) from operations  | 2.0                | (1.3    | )  |   |
| Interest expense   | 0.9                | 0.2     |    |   |
| Gain on derivative liability   | (1.1               | )       | —  |   |
| Other expense, net   | —                  | 0.1     |    |   |
| Income (loss) before income taxes                                      | 2.2                | (1.6    | )  |   |
| Income tax expense (benefit)   | 0.6                | (0.9    | )  |   |
| Consolidated net income (loss)   | 1.6                | (0.7    | )  |   |
| Less: Net income attributable to noncontrolling interest in subsidiary | —                  | —       |    |   |
| Net income (loss) attributable to common shareholders                  | 1.6                | % (0.7  | )% |   |

## Segment Information

Information on operating segments and a reconciliation to income (loss) from operations for the periods indicated are as follows:

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2015                            | 2014      |
|   | (amounts in thousands)          |           |
| Revenues:                               |                                 |           |
| Nurse and Allied Staffing (a)           | \$149,112                       | \$80,730  |
| Physician Staffing (a)                  | 27,347                          | 28,599    |
| Other Human Capital Management Services | 9,505                           | 8,762     |
|   | \$185,964                       | \$118,091 |
| Contribution income: (b)                |                                 |           |
| Nurse and Allied Staffing (a)           | \$10,602                        | \$5,989   |
| Physician Staffing (a)                  | 2,116                           | 731       |
| Other Human Capital Management Services | 602                             | 166       |
|   | 13,320                          | 6,886     |
| Unallocated corporate overhead          | 7,540                           | 6,323     |
| Depreciation                            | 960                             | 974       |
| Amortization                            | 982                             | 785       |
| Acquisition and integration costs       | 118                             | 295       |
| Income (loss) from operations           | \$3,720                         | \$(1,491) |

(a) Effective January 1, 2015, the portion of our MDA allied health staffing business with attributes similar to the Nurse and Allied Staffing business is reported in the Nurse and Allied Staffing segment. Prior year amounts of \$0.5 million of revenue and an immaterial amount of contribution income have been reclassified to conform to the current period presentation.

(b) We define contribution income as income or loss from operations before depreciation, amortization, acquisition and integration costs, impairment charges, and corporate expenses not specifically identified to a reporting segment. Contribution income is a financial measure used by management when assessing segment performance and is provided in accordance with ASC 280, Segment Reporting Topic of the FASB ASC.

Comparison of Results for the Three Months Ended March 31, 2015 compared to the Three Months Ended March 31, 2014

## Results of Recent Acquisitions

We have integrated the June 2014 MSN business acquisition into our current operations, including the consolidation of branch and corporate offices, and as a result, it is impracticable to separate their results from the date of acquisition. We provide information about the unaudited pro forma combined financial information as if the MSN acquisition had occurred as of January 1, 2014 to provide context to the underlying growth of the businesses.

## Revenue from services



Revenue from services increased 57.5%, to \$186.0 million for the three months ended March 31, 2015, as compared to \$118.1 million for the three months ended March 31, 2014. The increase was primarily due to the MSN acquisition and growth in Nurse and Allied Staffing and Other Human Capital Management Services revenue, partly offset by a decrease in Physician Staffing revenue. On a pro forma basis, including the results of MSN in the prior year, revenue increased 4.9%.

### Nurse and Allied Staffing

Revenue from Nurse and Allied Staffing increased 84.7%, to \$149.1 million for the three months ended March 31, 2015, as compared to \$80.7 million for the three months ended March 31, 2014. The year-over-year increase was due to the impact of the acquired businesses as well as organic growth. On a pro forma basis, revenue increased 7.8%, due to continued high demand in this segment.

The average number of Nurse and Allied Staffing FTEs on contract during the three months ended March 31, 2015 increased 106.9% from the three months ended March 31, 2014, primarily due to the acquired businesses along with increased demand. The average Nurse and Allied Staffing revenue per FTE per day decreased 10.8%, primarily due to the impact of the lower average bill rates of MSN. On a pro forma basis, Nurse and Allied Staffing revenue per FTE per day increased 1.6%.

### Physician Staffing

Revenue from Physician Staffing decreased 4.4%, to \$27.3 million for the three months ended March 31, 2015, as compared to \$28.6 million for the three months ended March 31, 2014. On a pro forma basis, revenue decreased 9.6%. The decrease in revenue was primarily due to lower volume partially offset by higher average revenue per day filled.

Physician Staffing days filled decreased 13.5%, to 17,413 days in the three months ended March 31, 2015, as compared to 20,123 days in the three months ended March 31, 2014. Revenue per day filled for the three months ended March 31, 2015 was \$1,587, up 9.9% over the prior year, due to improved pricing.

### Other Human Capital Management Services

Revenue from Other Human Capital Management Services increased 8.5%, to \$9.5 million for the three months ended March 31, 2015, as compared to \$8.8 million for the three months ended March 31, 2014. The increase was due to growth in our executive and physician search business, partly offset by lower seminar attendance in our education and training business.

### Direct operating expenses

Direct operating expenses are comprised primarily of field employee compensation and independent contractor expenses, housing expenses, travel expenses, and field insurance expenses. Direct operating expenses increased \$51.3 million or 58.5%, to \$138.9 million for the three months ended March 31, 2015, as compared to \$87.6 million for three months ended March 31, 2014.

As a percentage of total revenue, direct operating expenses increased to 74.7% compared to 74.2% in the prior year period primarily due to the change in business mix as a result of the acquisition of MSN.

### Selling, general and administrative expenses

Selling, general and administrative expenses increased 39.8%, to \$41.2 million for the three months ended March 31, 2015, as compared to \$29.5 million for the three months ended March 31, 2014. This increase is primarily due to the MSN acquisition. As a percentage of total revenue, selling, general and administrative expenses were 22.1% and 24.9%, for the three months ended March 31, 2015 and 2014, respectively, reflecting improved operating leverage.

Included in selling, general and administrative expenses is unallocated corporate overhead of \$7.5 million and \$6.3 million for the three months ended March 31, 2015 and 2014, respectively, representing an increase of \$1.2 million

primarily due to compensation expense. As a percentage of consolidated revenue, unallocated corporate overhead was 4.1% and 5.4% for the three months ended March 31, 2015 and 2014, respectively. Share-based compensation, included in unallocated corporate overhead, was \$0.4 million and \$0.5 million for the three months ended March 31, 2015 and 2014, respectively.

#### Contribution income

##### Nurse and Allied Staffing

Contribution income from Nurse and Allied Staffing increased \$4.6 million or 77.0%, to \$10.6 million for the three months ended March 31, 2015, as compared to \$6.0 million for the three months ended March 31, 2014. As a percentage of segment revenue, contribution income was 7.1% for the three months ended March 31, 2015, and 7.4% for the three months ended March 31, 2014. This decrease was primarily due to higher selling, general and administrative expense.

#### Physician Staffing

Contribution income from Physician Staffing increased \$1.4 million or 189.5%, to \$2.1 million for the three months ended March 31, 2015, as compared to \$0.7 million for the three months ended March 31, 2014. As a percentage of segment revenue, contribution income was 7.7% for the three months ended March 31, 2015 and 2.6% for the three months ended March 31, 2014. This increase was primarily due to improved pricing and lower charges related to professional liability.

#### Other Human Capital Management Services

Contribution income from Other Human Capital Management Services was \$0.6 million for the three months ended March 31, 2015, as compared to \$0.2 million for the three months ended March 31, 2014. Contribution income as a percentage of segment revenue increased to 6.3% for the three months ended March 31, 2015 compared to 1.9% for the three months ended March 31, 2014. The increase was primarily due to revenue growth and significant operating leverage in our executive and physician search business.

#### Depreciation and amortization expense

Depreciation and amortization expense totaled \$1.9 million for the three months ended March 31, 2015 and \$1.8 million for the three months ended March 31, 2014. As a percentage of consolidated revenue, depreciation and amortization expense was 1.1% and 1.5% for the three months ended March 31, 2015 and March 31, 2014, respectively.

#### Acquisition and integration costs

During the three months ended March 31, 2015, we incurred acquisition and integration costs of \$0.1 million related to the MSN integration. During the three months ended March 31, 2014, we incurred acquisition and integration costs of \$0.3 million, primarily related to the integration of the acquired allied staffing business which included transitional services as well as travel and training costs. We do not expect significant integration costs going forward as our integration efforts are essentially complete.

#### Interest expense

Interest expense totaled \$1.7 million and \$0.3 million for the three months ended March 31, 2015 and 2014, respectively. The increase was primarily due to the additional interest associated with our subordinated debt used to fund the MSN acquisition. The effective interest rate on our borrowings was 10.7% for the three month period ended March 31, 2015 compared to 2.8% for the three months ended March 31, 2014.

#### (Gain) loss on derivative liability

Gain on derivative liability of \$2.1 million for the three months ended March 31, 2015 relates to a change in the fair value of embedded features of our Convertible Notes from December 31, 2014. This gain was primarily a result of the movement in our share price over the quarter. The Convertible Notes include terms that are considered to be embedded derivatives, including conversion and redemption features that primarily protect the investors' investment with us (see Note 7 - Convertible Notes Derivative Liability to our condensed consolidated financial statements). Each reporting period we are required to fair value the embedded derivative with the changes being recorded as a component of other expense (income) on our condensed consolidated statements of operations.

Income tax expense (benefit)

Income tax expense from continuing operations totaled \$1.0 million for the three months ended March 31, 2015, as compared to a benefit of \$1.1 million for the three months ended March 31, 2014. The effective tax rate was 25.4% and 57.8%, including the impact of discrete items, for the three months ended March 31, 2015 and March 31, 2014, respectively. Excluding discrete items, our effective tax rate for these periods was 17.4% and a negative 37.4%, respectively. The effective tax rates are different than the statutory rates primarily due to the impact from the amortization of indefinite-lived intangible assets for tax purposes, the partial non-deductibility of certain per diem expenses, and international and state minimum taxes, which were partly offset by the reduction in unrecognized tax benefits due to the expiration of certain statutes of limitation.

#### Transactions with Related Parties

See Note 13 - Related Party Transactions to our condensed consolidated financial statements.

#### Liquidity and Capital Resources

As of March 31, 2015, we had \$7.5 million in cash and cash equivalents and \$61.7 million of outstanding revolver and subordinated debt at par. Working capital increased to \$64.9 million as of March 31, 2015 from \$64.2 million as of December 31, 2014. Days' sales outstanding increased 4 days to 59 days as of March 31, 2015, compared to 55 days as of December 31, 2014.

Our operating cash flows constitute our primary source of liquidity, and historically, have been sufficient to fund our working capital, capital expenditures, internal business expansion and debt service. We believe that our capital resources are sufficient to meet our working capital needs for the next twelve months. We expect to meet our future needs for working capital, capital expenditures, internal business expansion and debt service from a combination of cash on hand, operating cash flows and funds available through the revolving loan portion of our First Lien Loan Agreement. We believe that operating cash flows and cash on hand, along with amounts available under our First Lien Loan Agreement, will be sufficient to meet these needs during the next twelve months. Our foreign cash balance of \$4.6 million is available to us and if we repatriated the total amount, we would incur \$0.6 million of withholding tax, which is accrued for as of March 31, 2015.

Net cash provided by operating activities was \$0.3 million in the three months ended March 31, 2015, compared to \$9.2 million used in operating activities in the three months ended March 31, 2014. The usage in cash in the three months ended March 31, 2014 was primarily due to funding the net working capital requirement of the 2013 acquisition that did not include the purchase of accounts receivable and higher days' sales outstanding at March 31, 2014 compared to March 31, 2013.

Investing activities used \$0.6 million for capital expenditures in the three months ended March 31, 2015, compared to \$2.6 million for capital expenditures in the three months ended March 31, 2014. The capital expenditures in the three months ended March 31, 2014 primarily related to the relocation of our Physician Staffing location.

Net cash provided by financing activities during the three months ended March 31, 2015 and March 31, 2014 was \$2.8 million and \$10.9 million, respectively. During the three months ended March 31, 2015, we increased our debt by \$3.0 million primarily to provide ongoing working capital and for other general corporate purposes. See Note 6 - Debt to our condensed consolidated financial statements. During the three months ended March 31, 2014, we increased our debt by \$10.9 million to fund our net working capital needs and capital expenditures.

#### Stockholders' Equity

See Note 9- Stockholders' Equity.

#### Debt

##### Senior Credit Facility

Our First Lien Loan Agreement, as amended, provides for, among other things, a revolving credit facility of \$85.0 million and a letter of credit subline of \$35.0 million, with a termination date of June 30, 2017. The revolving credit facility and letter of credit subline is used to provide ongoing working capital and for other general corporate purposes of the Company and its subsidiaries.

As of March 31, 2015, the interest rate spreads and fees under the First Lien Loan Agreement are based on LIBOR plus 1.50% or Base Rate plus 0.50%. The LIBOR and Base Rate margins are subject to performance pricing adjustments, pursuant to a pricing matrix based on excess availability under the revolving credit facility, and could increase by 200 basis points if an event of default exists. We are required to pay a monthly commitment fee on the average daily unused portion of the revolving loan facility, which, as of March 31, 2015, was 0.375%.

As of March 31, 2015, the Gross Availability, as defined in the First Lien Loan Agreement, was approximately \$72.0 million based on our accounts receivable balance as of February 28, 2015. We had \$26.5 million letters of credit outstanding and \$6.5 million drawn under the revolving credit facility, leaving \$39.0 million available as of March 31, 2015. The letters of credit relate to our workers' compensation and professional liability insurance policies. See Note 6 - Debt to our condensed consolidated financial statements.

## Second Lien Term Loan

Our Second Lien Term Loan Agreement provides for a five-year senior secured term loan facility in an aggregate principal amount of \$30.0 million (the loans thereunder, the Second Lien Term Loan). Amounts borrowed under the Second Lien Term Loan Facility that are repaid or prepaid may not be re-borrowed. The Second Lien Term Loan bears interest at a rate equal to adjusted LIBOR (defined as the 3-month London interbank offered rate for U.S. dollars, adjusted for customary Eurodollar reserve requirements, if any, and subject to a floor of 1.00%) plus 6.50%. The interest rate would increase by 200 basis points if an event of default exists under the Second Lien Term Loan Agreement.

At our option we may elect to prepay the Second Lien Term Loan on or before June 30, 2015, subject to a prepayment premium in an amount equal to (i) the amount of the principal amount of the Second Lien Term Loan being repaid, plus (ii) the accrued but unpaid interest on the principal amount so prepaid, if any, to the date of the prepayment, plus (iii) any associated administrative amounts or charges owed to the lenders as a result of the redeployment of funds or fees payable to terminate matching deposits, plus (iv) a “make whole” amount equal to the excess, if any, of (a) the present value at the prepayment date of (1) 103% of the aggregate principal amount of the Second Lien Term Loan then being prepaid, plus (2) all remaining scheduled interest payments due on the principal amount of such Second Lien Term Loan being prepaid through June 30, 2015 (excluding accrued but unpaid interest to the date of such prepayment), computed using a discount rate equal to the Treasury rate as of such prepayment date plus 50 basis points over (b) the outstanding principal amount of such Second Lien Term Loan being prepaid. The Company may, at its option at any time after June 30, 2015, prepay the Second Lien Term Loan in whole or in part at the redemption prices set forth therein, which range from 103% of the principal amount thereof for prepayments during the period July 1, 2015 through June 30, 2016, 102% of the principal amount thereof for prepayments during the period July 1, 2016 through June 30, 2017, and 100% of the principal amount thereof for prepayments after such date.

Subject to certain exceptions, the Second Lien Term Loan is required to be prepaid with: (a) 50% of excess cash flow (as defined in the Second Lien Term Loan Agreement) above \$5.0 million for each fiscal year of the Company (commencing with the fiscal year ending December 31, 2015), provided that voluntary prepayments of the Second Lien Term Loan made during such fiscal year will reduce the amount of excess cash flow prepayments required for such fiscal year on a dollar-for-dollar basis; (b) 100% of the net cash proceeds of all asset sales or other dispositions of property by us, as set forth in the agreement, in excess of a defined threshold and subject to our right to reinvest such proceeds within 12 months; (c) 100% of the net cash proceeds of issuances of debt offerings by us (except the net cash proceeds of any permitted debt); and (d) 50% of the net cash proceeds of equity offerings of the Company.

The Second Lien Term Loan Agreement contains customary representations, warranties, and affirmative covenants. Among other things, the agreement also includes a financial covenant limiting the Company’s maximum “debt” to “EBITDA” (each, as defined therein) ratio to no greater than 4.50:1.00, subject to customary equity cure rights. The financial covenant will be tested quarterly, commencing with the quarter ended June 30, 2015 and each quarter thereafter for so long as any Second Lien Term Loan is outstanding. See Note 6 - Debt to our condensed consolidated financial statements.

## Private Placement of Convertible Notes

On June 30, 2014, we entered into a Convertible Note Purchase Agreement (the Note Purchase Agreement), with certain note holders (collectively, the Noteholders). Pursuant to the Note Purchase Agreement, we sold to the Noteholders an aggregate of \$25.0 million of convertible senior notes (the Convertible Notes). The proceeds from the Note Purchase Agreement were used to pay a portion of the consideration paid in the MSN Acquisition and related fees and expenses.



The Convertible Notes are convertible at the option of the holders thereof at any time into shares of the our common stock, at an initial conversion price of \$7.10 per share, or 3,521,126 shares of Common Stock. After three years, we have the right to force a conversion of the Convertible Notes if the volume-weighted average price (VWAP) per share of our Common Stock exceeds 125% of the then conversion price for 20 days of a 30 day trading period. The conversion price is subject to adjustment pursuant to customary weighted average anti-dilution provisions including adjustments for the following: Common Stock dividends or distributions; issuance of any rights, warrants of options to acquire Common Stock; distributions of property; tender offer or exchange offer payments; cash dividends; or certain issuances of Common Stock at less than the conversion price. Upon conversion of the Convertible Notes, we will exchange, for the applicable conversion amount thereof a number of shares of Common Stock equal to the amount determined by dividing (i) such conversion amount by (ii) the conversion price in effect at the time of conversion. No fractional shares of Common Stock will be issued upon conversion of the Conversion Notes. In lieu of fractional shares, the Company shall pay cash in respect of each fractional share equal to such fractional amount multiplied by the 30-day VWAP as of the closing of business on the Business Day immediately preceding the conversion date as well as any unpaid accrued interest.

The Convertible Notes bear interest at a rate of 8.00% per annum, payable in quarterly cash installments; provided, however, that, at our option, up to 4.00% of the interest payable may be “paid-in-kind” through a quarterly addition of such “paid-in-kind” interest amount to the principal amount of the Convertible Notes. The Convertible Notes will mature on June 30, 2020, unless earlier repurchased, redeemed or converted. Subject to certain exceptions, we are not permitted to redeem the Convertible Notes until June 30, 2017. If we redeem the Convertible Notes on or after June 30, 2017, we are required to pay a premium of 15% of the amount of principal of the Convertible Notes redeemed.

If the Convertible Notes are redeemed prior to June 30, 2017, pursuant to a Prohibited Transaction, as defined by the agreement, we are required to pay a premium equal to the greater of (i) the sum of (a) the amount of principal of the Convertible Notes redeemed, plus (b) the accrued but unpaid interests on the principal amount so redeemed to the date of the redemption, plus (c) a “make whole” amount (described below) and (ii) the sum of (x) the average 30-day volume-weighted average price per share of Common Stock multiplied by the number of shares of Common Stock that the redeemed Convertible Notes are then convertible into and (y) the accrued but unpaid interest on the Convertible Notes. The “make whole” amount is equal to the excess, if any, of (1) the present value at the date of redemption of (A) 115% of the principal amount of the Convertible Notes redeemed, plus (B) all remaining scheduled interest due on the principal amount of the notes being redeemed through June 30, 2017 computed using a discount rate equal to the Treasury rate as of the date of redemption plus 50 basis points over (2) the outstanding principal amount of the Convertible Notes then redeemed.

In conjunction with ASC 815, Accounting for Derivative Financial Instruments and Hedging Activities, we have bifurcated and accounted for an embedded derivative related to specific features of these Convertible Notes. As required by ASC 815, the embedded derivative is required to be accounted for as a derivative liability at fair value in our condensed consolidated financial statements. See Note 7 - Convertible Notes Derivative Liability to our condensed consolidated financial statements.

In connection with the placement of the Convertible Notes, on June 30, 2014, we entered into a registration rights agreement (the Registration Rights Agreement) with the Noteholders, which sets forth the rights of the Noteholders to have the shares of Common Stock issuable upon conversion of the Convertible Notes registered with the Securities and Exchange Commission (the SEC) for public resale under the Securities Act of 1933, as amended. We have granted the Noteholders preemptive rights with respect to future equity issuances by us, subject to customary exceptions. Pursuant to the Registration Rights Agreement, we were required to file a registration statement with the SEC (the Registration Statement) registering the shares of Common Stock issuable upon conversion of the Convertible Notes. The Registration Statement was filed with the SEC and became effective in the fourth quarter of 2014. In addition, the agreement gives the Noteholders the ability to exercise certain piggyback registration rights in connection with registered offerings by the Company.

#### Commitments and Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Our contractual obligations and other commitments remain consistent with those reported in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC.

#### Critical Accounting Principles and Estimates

Our critical accounting principles and estimates remain consistent with those reported in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC.

Recent Accounting Pronouncements

See Note 14 - Recent Accounting Pronouncements.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Interest Rate Risk

We are exposed to the risk of fluctuation in interest rates relating to our variable rate debt related to our Senior Credit Facility and Second Lien Loan Agreement entered. See Note 6 - Debt to our condensed and consolidated financial statements. During the three months ended March 31, 2015 or 2014, we did not use interest rate swaps or other types of derivative financial instruments to hedge our interest rate risk.

#### Derivative Liability Risk

As of March 31, 2015, in conjunction with the MSN acquisition, we had \$25.0 million of 8.0% fixed rate Convertible Notes outstanding due June 30, 2020. The Convertible Notes include terms that are considered to be embedded derivatives, including conversion and redemption features that primarily protect the investors' investment with us. See Note 7 - Convertible Notes Derivative Liability to our condensed consolidated financial statements. Each reporting period, we are required to record this embedded derivative at fair value with the changes being recorded as a component of other expense (income) on our condensed consolidated statements of operations. Accordingly, our results of operations are subject to exposure associated with increases or decreases in the estimated fair value of our embedded derivative.

The fair value of this derivative liability is primarily determined by fluctuations in our stock price. As our stock price increases or decreases, the fair value of this derivative liability increases or decreases, resulting in a corresponding current period loss or gain to be recognized. See Note 7 - Convertible Notes Derivative Liability to our condensed consolidated financial statements.

There have been no material changes to our other exposures as disclosed in our Annual Report on Form 10-K filed for the year ended December 31, 2014.

#### ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, communicated to management, including the Chief Executive Officer and the Chief Financial Officer, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. The disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports required under the Exchange Act of 1934, as amended, is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, in order to allow timely decisions regarding any required disclosure.

The evaluation has not identified any changes in our internal controls over financial reporting or in other factors that occurred during the last fiscal quarter that have materially affected or that are reasonably likely to materially affect our internal control over financial reporting.

PART II. – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to legal proceedings and claims that arise in the ordinary course of our business. We do not believe the outcome of these matters will have a material adverse effect on our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

There are no material changes to our Risk Factors as previously disclosed in our Form 10-K for the year ended December 31, 2014.

ITEM 6. EXHIBITS

See Exhibit Index immediately following signature page.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CROSS COUNTRY HEALTHCARE, INC.

Date: May 7, 2015

By: /s/ William J. Burns  
William J. Burns  
Chief Financial Officer  
(Principal Accounting and Financial Officer)

EXHIBIT INDEX

| No.       | Description  |
|-----------|--|
| *31.1     | Certification pursuant to Rule 13a-14(a) and Rule 15d-14 (a) by William J. Grubbs, President and Chief Executive Officer |
| *31.2     | Certification pursuant to Rule 13a-14(a) and Rule 15d-14 (a) by William J. Burns, Chief Financial Officer                |
| *32.1     | Certification pursuant to 18 U.S.C. Section 1350 by William J. Grubbs, President and Chief Executive Officer             |
| *32.2     | Certification pursuant to 18 U.S.C. Section 1350 by William J. Burns, Chief Financial Officer                            |
| **101.INS | XBRL Instance Document   |
| **101.SCH | XBRL Taxonomy Extension Schema Document  |
| **101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| **101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| **101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| **101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |
| *         | Filed herewith   |
| **        | Furnished herewith   |