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**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 June 30, 2018

Or

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



**CROSS COUNTRY HEALTHCARE, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
Incorporation or organization)*

**0-33169**  
*Commission  
file number*

**13-4066229**  
*(I.R.S. Employer  
Identification Number)*

**5201 Congress Avenue, Suite 100B**  
**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  Emerging growth company

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

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

The registrant had outstanding 36,294,714 shares of Common Stock, par value \$0.0001 per share, as of July 27, 2018.

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## 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. Forward-looking statements consist of statements that are predictive in nature, depend upon or refer to future events. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, “suggests”, “appears”, “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, 2017, 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.

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)

	June 30, 2018	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 32,559	\$ 25,537
Accounts receivable, net of allowances of \$3,609 in 2018 and \$3,688 in 2017	162,424	173,603
Prepaid expenses	6,433	5,287
Insurance recovery receivable	3,074	3,497
Other current assets	1,210	963
Total current assets	205,700	208,887
Property and equipment, net of accumulated depreciation of \$32,958 in 2018 and \$30,678 in 2017	14,072	14,086
Goodwill	117,589	117,589
Trade names	26,702	26,702
Other intangible assets, net	57,392	60,976
Non-current deferred tax assets	18,382	20,219
Other non-current assets	19,364	19,228
Total assets	<u>\$ 459,201</u>	<u>\$ 467,687</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 46,772	\$ 50,597
Accrued compensation and benefits	32,559	34,271
Current portion of long-term debt	6,250	6,875
Other current liabilities	2,861	2,845
Total current liabilities	88,442	94,588
Long-term debt, less current portion	90,494	92,259
Long-term accrued claims	29,215	28,757
Contingent consideration	5,302	5,088
Other long-term liabilities	8,877	9,276
Total liabilities	222,330	229,968
Commitments and contingencies		
Stockholders' equity:		
Common stock	4	4
Additional paid-in capital	301,353	305,362
Accumulated other comprehensive loss	(1,160)	(1,166)
Accumulated deficit	(63,930)	(67,111)
Total Cross Country Healthcare, Inc. stockholders' equity	236,267	237,089
Noncontrolling interest in subsidiary	604	630
Total stockholders' equity	236,871	237,719
Total liabilities and stockholders' equity	<u>\$ 459,201</u>	<u>\$ 467,687</u>

See accompanying notes to the condensed consolidated financial statements

**CROSS COUNTRY HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited, amounts in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue from services	\$ 204,572	\$ 209,313	\$ 414,860	\$ 416,886
Operating expenses:				
Direct operating expenses	150,883	152,785	307,418	307,083
Selling, general and administrative expenses	45,284	46,600	90,918	93,836
Bad debt expense	611	326	810	649
Depreciation and amortization	2,963	2,285	5,872	4,476
Acquisition-related contingent consideration	220	281	433	551
Acquisition and integration costs	76	587	191	587
Restructuring costs	193	—	628	—
Total operating expenses	200,230	202,864	406,270	407,182
Income from operations	4,342	6,449	8,590	9,704
Other expenses (income):				
Interest expense	1,447	535	2,713	1,754
Gain on derivative liability	—	—	—	(1,581)
Loss on early extinguishment of debt	—	—	—	4,969
Other income, net	(98)	(59)	(199)	(59)
Income before income taxes	2,993	5,973	6,076	4,621
Income tax expense	1,169	753	2,332	1,119
Consolidated net income	1,824	5,220	3,744	3,502
Less: Net income attributable to noncontrolling interest in subsidiary	285	370	563	662
Net income attributable to common shareholders	\$ 1,539	\$ 4,850	\$ 3,181	\$ 2,840
Net income per share attributable to common shareholders - Basic	\$ 0.04	\$ 0.14	\$ 0.09	\$ 0.08
Net income per share attributable to common shareholders - Diluted	\$ 0.04	\$ 0.13	\$ 0.09	\$ 0.05
Weighted average common shares outstanding:				
Basic	35,652	35,651	35,727	34,269
Diluted	35,832	36,021	35,959	36,250

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Consolidated net income	\$ 1,824	\$ 5,220	\$ 3,744	\$ 3,502
Other comprehensive income, before income tax:				
Unrealized foreign currency translation (loss) gain	(63)	24	(90)	58
Unrealized gain on interest rate contracts	247	—	19	—
Reclassification adjustment to interest expense	86	—	86	—
	270	24	15	58
Taxes on other comprehensive income:				
Income tax benefit related to foreign currency translation adjustments	(13)	—	(17)	—
Income tax expense related to unrealized gain on interest rate contracts	62	—	5	—
Income tax expense related to reclassification adjustment to interest expense	22	—	22	—
	71	—	10	—
Other comprehensive income, net of tax	199	24	5	58
Comprehensive income	2,023	5,244	3,749	3,560
Less: Net income attributable to noncontrolling interest in subsidiary	285	370	563	662
Comprehensive income attributable to common shareholders	\$ 1,738	\$ 4,874	\$ 3,186	\$ 2,898

See accompanying notes to the condensed consolidated financial statements

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

	Six Months Ended	
	June 30,	
	2018	2017
<b>Cash flows from operating activities</b>		
Consolidated net income	\$ 3,744	\$ 3,502
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,872	4,476
Provision for allowances	2,371	1,935
Deferred income tax expense	1,868	1,200
Gain on derivative liability	—	(1,581)
Loss on early extinguishment of debt	—	4,969
Equity compensation	1,383	2,015
Other non-cash costs	651	1,002
Changes in operating assets and liabilities:		
Accounts receivable	8,808	15,783
Prepaid expenses and other assets	(999)	279
Accounts payable and accrued expenses	(4,930)	(8,449)
Other liabilities	(829)	394
Net cash provided by operating activities	17,939	25,525
<b>Cash flows from investing activities</b>		
Acquisition-related settlements	(26)	—
Purchases of property and equipment	(2,289)	(3,386)
Net cash used in investing activities	(2,315)	(3,386)
<b>Cash flows from financing activities</b>		
Principal payments on Term Loans	(2,500)	(1,500)
Convertible Note cash payment	—	(5,000)
Extinguishment fees	—	(578)
Stock repurchase and retirement	(4,700)	—
Other	(1,366)	(1,778)
Net cash used in financing activities	(8,566)	(8,856)
Effect of exchange rate changes on cash	(36)	23
Change in cash and cash equivalents	7,022	13,306
Cash and cash equivalents at beginning of period	25,537	20,630
Cash and cash equivalents at end of period	\$ 32,559	\$ 33,936

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 Cross Country Talent Acquisition Group, LLC (formerly InteliStaf 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 United States 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, 2018.

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, 2017 included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The December 31, 2017 condensed consolidated balance sheet included herein was derived from the December 31, 2017 audited consolidated balance sheet included in the Company's Annual Report on Form 10-K.

Certain prior period amounts have been reclassified to conform to the current year presentation on the condensed consolidated statements of cash flows.

**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. Significant estimates and assumptions are used for, but not limited to: (1) the valuation of accounts receivable; (2) goodwill, trade names, and other intangible assets; (3) other long-lived assets; (4) share-based compensation; (5) accruals for health, workers' compensation, and professional liability claims; (6) valuation of deferred tax assets; (7) purchase price allocation; (8) derivative liability; (9) legal contingencies; (10) contingent considerations; (11) income taxes; and (12) 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.

**Allowances**

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which results in a provision for bad debt expense. We determine the adequacy of this allowance by continually evaluating individual customer receivables, considering the customer's financial condition, credit history and current economic conditions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We write-off specific accounts based on an ongoing review of collectability as well as our past experience with the customer. In addition, we maintain a sales allowance for customer disputes which may arise in the ordinary course of business, which is recorded as contra-revenue. Historically, losses on uncollectible accounts and sales allowances have not exceeded our allowances.

**Restructuring Costs**

The Company considers restructuring activities to be programs whereby it fundamentally changes its operations, such as closing and consolidating facilities, reducing headcount and realigning operations in response to changing market conditions. As a result, restructuring costs on the consolidated statements of operations include on-going benefit costs for its employees and exit costs.



Reconciliations of the beginning and ending total restructuring liability balances are presented below:

	On-Going Benefit Costs		Exit Costs	
	(amounts in thousands)			
Balance at January 1, 2018	\$	87	\$	441
Charged to restructuring costs		435		—
Payments		(10)		(54)
Balance at March 31, 2018		512		387
Charged to restructuring costs		175		18
Payments		(254)		(59)
Balance at June 30, 2018	\$	433	\$	346

### Derivative Financial Instruments

The Company is exposed to interest rate risk due to the outstanding senior secured term loan entered into on August 1, 2017 with a variable interest rate. As a result, the Company has entered into an interest rate swap agreement to effectively convert a portion of its variable interest payments to a fixed rate. The principal objective of the interest rate swap is to eliminate or reduce the variability of the cash flows in those interest payments associated with the Company's long-term debt, thus reducing the impact of interest rate changes on future interest payment cash flows. The Company has determined that the interest rate swap qualifies as a cash flow hedge in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*. As the critical terms of the hedging instrument and the hedged forecasted transaction are the same, the Company has concluded that changes in the cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. Changes in the fair value of an interest rate swap agreement designated as a cash flow hedge are recorded as a component of accumulated other comprehensive income (loss), net of deferred taxes, within stockholders' equity and are amortized to interest expense over the term of the related debt as the interest payments are made. Future interest rate swap payments will be included in net cash provided by operating activities on the Company's consolidated statement of cash flows.

In conjunction with entering into the interest rate swap agreement, the Company early adopted ASU 2017-12, *Derivative and Hedging (Topic 815)* to simplify the application of hedge accounting. See Note 9 - Derivative.

### Recently Adopted Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, amended by ASU No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The amendments allow for a reclassification between accumulated other comprehensive income and retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (2017 Tax Act), and require certain disclosures about stranded tax effects. The guidance that requires that the effect of a change in tax laws or rates be included in income is not affected. The amendments would have been effective for the Company in the first quarter of 2019. Adoption of the standard was to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the United States federal corporate tax rate in the 2017 Tax Act is recognized. Early adoption was permitted. The Company adopted this standard in 2018, with no material impact on its consolidated financial statements.

In the first quarter of 2018, the Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 introduces a new five-step revenue recognition model in which an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. See Note 3 - Revenue Recognition for additional accounting policy and related disclosures. The Company elected to adopt the standard using a modified retrospective method, which only impacts contracts not completed as of December 31, 2017.

### 3. REVENUE RECOGNITION

#### ***Revenue Recognition***

Revenue from the Company's services is recognized when control of the promised services are transferred to the Company's customers, in an amount that reflects the consideration it expects to receive in exchange for the service. The Company has concluded that transfer of control of its staffing services, which represents the majority of its revenues, occurs over time as the services are provided, which is consistent with revenue recognition under the prior guidance.

The following is a description of the nature, amount, timing and uncertainty of revenue and cash flows from which the Company generates revenue.

#### ***Temporary Staffing Revenue***

Revenue from temporary staffing is recognized as control of the services are transferred over time, and is based on hours worked by the Company's field staff. The Company recognizes the majority of its revenue at the contractual amount the Company has the right to invoice for services completed to date. Generally, billing to customers occurs weekly or bi-weekly and is aligned with the payment of services to the temporary staff, with payment terms of 15 to 60 days. Accounts receivable includes estimated revenue for employees' and independent contractors' time worked but not yet invoiced. At June 30, 2018 and December 31, 2017, the Company's estimate of amounts that had been worked but had not been billed totaled \$36.2 million and \$41.8 million, respectively, and are included in accounts receivable on the consolidated balance sheets.

#### ***Other Service Revenue***

The Company offers other optional services to its customers that are transferred over time including: managed service programs (MSP) providing agency services (as further described below in Gross versus Net Policies), recruitment process outsourcing (RPO), other outsourcing services, and retained search services, which is less than 5% of its consolidated revenue for the six months ended June 30, 2018 and June 30, 2017. Generally, billing and payment terms for MSP agency services is consistent with temporary staffing as the customers are similar or the same. Revenue from these services are recognized based on the contractual amount for services completed to date which best depicts the transfer of control of services.

For the Company's RPO, other outsourcing, and retained search services, revenue is generally recognized in the amount to which the entity has a right to invoice which corresponds directly with the value to the customer. The Company does not, in the ordinary course of business, offer warranties or refunds.

#### ***Gross Versus Net Policies***

The Company records revenue on a gross basis as a principal or on a net basis as an agent depending on the contracted arrangement, as follows:

#### **Managed Service Programs**

The Company has certain contracts with acute care facilities to provide comprehensive services through its MSPs. Under these contract arrangements, the Company fulfills the customer's order with either one of its healthcare professionals or a third-party's professionals (subcontractors). If the Company's healthcare professional is staffed, it is determined that the Company acts as a principal in the arrangement, as the Company is considered the employer of record. Accordingly, revenue is reported on a gross basis on the consolidated statements of operations.

If a subcontracted healthcare professional is staffed, the customer is invoiced for such services and a subcontractor liability is recorded in accrued expenses, but only the resulting administrative fee is recognized as revenue. The subcontractor is generally paid after the Company has received payment from its customer. The Company determined that it acts as an agent in these arrangements as the Company does not control the services before they are transferred. Accordingly, revenue is reported on a net basis on the consolidated statements of operations.

#### **Physician Staffing**

The Physician Staffing business enters into contracts with its healthcare customers to provide temporary staffing services. The Company uses independent contractors for these services. The Company determined that it acts as a principal in this arrangement and, therefore, revenue is reported on a gross basis on the consolidated statements of operations.

The following table presents our revenues disaggregated by revenue source. Sales and usage-based taxes are excluded from revenue.

<b>Three Months ended June 30, 2018</b>				
	<b>Nurse And Allied Staffing Segment</b>	<b>Physician Staffing Segment</b>	<b>Other Human Capital Management Services Segment</b>	<b>Total</b>
(amounts in thousands)				
Temporary Staffing Services	\$ 175,690	\$ 19,943	\$ —	\$ 195,633
Other Services	3,649	1,391	3,899	8,939
<b>Total</b>	<b>\$ 179,339</b>	<b>\$ 21,334</b>	<b>\$ 3,899</b>	<b>\$ 204,572</b>

<b>Six Months ended June 30, 2018</b>				
	<b>Nurse And Allied Staffing Segment</b>	<b>Physician Staffing Segment</b>	<b>Other Human Capital Management Services Segment</b>	<b>Total</b>
(amounts in thousands)				
Temporary Staffing Services	\$ 356,829	\$ 40,173	\$ —	\$ 397,002
Other Services	7,615	2,721	7,522	17,858
<b>Total</b>	<b>\$ 364,444</b>	<b>\$ 42,894</b>	<b>\$ 7,522</b>	<b>\$ 414,860</b>

#### **Contract Costs**

All contract fulfillment costs are expensed as incurred to direct operating expenses. With respect to FASB ASC 606, *Revenue from Contracts with Customers*, there were no contract assets or material contract liabilities as of June 30, 2018 and December 31, 2017.

#### **Practical Expedients and Exemptions**

For the Company's contracts that have an original duration of one year or less, the Company uses the practical expedients and has elected to recognize any incremental costs of obtaining these contracts as expensed when incurred. Further, the Company does not disclose the value of unsatisfied performance obligations for: (i) contracts with an original expected length of one year or less, and (ii) contracts for which it recognizes revenue at the amount to which it has the right to invoice for services performed.

## **4. ACQUISITIONS**

#### **Advantage RN**

Effective July 1, 2017, the Company acquired substantially all of the assets of Advantage RN, LLC and its subsidiaries (collectively, Advantage) for cash consideration of \$86.6 million, net of cash acquired. The total purchase price of \$88.0 million was subject to a net working capital reduction of \$0.6 million at the closing and an additional \$0.8 million was received by the Company during the third quarter of 2017 as the final adjustment for net working capital. Additionally, \$0.6 million of the purchase price was deferred as of the closing and is due the seller within 20 months, less any Cobra and healthcare payments incurred by the Company on behalf of the seller. As of June 30, 2018, approximately \$0.4 million has been paid for claims and the remaining \$0.2 million liability is included in other current liabilities on the Company's balance sheet.

Included in the amount paid at closing were two escrow accounts, the first was \$14.5 million which related to tax liabilities and the second was \$7.5 million which was to cover any post-close liabilities. On July 28, 2017, \$7.3 million related to the tax liabilities was released from escrow, leaving a balance of \$7.2 million, with the escrow to cover post-close liabilities remaining unchanged.

The Company financed the purchase using \$19.9 million in available cash and \$66.9 million in borrowing under its Credit Facility, including a \$40.0 million incremental term loan, which was subsequently refinanced on August 1, 2017. See Note 8 - Debt for further information. The transaction is treated as a purchase of assets for income tax purposes.

Advantage is primarily a travel nurse staffing company that deploys many of its nurses through MSPs and Vendor Management Systems, and Advantage maintains direct relationships with many hospitals throughout the United States. This was a strategic acquisition to help the Company fill its recent MSP contract wins, and for revenue growth.

The acquisition has been accounted for in accordance with FASB ASC 805, *Business Combinations*, using the acquisition method of accounting. As such, the results of Advantage from July 1, 2017 are included in the Company's consolidated statement of operations. The acquisition results have been substantially aggregated with the Company's Nurse and Allied Staffing business segment and the associated goodwill related to the acquisition of Advantage is fully allocated to Nurse and Allied Staffing.

#### *Pro Forma Financial Information*

The following unaudited pro forma financial information approximates the consolidated results of operations of the Company as if the Advantage acquisition had occurred as of January 1, 2017, 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 \$0.6 million for the six months ended June 30, 2017. 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, 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.

	<b>Six Months Ended</b>	
	<b>June 30, 2017</b>	
	(unaudited, amounts in thousands except per share data)	
Revenue from services	\$	467,987
Net income attributable to common shareholders	\$	4,418
Net income per common share attributable to common shareholders - basic	\$	0.13
Net income per common share attributable to common shareholders - diluted	\$	0.10

#### *Mediscan*

On October 30, 2015, the Company completed the acquisition of all of the membership interests of New Mediscan II, LLC, Mediscan Diagnostic Services, LLC, and Mediscan Nursing Staffing, LLC (collectively, Mediscan). Earnouts related to the attainment of specific performance criteria in 2016 and 2017 were not achieved. In connection with the Mediscan acquisition, the Company also assumed contingent purchase price liabilities for a previously acquired business that are payable annually based on specific performance criteria for the 2016 through 2019 years. As of June 30, 2018, payments related to the year 2018 are limited to \$0.3 million and 2019 is uncapped. During the six months ended June 30, 2018, the Company paid \$0.1 million related to the year 2017. As of June 30, 2018, the fair value of the remaining obligations was estimated at \$5.5 million and is included in other current liabilities and contingent consideration on the condensed consolidated balance sheets. See Note 10 - Fair Value Measurements.

## **5. COMPREHENSIVE INCOME**

Total comprehensive income includes net income, foreign currency translation adjustments, and net change in derivative transactions, 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 an unrealized loss of \$1.2 million at June 30, 2018 and December 31, 2017. The cumulative impact of net changes in derivative instruments included in other comprehensive loss in the condensed consolidated balance sheets was not material at June 30, 2018. See Note 9 - Derivative.

There was no income tax impact related to foreign currency translation adjustments for the three and six month period ended June 30, 2017. The income tax impact related to components of other comprehensive income for the three and six months ended June 30, 2018 is reflected on the condensed consolidated statements of comprehensive income.

## 6. EARNINGS PER SHARE

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(amounts in thousands, except per share data)				
<b>Numerator:</b>				
Net income attributable to common shareholders - Basic	\$ 1,539	\$ 4,850	\$ 3,181	\$ 2,840
Interest on Convertible Notes	—	—	—	694
Gain on derivative liability	—	—	—	(1,581)
Net income attributable to common shareholders - Diluted	<u>\$ 1,539</u>	<u>\$ 4,850</u>	<u>\$ 3,181</u>	<u>\$ 1,953</u>
<b>Denominator:</b>				
Weighted average common shares - Basic	35,652	35,651	35,727	34,269
<b>Effective of diluted shares:</b>				
Share-based awards	180	370	232	522
Convertible Notes	—	—	—	1,459
Weighted average common shares - Diluted	<u>35,832</u>	<u>36,021</u>	<u>35,959</u>	<u>36,250</u>
<b>Net income per share attributable to common shareholders -</b>				
Basic	<u>\$ 0.04</u>	<u>\$ 0.14</u>	<u>\$ 0.09</u>	<u>\$ 0.08</u>
<b>Net income per share attributable to common shareholders -</b>				
Diluted	<u>\$ 0.04</u>	<u>\$ 0.13</u>	<u>\$ 0.09</u>	<u>\$ 0.05</u>

For the three months and six months ended June 30, 2018 and 2017, no tax benefits were assumed in the weighted average share calculation due to the Company's net operating loss position.

The Convertible Notes were repaid in full on March 17, 2017. Applying the if-converted method, 1,459,030 shares (the weighted average shares outstanding through June 30, 2017) were included in diluted weighted average shares for the six months ended June 30, 2017 because their effect was dilutive.

## 7. GOODWILL, TRADE NAMES, AND OTHER INTANGIBLE ASSETS

The Company had the following acquired intangible assets:

	June 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(amounts in thousands)						
Intangible assets subject to amortization:						
Databases	\$ 42,909	\$ 20,221	\$ 22,688	\$ 42,909	\$ 18,702	\$ 24,207
Customer relationships	55,524	27,556	27,968	55,524	25,912	29,612
Non-compete agreements	3,919	3,651	268	3,919	3,600	319
Trade names	7,716	1,248	6,468	7,716	878	6,838
Other intangible assets, net	<u>\$ 110,068</u>	<u>\$ 52,676</u>	<u>\$ 57,392</u>	<u>\$ 110,068</u>	<u>\$ 49,092</u>	<u>\$ 60,976</u>
Intangible assets not subject to amortization:						
Trade names			26,702			26,702
			<u>\$ 84,094</u>			<u>\$ 87,678</u>

As of June 30, 2018, estimated annual amortization expense is as follows:

Years Ending December 31:	(amounts in thousands)
2018	\$ 3,582
2019	7,132
2020	7,027
2021	6,819
2022	6,743
Thereafter	<u>26,089</u>
	<u>\$ 57,392</u>

As of June 30, 2018, the Company performed a qualitative assessment of each of its reporting units and determined it was less-likely-than-not that the fair value of its reporting units dropped below their carrying value. As a result, management concluded that no impairment testing was warranted as of June 30, 2018. Although management believes that the Company's current estimates and assumptions are reasonable and supportable, there can be no assurance that the estimates and assumptions made for purposes of the impairment testing will prove to be accurate predictions of future performance. As of June 30, 2018 and December 31, 2017, goodwill by reporting segment was: \$88.2 million for Nurse and Allied Staffing, \$20.0 million for Physician Staffing, and \$9.4 million for Other Human Capital Management Services, totaling \$117.6 million.

## 8. DEBT

The Company's long-term debt consists of the following:

	June 30, 2018		December 31, 2017	
	Principal	Debt Issuance Costs	Principal	Debt Issuance Costs
	(amounts in thousands)			
Term Loan, interest 4.23% and 3.61% at June 30, 2018 and December 31, 2017, respectively	\$ 97,500	\$ (756)	\$ 100,000	\$ (866)
Less current portion	(6,250)	—	(6,875)	—
Long-term debt	<u>\$ 91,250</u>	<u>\$ (756)</u>	<u>\$ 93,125</u>	<u>\$ (866)</u>

As of June 30, 2018, the aggregate scheduled maturities of the term loan are as follows:

	Term Loan	
	(amounts in thousands)	
<b>Through Years Ending December 31:</b>		
2018	\$	4,375
2019		7,500
2020		8,125
2021		10,000
2022		67,500
Thereafter		—
Total	<u>\$</u>	<u>97,500</u>

### *Amended and Restated Senior Credit Facility*

The Company has an Amended and Restated Credit Agreement entered into August 1, 2017 (Amended and Restated Credit Agreement) with a maturity date of August 1, 2022, including a term loan of \$100.0 million (Amended Term Loan) and a \$115.0 million revolving credit facility (Amended Revolving Credit Facility) (together with the Amended Term Loan, the Amended Credit Facilities). The Amended Revolving Credit Facility includes a subfacility for swingline loans up to an amount not to exceed \$15.0 million, and a \$35.0 million sublimit for the issuance of standby letters of credit.

The Amended and Restated Credit Agreement includes an accordion feature permitting the Company, subject to certain conditions, to increase the aggregate amount of the commitments under the Amended Revolving Credit Facility or establish one or more additional term loans in an aggregate amount not to exceed \$50.0 million with optional additional commitments from existing lenders or new commitments from additional lenders.

Borrowings under the Amended Term Loan are payable in quarterly installments, which commenced January 2, 2018, in an aggregate per annum amount equal to 5% for the first four installments, 7.5% for the next eight installments, and 10% for the remaining installments; provided that, to the extent not previously paid, the aggregate unpaid principal balance would be due and payable on the maturity date.

Subject to the Amended and Restated Credit Agreement, the Company pays interest on: (i) each Base Rate Loan at the Base Rate (as defined therein) plus the Applicable Margin in effect from time to time, (ii) each LIBOR Index Rate Loan at the One Month LIBOR Index Rate (as defined therein) plus the Applicable Margin in effect from time to time, and (iii) each Eurodollar Loan at the Adjusted LIBOR for the applicable Interest Period (as defined therein) in effect for such Loan plus the Applicable Margin in effect from time to time. The Applicable Margin, as of any date, is a percentage per annum determined by reference to the applicable Consolidated Net Leverage Ratio (as defined by the agreement) in effect on such date as set forth in the table below.

Level	Consolidated Net Leverage Ratio	Eurodollar Loans, LIBOR Index Rate Loans and Letter of Credit Fee	Base Rate Loans	Commitment Fee
I	Less than 1.50:1.00	1.75%	0.75%	0.25%
II	Greater than or equal to 1.50:1.00 but less than 2.00:1.00	2.00%	1.00%	0.30%
III	Greater than or equal to 2.00:1.00 but less than 2.50:1.00	2.25%	1.25%	0.30%
IV	Greater than or equal to 2.50:1.00 but less than 3.00:1.00	2.50%	1.50%	0.35%
V	Greater than or equal to 3.00:1.00	2.75%	1.75%	0.40%

As of June 30, 2018, the Amended Term Loan and Amended Revolving Credit Facility bore interest at a rate equal to One Month LIBOR plus 2.25%. The interest rate is subject to an increase of 2.00% if an event of default exists under the Amended and Restated Credit Agreement. The Company is required to pay a commitment fee on the average daily unused portion of the Amended Revolving Credit Facility, based on the Applicable Margin which is 0.30% as of June 30, 2018. During the three months ended March 31, 2018, the Company entered into an interest rate swap to reduce its exposure to fluctuations in the interest rates associated with its debt, which was effective April 2, 2018. See Note 9 - Derivative.

The Company has the right at any time and from time to time to prepay any borrowing, in whole or in part, without premium or penalty, by giving irrevocable written notice (or telephonic notice promptly confirmed in writing) except that such notice shall be revocable if a prepayment is being made in anticipation of concluding a financing arrangement, and the Company is ultimately unable to secure such financing arrangement. The Company is required to prepay the Amended Credit Facilities under certain circumstances including from net cash proceeds from asset sales or dispositions in excess of certain thresholds, as well as from net cash proceeds from the issuance of certain debt by the Company.

The Amended and Restated Credit Agreement contains customary representations, warranties, and affirmative covenants. The Amended and Restated Credit Agreement also contains customary negative covenants, subject to some exceptions, on: (i) indebtedness and preferred equity, (ii) liens, (iii) fundamental changes, (iv) investments, (v) restricted payments, and (vi) sale of assets and certain other restrictive agreements. The Amended and Restated Credit 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 the negative covenants and other covenants related to the operation of the Company's business.

The Amended and Restated Credit Agreement also includes two financial covenants: (i) limiting a maximum Consolidated Total Leverage ratio (as defined therein) to be no greater than 3.50:1.00 for the fiscal quarters ending through June 30, 2018, 3.25:1.00 for the fiscal quarters ending September 30, 2018 through June 30, 2019, and 3.00:1.00 for each fiscal quarter ending thereafter and as adjusted pursuant to a Qualified Permitted Acquisition (as defined therein); and (ii) requiring a minimum Consolidated Fixed Charge Coverage ratio (as defined therein) as of the end of each fiscal quarter of 1.50:1.00. As of June 30, 2018, the Company was in compliance with the financial covenants and other covenants contained in the Amended and Restated Credit Agreement.

The obligations under the Amended and Restated Credit Agreement are guaranteed by all of the Company's domestic wholly-owned subsidiaries and are secured by a first-priority security interest in the Collateral (as defined therein).

As of June 30, 2018, the Company had \$21.6 million letters of credit outstanding and \$93.4 million available under the Amended Revolving Credit Facility. The letters of credit relate to the Company's workers' compensation and professional liability insurance policies.

#### *Convertible Notes*

The Company and certain of its domestic subsidiaries had a Convertible Note Purchase Agreement (the Note Purchase Agreement), with certain note holders (collectively, the Noteholders) for an aggregate of \$25.0 million of Convertible Notes. Subject to certain exceptions, the Company was not permitted to redeem the Convertible Notes until June 30, 2017. On March 17, 2017, the Company paid in full the Convertible Notes. In connection with the repayment, the Company issued to the Noteholders an aggregate of 3,175,584 shares of Common Stock, par value \$0.0001, and cash in the aggregate amount of \$5.6 million (of which \$5.0 million is included in repayment of debt and \$0.6 million is presented as extinguishment fees, both



within financing activities on the condensed consolidated statements of cash flows). Upon derecognition of the net carrying amounts of the Convertible Notes (the remaining \$20.0 million after the \$5.0 million cash payment) and derivative liability (\$26.0 million), the Company recognized a non-cash charge of \$5.0 million as loss on early extinguishment and a non-cash addition to additional paid-in capital of \$46.0 million for the fair value of the shares, which is not presented on the condensed consolidated statements of cash flows. The loss on early extinguishment of debt in the three months ended March 31, 2017 includes the write-off of unamortized loan fees and remaining interest due through the Forced Conversion date (defined below) of June 30, 2017.

The Convertible Notes were convertible at the option of the holders thereof at any time into shares of the Common Stock at a conversion price of \$7.10 per share, or 3,521,126 shares of Common Stock. After three years from the issuance date, the Company had the right to force a conversion of the Convertible Notes if the volume-weighted average price (VWAP) per share of its Common Stock exceeded 125% of the then conversion price for 20 days of a 30 day trading period (Forced Conversion date).

The Convertible Notes bore interest at a rate of 8.00% per annum, payable in quarterly cash installments. The Convertible Notes would have matured on June 30, 2020, unless earlier repurchased, redeemed or converted.

## 9. DERIVATIVE

In March 2018, the Company entered into an interest rate swap, with an effective date of April 2, 2018 and termination date of August 1, 2022. No initial investments were made to enter into the agreement. The interest rate swap agreement requires the Company to pay a fixed rate to the respective counterparty of 2.627% per annum on an amortizing notional amount beginning at \$48.8 million (corresponding with its term loan payment schedule), and to receive from the respective counterparty, interest payments based on the applicable notional amounts and 1 month USD LIBOR, with no exchanges of notional amounts. The interest rate swap effectively fixes the interest rate on 50% of the amortizing balance of the Company's term debt, exclusive of the credit spread on the debt. As of June 30, 2018, the fair value of the interest rate swap agreement was not material.

## 10. 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. This 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:

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, interest rate swap agreements included in other long-term assets and other current liabilities, and contingent consideration liabilities.

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

*Interest rate swap agreement*—The Company utilized Level 2 inputs to value its interest rate swap agreement. See Note 8 - Debt and Note 9 - Derivative.

*Contingent consideration liabilities*—Potential earnout payments related to the acquisition of Mediscan and USR are contingent upon meeting certain performance requirements through 2019. The long-term portion of these liabilities is included

in contingent consideration, and the short-term portion is included in other current liabilities on the condensed consolidated balance sheets. The Company utilized Level 3 inputs to value these contingent consideration liabilities as significant unobservable inputs were used in the calculation of their fair value. The Mediscan contingent consideration liability has been measured at fair value using a discounted cash flow model in a Monte Carlo simulation setting, utilizing significant unobservable inputs, including the expected volatility of the acquisitions' gross profits and an estimated discount rate commensurate with the risks of the expected gross profit stream. See Note 4 - Acquisitions. The contingent consideration related to the Company's acquisition of US Resources Healthcare, LLC (USR) is recorded as a liability and measured at fair value using a discounted cash flow model utilizing significant unobservable inputs, including the probability of achieving each of the potential milestones and an estimated discount rate commensurate with the risks of the expected cash flows attributable to the milestones.

The fair value of contingent consideration and the associated liabilities will be adjusted to fair value at each reporting date until actual settlement occurs, with the changes in fair value and related accretion reflected as acquisition-related contingent consideration on the condensed consolidated statements of operations. Significant increases (decreases) in the volatility or in any of the probabilities of success, or decreases (increases) in the discount rate would result in a significantly higher (lower) fair value, respectively, and commensurate changes to these liabilities.

The table which follows summarizes the estimated fair value of the Company's financial assets and liabilities measured on a recurring basis:

#### Fair Value Measurements

	June 30, 2018	December 31, 2017
<b>Financial Assets:</b>	(amounts in thousands)	
<b>(Level 2)</b>		
Interest rate swaps	\$ 105	\$ —
<b>Financial Liabilities:</b>		
<b>(Level 1)</b>		
Deferred compensation	\$ 1,576	\$ 1,467
<b>(Level 3)</b>		
Contingent consideration liabilities	\$ 5,700	\$ 5,368

The Mediscan acquisition on October 30, 2015 and the USR acquisition on December 1, 2016 included contingent consideration liabilities. Valuation adjustments and accretion expense is included as acquisition-related contingent consideration on the condensed consolidated statements of operations. The opening balances reconciled to the closing balances for fair value measurements of these liabilities categorized within Level 3 of the fair value hierarchy are as follows:

	Contingent Consideration Liabilities	
	(amounts in thousands)	
December 31, 2017	\$	5,368
Payments/Settlements		(100)
Accretion expense		212
March 31, 2018		5,480
Accretion expense		220
June 30, 2018	\$	5,700

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

The Company's non-financial assets, such as goodwill, trade names, other intangible assets, and property and equipment, are measured at fair value when there is an indicator of impairment and are recorded at fair value only when an impairment charge is recognized. During an evaluation of goodwill, trade names, and other intangible assets during the fourth quarter of 2017, the carrying value of goodwill and trade names in the Physician Staffing reporting unit exceeded their fair values. As a result, the

Company recorded impairment charges that incorporates fair value measurements based on Level 3 inputs. For the three and six months ended June 30, 2018, no impairment charges were recognized.

#### 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 estimated fair value of the Company's debt was calculated using a discounted cash flow analysis and appropriate valuation methodologies using Level 2 inputs from available market information.

The carrying amounts and estimated fair value of the Company's significant financial instruments that were not measured at fair value are as follows:

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Liabilities:</b>	(amounts in thousands)			
<b>(Level 2)</b>				
Term Loan, net	\$ 96,744	\$ 97,000	\$ 99,134	\$ 100,500

#### Concentration of Credit Risk:

The Company has invested its excess cash in highly-rated overnight funds and other highly-rated liquid accounts. The Company is exposed to credit risk associated with these investments, as the cash balances typically exceed the current Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. 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.

## 11. STOCKHOLDERS' EQUITY

#### Stock Repurchase Program

Under an authorized share repurchase program, the Company repurchased and retired shares of its Common Stock as follows: 157,056 shares of its Common Stock for \$1.8 million, at an average market price of \$11.53 per share during the three months ended June 30, 2018; and 399,456 shares of its Common Stock for \$4.7 million, at an average market price of \$11.75 per share during the six months ended June 30, 2018. During the three and six months ended June 30, 2017, the Company did not repurchase any shares of its Common Stock.

As of June 30, 2018, the Company has 542,987 shares of Common Stock under the current authorized share repurchase program available to repurchase, subject to certain conditions in the Company's Amended and Restated Credit Agreement. The Company may repurchase up to an aggregate amount not to exceed \$5.0 million in any fiscal year, or an unlimited amount if the Company meets certain conditions as described in its Amended and Restated Credit Agreement. At June 30, 2018, the Company had 35,605,925 unrestricted shares of Common Stock outstanding.

## Shares Issued

On March 17, 2017, the Company paid in full its Convertible Notes. In connection with the repayment, the Company issued 3,175,584 shares to the noteholders. See Note 8 - Debt.

## Share-Based Payments

Restricted stock awards granted under the Company's 2014 Omnibus Incentive Plan, Amended and Restated effective May 23, 2017 (2017 Plan), entitle the holder to receive, at the end of a vesting period, a specified number of shares of the Company's common stock. Share-based compensation expense is measured by the market value of the Company's stock on the date of grant. The shares vest ratably over a three year period ending on the anniversary date of the grant, and vesting is subject to the employee's continuing employment. There is no partial vesting and any unvested portion is forfeited. Pursuant to the 2017 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.

The following table summarizes restricted stock awards and performance stock awards activity issued under the 2017 Plan for the six months ended June 30, 2018:

	Restricted Stock Awards		Performance Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Target Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock awards, January 1, 2018	515,601	\$ 13.03	257,575	\$ 13.49
Granted	362,620	\$ 11.27	238,328	\$ 11.11
Vested	(212,061)	\$ 12.64	—	\$ —
Forfeited	(43,003)	\$ 13.24	(36,540)	\$ 13.51
Unvested restricted stock awards, June 30, 2018	623,157	\$ 12.14	459,363	\$ 12.25

During the three and six months ended June 30, 2018, \$0.9 million and \$1.4 million, respectively, was included in selling, general and administrative expenses related to share-based payments, and a net of 48,620 and 150,454 shares, respectively, of Common Stock were issued upon the vesting of restricted stock.

During the three and six months ended June 30, 2017, \$1.3 million and \$2.0 million, respectively, was included in selling, general and administrative expenses related to share-based payments, and a net of 126,798 and 201,676 shares, respectively, of Common Stock were issued upon the vesting of restricted stock.

## 12. 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, recruiting, and value-added workforce solutions including: temporary and permanent placement of travel and local branch-based nurse and allied professionals, MSP services, education healthcare services, and outsourcing services. Its clients include: public and private acute-care and non-acute care hospitals, government facilities, public schools and charter schools, outpatient clinics, ambulatory care facilities, physician practice groups, retailers, and many other healthcare providers throughout the United States. Substantially all of the results of the Advantage acquisition have been aggregated with the Company's Nurse and Allied Staffing business segment. See Note 4 - Acquisitions.
- *Physician Staffing* – Physician Staffing provides physicians in many specialties, as well as certified registered nurse anesthetists, nurse practitioners, and physician assistants as independent contractors on temporary assignments throughout the United States 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 includes retained and contingent search services for physicians, healthcare executives, and other healthcare professionals within the United States.

The Company's management evaluates performance of each segment primarily based on revenue and contribution income. The Company defines contribution income as income from operations before depreciation and amortization, acquisition-related contingent consideration, acquisition and integration costs, restructuring costs, 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 the *Segment Reporting* Topic of the FASB ASC. 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 from operations for the periods indicated are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(amounts in thousands)				
<b>Revenue from services:</b>				
Nurse and Allied Staffing	\$ 179,339	\$ 180,927	\$ 364,444	\$ 364,035
Physician Staffing	21,334	24,720	42,894	46,184
Other Human Capital Management Services	3,899	3,666	7,522	6,667
	<u>\$ 204,572</u>	<u>\$ 209,313</u>	<u>\$ 414,860</u>	<u>\$ 416,886</u>
<b>Contribution income:</b>				
Nurse and Allied Staffing	\$ 16,909	\$ 18,141	\$ 33,669	\$ 33,763
Physician Staffing	1,383	2,047	2,883	2,867
Other Human Capital Management Services	312	241	624	(199)
	<u>18,604</u>	<u>20,429</u>	<u>37,176</u>	<u>36,431</u>
Unallocated corporate overhead	10,810	10,827	21,462	21,113
Depreciation and amortization	2,963	2,285	5,872	4,476
Acquisition-related contingent consideration	220	281	433	551
Acquisition and integration costs	76	587	191	587
Restructuring costs	193	—	628	—
Income from operations	<u>\$ 4,342</u>	<u>\$ 6,449</u>	<u>\$ 8,590</u>	<u>\$ 9,704</u>

### 13. COMMITMENTS AND CONTINGENCIES

#### *Commitments:*

##### *Operating Leases*

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 premises reductions, and allowances for tenant improvements. The rent escalations and incentives have been reflected in the table below.

Future minimum lease payments, as of June 30, 2018, associated with these agreements with terms of one year or more are as follows:

<b>Years Ending December 31:</b>	(amounts in thousands)	
2018	\$	3,823
2019		6,897
2020		5,725
2021		4,942
2022		4,451
Thereafter		9,419
	<b>\$</b>	<b>35,257</b>

#### **Contingencies:**

##### *Legal Proceedings*

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. Non-income tax 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 within other current liabilities as of June 30, 2018 and December 31, 2017, on its condensed consolidated balance sheets.

#### **14. INCOME TAXES**

For the three and six month periods ended June 30, 2018, the Company estimated its effective tax rate on an annual basis, as opposed to calculating it for the three and six month periods ended June 30, 2017 based on year-to-date results, in accordance with the *Income Taxes* Topic of the FASB ASC. The Company's effective tax rate for the three and six months ended June 30, 2018 was 39.1% and 38.4%, respectively, including the impact of discrete items. Excluding discrete items, the Company's effective tax rate for the three and six months ended June 30, 2018 was 40.3% and 37.8%, respectively. The effective tax rate for the second quarter of 2018 was primarily impacted by the non-deductibility of certain per diem expenses, the officers' compensation limitation, and international and state taxes.

During the fourth quarter of 2017, the Company concluded that it was more likely than not that a benefit from a substantial portion of its United States federal and state deferred tax assets would be realized. As a result, it released the majority of its valuation allowance. The Company will continue to assess the realizability of its deferred tax assets and, as of June 30, 2018, has maintained a \$1.1 million valuation allowance against certain state net operating losses.

The Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin (SAB) No. 118 (SAB 118), which provides guidance on accounting for the tax effects of the 2017 Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the enactment date for companies to complete the accounting required under the *Income Taxes* Topic of the FASB ASC. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the 2017 Tax Act for which the accounting under the *Income Taxes* Topic of the FASB ASC is complete. To the extent that a company's accounting for certain income tax effects is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. The ultimate impact of the 2017 Tax Act in our financial statements is

provisional with regard to certain foreign tax provisions and may differ from our estimates due to changes in the interpretations and assumptions made by us as well as additional regulatory guidance that may be issued.

As of June 30, 2018, the Company had approximately \$0.6 million of unrecognized tax benefits included in other current liabilities and other long-term liabilities (\$4.6 million, net of deferred taxes, which would affect the effective tax rate if recognized). During the six months ended June 30, 2018, the Company had gross increases of \$0.6 million to its current year unrecognized tax benefits related to federal and state tax provisions.

The tax years of 2008 and 2010 through 2017 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.

## 15. RELATED PARTY TRANSACTIONS

The Company provided services to customers affiliated with certain members of the Company's Board of Directors. Management believes services with related parties were conducted on terms equivalent to those prevailing in an arm's-length transaction. Revenue related to these transactions was less than \$0.1 million for both the three and six months ended June 30, 2018, and \$0.9 million and \$2.6 million for the three and six months ended June 30, 2017, respectively. Accounts receivable due from these hospitals at June 30, 2018 and December 31, 2017 were less than \$0.1 million and approximately \$0.4 million, respectively.

In connection with the acquisition of MSN, the Company acquired a 68% ownership interest in Cross Country Talent Acquisition Group, LLC (formerly IntelliStaf of Oklahoma, LLC), a joint venture between the Company and a hospital system. The Company generated revenue providing staffing services to the hospital system of \$4.7 million and \$9.1 million for the three and six months ended June 30, 2018, respectively, and \$4.5 million and \$8.7 million for the three and six months ended June 30, 2017, respectively. At June 30, 2018 and December 31, 2017, the Company had a receivable balance of \$1.8 million and \$0.8 million, respectively, and a payable balance of \$0.3 million at both periods.

Subsequent to the Company's acquisition of Mediscan on October 30, 2015, Mediscan continued to operate at premises owned, in part, by the founding members of Mediscan. The Company paid \$0.1 million and \$0.2 million, respectively, in rent expense for these premises for the three and six months ended June 30, 2018 and June 30, 2017.

## 16. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2017, the FASB issued ASU No. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features, and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. The amendments in Part I of this update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments in Part II of this update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and should be applied retrospectively to outstanding financial instruments with a down round feature by means of either a cumulative-effect adjustment or for each prior reporting period presented. Early adoption is permitted for all entities, including adoption in an interim period. The Company expects to adopt this standard in its first quarter of 2019, and does not expect this guidance to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require, among other items, lessees to recognize most leases as assets and liabilities on the balance sheet. Qualitative and quantitative disclosures will be enhanced to better understand the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited.

The Company is in the process of implementing a plan to adopt this standard. As a result of its review, the Company intends to elect the practical expedient package to retain its lease classification for any leases that existed prior to the adoption of the standard. In addition, the Company expects to elect not to apply the recognition requirements to short-term leases. While the

Company has not yet determined the impact on its consolidated balance sheets or statements of operations, at June 30, 2018, it was contractually obligated to make future payments of \$35.3 million under its operating lease obligations, substantially related to real estate. Under ASU No. 2016-02 these operating leases would potentially be required to be presented on its consolidated balance sheets. The Company has implemented a lease management software application tool and is continuing to assess the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements as well as changes to its processes.

## 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 the Company. 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, 2017.

### Business Overview

We provide healthcare staffing, recruiting and workforce solutions to our customers through a network of 72 office locations throughout the United States. Our services include placing clinicians on travel and per diem assignments, local short-term contracts, and permanent positions. In addition, we offer flexible workforce management solutions to our customers including: managed service programs (MSP), education healthcare, recruitment process outsourcing (RPO), and other outsourcing and value-added services as described in Item 1. Business in our Annual Report on Form 10-K for the year ended December 31, 2017. In addition, we provide both retained and contingent placement services for healthcare executives, physicians, and other healthcare professionals.

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

- *Nurse and Allied Staffing* – Nurse and Allied Staffing represented approximately 88% of our total revenue in the second quarter of 2018. Nurse and Allied Staffing provides traditional staffing, recruiting, and value-added workforce solutions including: temporary and permanent placement of travel and local branch-based nurse and allied professionals, MSP services, education healthcare services, and outsourcing services. Substantially all of the results of the acquisition of Advantage have been aggregated with our Nurse and Allied Staffing business segment. See Note 4 - Acquisitions to our condensed consolidated financial statements.
- *Physician Staffing* – Physician Staffing represented approximately 10% of our total revenue in the second quarter of 2018. Physician Staffing provides physicians in many specialties, as well as certified registered nurse anesthetists, nurse practitioners, and physician assistants under our Medical Doctor Associates (MDA) brand as independent contractors on temporary assignments throughout the United States.
- *Other Human Capital Management Services* – Other Human Capital Management Services (OHCMS) represented approximately 2% of our total revenue in the second quarter of 2018. OHCMS is comprised of retained and contingent search services for physicians, healthcare executives, and other healthcare professionals within the United States.

### Summary of Operations

For the quarter ended June 30, 2018, revenue from services decreased 2% year-over-year to \$204.6 million, with declines in both our Nurse and Allied Staffing and our Physician Staffing reporting segments, partially offset by growth in our OHCMS reporting segment. The decrease in our Nurse and Allied Staffing segment was primarily due to lower volume particularly in our legacy travel nurse and branch operations businesses, partially offset by the impact of the Advantage acquisition. The decrease in our Physician Staffing segment was due to lower volume. We continue to manage our selling, general and administrative expenses as we remain committed to improving operating leverage and overall profitability. As part of our cost savings and efficiency initiatives, we incurred \$0.2 million in restructuring charges during the second quarter of 2018. Net income attributable to common shareholders was \$1.5 million, or \$0.04 per diluted share.



For the six months ended June 30, 2018, we generated cash flow from operating activities of \$17.9 million. In addition, in the first six months of 2018, we repurchased and retired 399,456 shares of Common Stock for \$4.7 million, at an average market price of \$11.75 per share, pursuant to the current authorized share repurchase program. See Note 11 - Stockholders' Equity to our condensed consolidated financial statements. As of June 30, 2018, we had \$32.6 million of cash and cash equivalents and \$97.5 million outstanding on our Term Loan, at par. There were no borrowings drawn on our \$115.0 million revolving credit facility, with \$21.6 million of letters of credit outstanding, leaving \$93.4 million available for borrowings under the revolving credit facility. During the first quarter of 2018, we entered into a fixed interest rate swap with an effective date of April 2, 2018, executed on 50% of the outstanding notional amount of our Amended Term Loan. See Note 8 - Debt and Note 9 - Derivative to our condensed consolidated financial statements.

See Results of Operations, Segment Results, and Liquidity and Capital Resources sections that follow for further information.

### **Operating Metrics**

We evaluate our financial condition by tracking operating metrics and financial results specific to each of our segments. Key operating metrics include hours worked, days filled, number of FTEs, revenue per FTE, and revenue per day filled. Other operating metrics include number of open orders, candidate applications, contract bookings, length of assignment, bill and pay rates, and renewal and fill rates, number of active searches, and number of placements. These operating metrics are representative of trends that assist management in evaluating business performance. Due to the timing of our business process and other factors, certain of these operating metrics may not necessarily correlate to the reported GAAP results for the periods presented. Some of the segment financial results analyzed include revenue, operating expenses, and contribution income. In addition, we monitor cash flow as well as operating and leverage ratios to help us assess our liquidity needs.

### **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 per FTE 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 invoiced during the period, including an estimate for the impact of accrued revenue, by 8 hours. Prior periods have been recalculated to include the impact of the accrued revenue.

Revenue per day filled is calculated by dividing revenue as reported by days filled for the period presented. Prior periods have been recalculated to include the impact of the accrued revenue and days.

## 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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue from services	100.0 %	100.0 %	100.0 %	100.0 %
Direct operating expenses	73.8	73.0	74.1	73.7
Selling, general and administrative expenses	22.1	22.3	21.9	22.5
Bad debt expense	0.3	0.1	0.2	0.2
Depreciation and amortization	1.5	1.1	1.4	1.1
Acquisition-related contingent consideration	0.1	0.1	0.1	0.1
Acquisition and integration costs	—	0.3	—	0.1
Restructuring costs	0.1	—	0.2	—
Income from operations	2.1	3.1	2.1	2.3
Interest expense	0.7	0.2	0.6	0.4
Gain on derivative liability	—	—	—	(0.4)
Loss on early extinguishment of debt	—	—	—	1.2
Other income, net	(0.1)	—	—	—
Income before income taxes	1.5	2.9	1.5	1.1
Income tax expense	0.6	0.4	0.6	0.3
Consolidated net income	0.9	2.5	0.9	0.8
Less: Net income attributable to noncontrolling interest in subsidiary	0.1	0.2	0.1	0.1
Net income attributable to common shareholders	0.8 %	2.3 %	0.8 %	0.7 %

Comparison of Results for the Three Months Ended June 30, 2018 compared to the Three Months Ended June 30, 2017

	Three Months Ended June 30,			
	2018	2017	Increase (Decrease) \$	Increase (Decrease) %
	(Amounts in thousands)			
Revenue from services	\$ 204,572	\$ 209,313	\$ (4,741)	(2.3)%
Direct operating expenses	150,883	152,785	(1,902)	(1.2)%
Selling, general and administrative expenses	45,284	46,600	(1,316)	(2.8)%
Bad debt expense	611	326	285	87.4 %
Depreciation and amortization	2,963	2,285	678	29.7 %
Acquisition-related contingent consideration	220	281	(61)	(21.7)%
Acquisition and integration costs	76	587	(511)	(87.1)%
Restructuring costs	193	—	193	100.0 %
Income from operations	4,342	6,449	(2,107)	(32.7)%
Interest expense	1,447	535	912	170.5 %
Other income, net	(98)	(59)	(39)	(66.1)%
Income before income taxes	2,993	5,973	(2,980)	(49.9)%
Income tax expense	1,169	753	416	55.2 %
Consolidated net income	1,824	5,220	(3,396)	(65.1)%
Less: Net income attributable to noncontrolling interest in subsidiary	285	370	(85)	(23.0)%
Net income attributable to common shareholders	\$ 1,539	\$ 4,850	\$ (3,311)	(68.3)%

**Revenue from services**

Revenue from services decreased 2.3%, to \$204.6 million for the three months ended June 30, 2018, as compared to \$209.3 million for the three months ended June 30, 2017, due primarily to volume declines mainly in our legacy Nurse and Allied and Physician Staffing businesses, partly offset by the impact of the acquisition of Advantage. Excluding the impact of Advantage, revenue decreased \$24.5 million or 11.7%. See further discussion in Segment Results.

**Direct operating expenses**

Direct operating expenses are comprised primarily of field employee compensation and independent contractor expenses, housing expenses, travel expenses, and related insurance expenses. Direct operating expenses decreased \$1.9 million or 1.2%, to \$150.9 million for the three months ended June 30, 2018, as compared to \$152.8 million for the three months ended June 30, 2017. As a percentage of total revenue, direct operating expenses increased to 73.8% compared to 73.0% in the prior year period, partly due to the impact of the Advantage acquisition.

**Selling, general and administrative expenses**

Selling, general and administrative expenses decreased 2.8%, to \$45.3 million for the three months ended June 30, 2018, as compared to \$46.6 million for the three months ended June 30, 2017, despite the added expenses from the acquisition of Advantage. As a percentage of total revenue, selling, general and administrative expenses decreased to 22.1% for the three months ended June 30, 2018 as compared to 22.3% for the three months ended June 30, 2017, reflecting the cost savings and efficiency initiatives undertaken over the last several quarters.

**Depreciation and amortization expense**

Depreciation and amortization expense increased to \$3.0 million for the three months ended June 30, 2018 from \$2.3 million for the three months ended June 30, 2017, primarily due to the additional amortization of other intangible assets of Advantage. As a percentage of revenue, depreciation and amortization expense was 1.5% and 1.1% for the three months ended June 30, 2018 and 2017, respectively.

### ***Acquisition-related contingent consideration***

Acquisition-related contingent consideration, comprised of accretion on our contingent consideration liabilities for our Mediscan and USR acquisitions, totaled \$0.2 million and \$0.3 million for the three months ended June 30, 2018 and June 30, 2017, respectively. See Note 10 - Fair Value Measurements to our condensed consolidated financial statements.

### ***Acquisition and integration costs***

Acquisition and integration costs during the three months ended June 30, 2018 were \$0.1 million, compared to \$0.6 million during the three months ended June 30, 2017, and related to the Advantage acquisition. See Note 4 - Acquisitions to our condensed consolidated financial statements.

### ***Restructuring costs***

Restructuring costs totaled \$0.2 million during the three months ended June 30, 2018 and related primarily to severance costs incurred in connection with our cost savings and efficiency initiatives. There were no such severance costs for the three months ended June 30, 2017.

### ***Interest expense***

Interest expense was \$1.4 million for the three months ended June 30, 2018, compared to \$0.5 million for the three months ended June 30, 2017, primarily due to the incremental debt resulting from the acquisition of Advantage and a higher effective interest rate. The effective interest rate on our borrowings increased to 5.0% for the three month period ended June 30, 2018 compared to 3.7% for the three months ended June 30, 2017, primarily due to an increase in the one month LIBOR rate. See Note 8 - Debt.

### ***Income tax expense***

Income tax expense totaled \$1.2 million for the three months ended June 30, 2018, compared to \$0.8 million for the three months ended June 30, 2017. The Company's effective tax rate for the three months ended June 30, 2018 and June 30, 2017 was 39.1% and 12.6%, respectively, including the impact of discrete items. Excluding discrete items, the Company's effective tax rate for the three months ended June 30, 2018 and June 30, 2017 was 40.3% and 12.4%, respectively. The effective tax rate for the second quarter of 2018 was primarily related to the non-deductibility of certain per diem expenses, the officers' compensation limitation, and international and state taxes. The effective tax rate for the second quarter of 2017 was primarily related to the amortization of indefinite-lived intangible assets for tax purposes and international and state taxes.

Comparison of Results for the Six Months Ended June 30, 2018 compared to the Six Months Ended June 30, 2017

	Six Months Ended June 30,			
	2018	2017	Increase (Decrease) \$	Increase (Decrease) %
	(Amounts in thousands)			
Revenue from services	\$ 414,860	\$ 416,886	\$ (2,026)	(0.5)%
Direct operating expenses	307,418	307,083	335	0.1 %
Selling, general and administrative expenses	90,918	93,836	(2,918)	(3.1)%
Bad debt expense	810	649	161	24.8 %
Depreciation and amortization	5,872	4,476	1,396	31.2 %
Acquisition-related contingent consideration	433	551	(118)	(21.4)%
Acquisition and integration costs	191	587	(396)	(67.5)%
Restructuring costs	628	—	628	100.0 %
Income from operations	8,590	9,704	(1,114)	(11.5)%
Interest expense	2,713	1,754	959	54.7 %
Gain on derivative liability	—	(1,581)	1,581	100.0 %
Loss on early extinguishment of debt	—	4,969	(4,969)	(100.0)%
Other income, net	(199)	(59)	(140)	(237.3)%
Income before income taxes	6,076	4,621	1,455	31.5 %
Income tax expense	2,332	1,119	1,213	108.4 %
Consolidated net income	3,744	3,502	242	6.9 %
Less: Net income attributable to noncontrolling interest in subsidiary	563	662	(99)	(15.0)%
Net income attributable to common shareholders	\$ 3,181	\$ 2,840	\$ 341	12.0 %

**Revenue from services**

Revenue from services decreased 0.5%, to \$414.9 million for the six months ended June 30, 2018, as compared to \$416.9 million for the six months ended June 30, 2017, due primarily to volume declines mainly in our legacy Nurse and Allied and Physician Staffing businesses, partly offset by the impact of the acquisition of Advantage. Excluding the impact of Advantage, revenue decreased \$41.8 million or 10.0%. See further discussion in Segment Results.

**Direct operating expenses**

Direct operating expenses are comprised primarily of field employee compensation and independent contractor expenses, housing expenses, travel expenses, and related insurance expenses. Direct operating expenses increased \$0.3 million or 0.1%, to \$307.4 million for the six months ended June 30, 2018, as compared to \$307.1 million for the six months ended June 30, 2017. As a percentage of total revenue, direct operating expenses increased to 74.1% compared to 73.7% in the prior year period, primarily due to the impact of the Advantage acquisition.

**Selling, general and administrative expenses**

Selling, general and administrative expenses decreased 3.1%, to \$90.9 million for the six months ended June 30, 2018, as compared to \$93.8 million for the six months ended June 30, 2017, despite the added expenses from the acquisition of Advantage. As a percentage of total revenue, selling, general and administrative expenses decreased to 21.9% for the six months ended June 30, 2018 as compared to 22.5% for the six months ended June 30, 2017, reflecting the cost savings and efficiency initiatives completed over the last several quarters.

### ***Depreciation and amortization expense***

Depreciation and amortization expense increased to \$5.9 million for the six months ended June 30, 2018 from \$4.5 million for the six months ended June 30, 2017, primarily due to the additional amortization of other intangible assets of Advantage. As a percentage of revenue, depreciation and amortization expense was 1.4% and 1.1% for the six months ended June 30, 2018 and 2017, respectively.

### ***Acquisition-related contingent consideration***

Acquisition-related contingent consideration, comprised of accretion on our contingent consideration liabilities for our Mediscan and USR acquisitions, totaled \$0.4 million and \$0.6 million for the six months ended June 30, 2018 and June 30, 2017, respectively. See Note 10 - Fair Value Measurements to our condensed consolidated financial statements.

### ***Acquisition and integration costs***

Acquisition and integration costs during the six months ended June 30, 2018 were \$0.2 million, compared to \$0.6 million during the six months ended June 30, 2017, and related to the Advantage acquisition. See Note 4 - Acquisitions to our condensed consolidated financial statements.

### ***Restructuring costs***

Restructuring costs totaled \$0.6 million during the six months ended June 30, 2018 and related primarily to severance costs incurred in connection with our cost savings and efficiency initiatives. There were no such severance costs for the six months ended June 30, 2017.

### ***Interest expense***

Interest expense was \$2.7 million for the six months ended June 30, 2018, compared to \$1.8 million for the six months ended June 30, 2017, primarily due to the incremental debt resulting from the acquisition of Advantage, partially offset by a lower effective interest rate. The effective interest rate on our borrowings decreased to 4.7% for the six month period ended June 30, 2018 compared to 5.7% for the six months ended June 30, 2017. The six months ended June 30, 2017 was impacted by the 8.0% fixed rate Convertible Note paid off on March 17, 2017. See Note 8 - Debt.

### ***Gain on derivative liability***

We incurred a gain on derivative liability of \$1.6 million for the six months ended June 30, 2017 related to the change in the fair value of embedded features of our Convertible Notes from the end of the prior quarter through the payoff date, primarily resulting from a decrease in our share price. There were no such charges incurred for the six months ended June 30, 2018. See Note 8 - Debt to our condensed consolidated financial statements.

### ***Loss on early extinguishment of debt***

Loss on early extinguishment of debt of \$5.0 million for the six months ended June 30, 2017 relates to the early repayment of our Convertible Notes. See Note 8 - Debt.

### ***Income tax expense***

Income tax expense totaled \$2.3 million for the six months ended June 30, 2018, compared to \$1.1 million for the six months ended June 30, 2017. The Company's effective tax rate for the six months ended June 30, 2018 and June 30, 2017 was 38.4% and 24.2%, respectively, including the impact of discrete items. Excluding discrete items, the Company's effective tax rate for the six months ended June 30, 2018 and June 30, 2017 was 37.8% and 31.7%, respectively. The effective tax rate for the six months ended June 30, 2018 was primarily related to the non-deductibility of certain per diem expenses, the officers' compensation limitation, and international and state taxes. The effective tax rate for the six months ended June 30, 2017 was primarily related to the amortization of indefinite-lived intangible assets for tax purposes and international and state taxes, partly offset by a discrete tax benefit.

## Segment Results

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
(amounts in thousands)				
<b>Revenue from services:</b>				
Nurse and Allied Staffing	\$ 179,339	\$ 180,927	\$ 364,444	\$ 364,035
Physician Staffing	21,334	24,720	42,894	46,184
Other Human Capital Management Services	3,899	3,666	7,522	6,667
	<u>\$ 204,572</u>	<u>\$ 209,313</u>	<u>\$ 414,860</u>	<u>\$ 416,886</u>
<b>Contribution income:</b>				
Nurse and Allied Staffing	\$ 16,909	\$ 18,141	\$ 33,669	\$ 33,763
Physician Staffing	1,383	2,047	2,883	2,867
Other Human Capital Management Services	312	241	624	(199)
	<u>18,604</u>	<u>20,429</u>	<u>37,176</u>	<u>36,431</u>
Unallocated corporate overhead	10,810	10,827	21,462	21,113
Depreciation and amortization	2,963	2,285	5,872	4,476
Acquisition-related contingent consideration	220	281	433	551
Acquisition and integration costs	76	587	191	587
Restructuring costs	193	—	628	—
Income from operations	<u>\$ 4,342</u>	<u>\$ 6,449</u>	<u>\$ 8,590</u>	<u>\$ 9,704</u>

Certain statistical data for our business segments for the periods indicated are as follows:

	Three Months Ended		Change	Percent Change
	June 30, 2018	June 30, 2017		
<b><u>Nurse and Allied Staffing statistical data: (a)</u></b>				
FTEs	7,143	7,155	(12)	(0.2)%
Average Nurse and Allied Staffing revenue per FTE per day	\$ 276	\$ 278	(2)	(0.7)%
<b><u>Physician Staffing statistical data: (a)</u></b>				
Days filled	13,751	15,690	(1,939)	(12.4)%
Revenue per day filled	\$ 1,551	\$ 1,576	(25)	(1.6)%
<b><u>Nurse and Allied Staffing statistical data: (a)</u></b>				
FTEs	7,305	7,180	125	1.7 %
Average Nurse and Allied Staffing revenue per FTE per day	\$ 276	\$ 280	(4)	(1.4)%
<b><u>Physician Staffing statistical data: (a)</u></b>				
Days filled	28,001	29,742	(1,741)	(5.9)%
Revenue per day filled	\$ 1,532	\$ 1,553	(21)	(1.4)%

(a) See definition of Business Measurement under the Operating Metrics section of our Management's Discussion and Analysis.

See Note 12 - Segment Data.

### **Segment Comparison - Three Months Ended June 30, 2018 compared to the Three Months Ended June 30, 2017**

#### ***Nurse and Allied Staffing***

Revenue from Nurse and Allied Staffing decreased \$1.6 million, or 0.9%, to \$179.3 million for the three months ended June 30, 2018, compared to \$180.9 million for the three months ended June 30, 2017, predominantly due to declines in our legacy travel nurse and branch operations businesses, partially offset by the Advantage acquisition. Excluding the Advantage acquisition, revenue decreased \$21.3 million, or 11.8%, primarily driven by volume.

Contribution income from Nurse and Allied Staffing decreased \$1.2 million or 6.8%, to \$16.9 million for the three months ended June 30, 2018, compared to \$18.1 million for the three months ended June 30, 2017, primarily due to lower volumes in our legacy travel nurse and branch operation businesses, partially offset by the impact of the Advantage acquisition and lower selling, general, and administrative expense due to our cost savings and efficiency initiatives. As a percentage of segment revenue, contribution income was 9.4% for the three months ended June 30, 2018, compared to 10.0% for the three months ended June 30, 2017.

#### ***Operating Metrics***

The average number of Nurse and Allied Staffing FTEs on contract during the three months ended June 30, 2018 decreased slightly from the three months ended June 30, 2017. The average Nurse and Allied Staffing revenue per FTE per day decreased 0.7%.

#### ***Physician Staffing***

Revenue from Physician Staffing decreased \$3.4 million, or 13.7%, to \$21.3 million for the three months ended June 30, 2018, compared to \$24.7 million for the three months ended June 30, 2017, primarily due to a lower number of days filled, and to a lesser extent, lower average bill rates due to mix.

Contribution income from Physician Staffing decreased \$0.6 million, or 32.4%, to \$1.4 million for the three months ended June 30, 2018, compared to \$2.0 million for the three months ended June 30, 2017, primarily due to lower volumes as well as a shift in the mix of specialties. As a percentage of segment revenue, contribution income was 6.5% for the three months ended June 30, 2018, compared to 8.3% for the three months ended June 30, 2017.

#### ***Operating Metrics***

Total days filled were 13,751 as compared with 15,690 in the prior year. Revenue per day filled was \$1,551 as compared with \$1,576 in the prior year, down 1.6% due to a shift in mix between advanced practice and physician staffing.

#### ***Other Human Capital Management Services***

Revenue from OHCMS increased \$0.2 million, or 6.4%, to \$3.9 million for the three months ended June 30, 2018, compared to \$3.7 million for the three months ended June 30, 2017, primarily due to growth in physician placements.

Segment contribution income for the three months ended June 30, 2018 increased to \$0.3 million, compared to \$0.2 million for the three months ended June 30, 2017, driven by revenue growth, coupled with lower expenses resulting in improved operating leverage in the business.

#### ***Unallocated Corporate Overhead***

Included in unallocated corporate overhead is corporate compensation and benefits, and general and administrative expenses including rent and utilities, computer supplies and expenses, insurance, professional expenses, corporate-wide projects (initiatives), and public company expenses. Unallocated corporate overhead was \$10.8 million for the three months ended June 30, 2018 and 2017. As a percentage of consolidated revenue, unallocated corporate overhead was 5.3% for the three months ended June 30, 2018 and 5.2% for the three months ended June 30, 2017.



## Segment Comparison - Six Months Ended June 30, 2018 compared to the Six Months Ended June 30, 2017

### *Nurse and Allied Staffing*

Revenue from Nurse and Allied Staffing increased \$0.4 million, or 0.1%, to \$364.4 million for the six months ended June 30, 2018, compared to \$364.0 million for the six months ended June 30, 2017, predominantly due to the Advantage acquisition, partially offset by declines in our legacy travel nurse and branch operations businesses. Excluding the Advantage acquisition, revenue decreased \$39.4 million, or 10.8%, primarily driven by volume.

Contribution income from Nurse and Allied Staffing decreased \$0.1 million or 0.3%, to \$33.7 million for the six months ended June 30, 2018, compared to \$33.8 million for the six months ended June 30, 2017, primarily due to lower volumes in our travel nurse and branch operations businesses, partly offset by lower selling, general and administrative expense due to our cost savings and efficiency initiatives. As a percentage of segment revenue, contribution income was 9.2% for the six months ended June 30, 2018, compared to 9.3% for the six months ended June 30, 2017.

### *Operating Metrics*

The average number of Nurse and Allied Staffing FTEs on contract during the six months ended June 30, 2018 increased 1.7% from the six months ended June 30, 2017, primarily due to the added FTEs from the Advantage acquisition. The average Nurse and Allied Staffing revenue per FTE per day decreased 1.4%.

### *Physician Staffing*

Revenue from Physician Staffing decreased \$3.3 million, or 7.1%, to \$42.9 million for the six months ended June 30, 2018, compared to \$46.2 million for the six months ended June 30, 2017, primarily due to a lower number of days filled, coupled with lower bill rates due to mix.

Contribution income from Physician Staffing was \$2.9 million for the six months ended June 30, 2018, consistent with the six months ended June 30, 2017. As a percentage of segment revenue, contribution income was 6.7% for the six months ended June 30, 2018, compared to 6.2% for the six months ended June 30, 2017.

### *Operating Metrics*

Total days filled were 28,001 as compared with 29,742 in the prior year. Revenue per day filled was \$1,532 as compared with \$1,553 in the prior year, down 1.4% due to a shift in mix between advanced practice and physician staffing.

### *Other Human Capital Management Services*

Revenue from OHCMS increased \$0.9 million, or 12.8%, to \$7.5 million for the six months ended June 30, 2018, compared to \$6.7 million for the six months ended June 30, 2017, primarily due to growth in both executive and physician searches.

Segment contribution income for the six months ended June 30, 2018 increased to \$0.6 million, compared to a loss of \$0.2 million for the six months ended June 30, 2017, reflecting improved operating leverage in the business.

### *Unallocated Corporate Overhead*

Included in unallocated corporate overhead is corporate compensation and benefits, and general and administrative expenses including rent and utilities, computer supplies and expenses, insurance, professional expenses, corporate-wide projects (initiatives), and public company expenses. Unallocated corporate overhead was \$21.5 million for the six months ended June 30, 2018, compared to \$21.1 million for the six months ended June 30, 2017. As a percentage of consolidated revenue, unallocated corporate overhead was 5.2% for the six months ended June 30, 2018 and 5.1% for the six months ended June 30, 2017.

### Transactions with Related Parties

See Note 15 - Related Party Transactions to our condensed consolidated financial statements.

## **Liquidity and Capital Resources**

At June 30, 2018, we had \$32.6 million in cash and cash equivalents and \$97.5 million of Term Loan outstanding, at par. Working capital increased to \$117.3 million as of June 30, 2018 from \$114.3 million as of December 31, 2017. Our net days' sales outstanding (DSO), which excludes amounts owed to subcontractors, decreased 1 day to 57 days as of June 30, 2018, compared to 58 days as of December 31, 2017.

Our operating cash flow constitutes our primary source of liquidity, and historically, has been sufficient to fund our working capital, capital expenditures, internal business expansion, and debt service, including our commitments as described in the Commitments table which follows. 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 Amended and Restated Credit Agreement. See debt discussion which follows. In the third quarter of 2018, we expect to launch a new initiative to replace our front-end system which supports the travel nurse staffing operations. We anticipate the core system replacement to be completed by late 2019 and the total cost to range between \$10 million and \$12 million, of which we expect approximately three quarters of the costs to be capitalized and/or deferred. Operating cash flows and cash on hand, along with amounts available under our revolving credit facility, should be sufficient to meet these needs during the next twelve months.

Net cash provided by operating activities was \$17.9 million in the six months ended June 30, 2018, compared to \$25.5 million in the six months ended June 30, 2017, primarily due to a six day increase in DSO to 57 days as of June 30, 2018 from 51 days as of June 30, 2017, and timing of payments. Net cash used in investing activities was \$2.3 million in the six months ended June 30, 2018, compared to \$3.4 million in the six months ended June 30, 2017, primarily for capital expenditures in both periods.

Net cash used in financing activities during the six months ended June 30, 2018 was \$8.6 million, compared to \$8.9 million during the six months ended June 30, 2017. During the six months ended June 30, 2018, we used cash to repurchase \$4.7 million in shares of Common Stock, repay \$2.5 million on our Term Loan, pay \$0.7 million for shares withheld for taxes, \$0.6 million for noncontrolling shareholder payments, and \$0.1 million for contingent consideration. During the six months ended June 30, 2017, we repaid our Convertible Notes with a partial cash payment of \$5.0 million and paid \$0.6 million in related extinguishment fees. We also reduced the principal amount of our term debt by \$1.5 million. In addition, we used cash to pay \$1.2 million for shares withheld for taxes, \$0.5 million for noncontrolling shareholder payments, and \$0.1 million for contingent consideration.

## **Debt**

### *Credit Facilities*

As more fully described in Note 8 - Debt to our condensed consolidated financial statements, our Amended and Restated Credit Agreement, entered into on August 1, 2017, provides us with a \$215.0 million committed facility, including a term loan of \$100.0 million (Amended Term Loan) and a \$115.0 million revolving credit facility (Amended Revolving Credit Facility) (together with the Amended Term Loan, the Amended Credit Facilities). As of June 30, 2018, the Applicable Margin, as defined in the Amended and Restated Credit Agreement, was 2.25% for Eurodollar Loans and LIBOR Index Rate Loans and 1.25% for Base Rate Loans. As of June 30, 2018, we had \$97.5 million remaining on the Amended Term Loan and \$21.6 million in letters of credit outstanding, leaving \$93.4 million available under the Amended Revolving Credit Facility. We believe this provides us with the ability to continue to execute our strategy to grow the business.

### *Convertible Notes*

On March 17, 2017, we paid in full our fixed rate 8% Convertible Notes. The Convertible Notes, had an aggregate principal amount of \$25.0 million, and were convertible into shares of our Common Stock, at a conversion price of \$7.10 per share. As a result of the early repayment, we recognized \$5.0 million as loss on early extinguishment of debt.

At inception of the Convertible Notes, and at the time of the payoff, the conversion price of \$7.10 was below the market price. The initial agreement allowed us to force conversion of the Notes only after three years, beginning July 1, 2017, and if the VWAP exceeded 125% of the Conversion Price for 20 days of a 30 day trading period (the threshold was \$8.88, which we were well above). As such, we and the Noteholders agreed to an early settlement at fair value based on the stock price. In connection with the repayment, we issued to the Noteholders an aggregate of 3,175,584 shares of Common Stock and cash in the aggregate amount of \$5.6 million.

See Note 8 - Debt to our condensed consolidated financial statement for further information.

### **Stockholders' Equity**

See Note 11 - Stockholders' Equity to our condensed consolidated financial statements.

### **Commitments and Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

The following table reflects our contractual obligations and other commitments as of June 30, 2018:

Commitments	Total	2018	2019	2020	2021	2022	Thereafter
<b>(Unaudited, amounts in thousands)</b>							
Term Loan (a)	\$ 97,500	\$ 4,375	\$ 7,500	\$ 8,125	\$ 10,000	\$ 67,500	\$ —
Interest on debt (b)	21,259	4,083	5,318	4,960	4,502	2,396	—
Contingent consideration (c)	7,291	180	399	6,712	—	—	—
Operating lease obligations (d)	35,257	3,823	6,897	5,725	4,942	4,451	9,419
	\$ 161,307	\$ 12,461	\$ 20,114	\$ 25,522	\$ 19,444	\$ 74,347	\$ 9,419

- (a) Under our Amended Term Loan, we are required to comply with certain financial covenants. Our inability to comply with the required covenants or other provisions could result in default under our amended credit facilities. In the event of any such default and our inability to obtain a waiver of the default, all amounts outstanding under the Amended Credit Facilities could be declared immediately due and payable. As of June 30, 2018, we are in compliance with the financial covenants and other covenants contained in the Credit Agreement.
- (b) Interest on debt represents payments due through maturity for our Term Loan, calculated using the July 2, 2018 applicable LIBOR and margin rate totaling 4.6% on 50% of the Term Loan balance, and a fixed interest rate of 5.1% on the other 50% of the Term Loan balance, taking into account the interest rate swap. See Note 9 - Derivative.
- (c) The contingent consideration represents the estimated payments due to the sellers related to the Mediscan and USR acquisitions, including accretion. See Note 4 - Acquisitions to our condensed consolidated financial statements. While it is not certain if, or when, the remaining contingent payments will be made, we have included the payments in the table based on our best estimates of the amounts and dates when the contingencies may be resolved.
- (d) Represents future minimum lease payments associated with operating lease agreements with original terms of more than one year.

See Note 13 - Commitments and Contingencies to our condensed consolidated financial statements.

### **Critical Accounting Policies and Estimates**

Our critical accounting policies and estimates remain consistent with those reported in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC, other than the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* as discussed in Note 2 - Summary of Significant Accounting Policies to our condensed consolidated financial statements.

### **Recent Accounting Pronouncements**

See Note 16 - Recent Accounting Pronouncements to our condensed consolidated financial statements.

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

#### *Interest Rate Risk*

We are exposed to interest rate changes, primarily as a result of our revolving loan and term loans under our Credit Agreement, which bears interest based on floating rates. Refer to Liquidity and Capital Resources - Credit Agreement included in Item 2. Management's Discussion and Analysis above for further discussion about our Credit Agreement and related interest rate swap effective beginning in the second quarter of 2018. Every 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately \$0.5 million in the second quarter of 2018 and \$0.4 million in the second quarter of 2017.

#### *Other Risks*

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, 2017.

#### **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) of the Securities Exchange Act of 1934, as amended, or 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 controls 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, results of operations or cash flows.

### 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, 2017.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In February 2008, our Board of Directors authorized its most recent stock repurchase program whereby we may purchase up to an additional 1.5 million shares of our common stock, subject to the terms of our current credit agreement. The shares may be repurchased from time-to-time in the open market and the repurchase program may be discontinued at any time at our discretion.

During the three months ended June 30, 2018, we purchased, under this program, a total of 157,056 shares at an average price of \$11.53 per share. A summary of the repurchase activity for the period covered by this report follows:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum of Shares that May Yet Be Purchased Under the Plans or Programs</b>
April 1 - April 30, 2018	—	\$ —	—	700,043
May 1 - May 31, 2018	116,173	\$ 11.46	116,173	583,870
June 1 - June 30, 2018	40,883	\$ 11.75	40,883	542,987
Total April 1 - June 30, 2018	<u>157,056</u>	\$ 11.53	<u>157,056</u>	542,987

### ITEM 6. EXHIBITS

See Exhibit Index immediately following signature page.

EXHIBIT INDEX

No.	Description
*3.1	<a href="#">Amended and Restated By-laws of the Registrant</a>
*31.1	<a href="#">Certification pursuant to Rule 13a-14(a) and Rule 15d-14 (a) by William J. Grubbs, President, Chief Executive Officer, Director (Principal Executive Officer)</a>
*31.2	<a href="#">Certification pursuant to Rule 13a-14(a) and Rule 15d-14 (a) by Christopher R. Pizzi, SVP &amp; Chief Financial Officer (Principal Accounting and Financial Officer)</a>
*32.1	<a href="#">Certification pursuant to 18 U.S.C. Section 1350 by William J. Grubbs, President, Chief Executive Officer, Director (Principal Executive Officer)</a>
*32.2	<a href="#">Certification pursuant to 18 U.S.C. Section 1350 by Christopher R. Pizzi, SVP &amp; Chief Financial Officer (Principal Accounting and Financial Officer)</a>
**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

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: August 2, 2018

By: /s/ Christopher R. Pizzi  
Christopher R. Pizzi  
SVP & Chief Financial Officer (Principal Accounting and Financial Officer)

**AMENDED AND RESTATED BY-LAWS**  
**OF**  
**CROSS COUNTRY HEALTHCARE, INC.**

1. MEETINGS OF STOCKHOLDERS.

1.1 Annual Meeting. The annual meeting of stockholders of the Corporation shall be held at such date, place and time as determined by the Board of Directors (the "Board").

1.2 Place and Time of Meetings. Meetings of the stockholders may be held in or outside Delaware at the place and time specified by the Board.

1.3 Notice of Meetings; Waiver of Notice. Written notice of each meeting of stockholders shall be given to each stockholder entitled to vote at the meeting, except that (a) it shall not be necessary to give notice to any stockholder who submits a signed waiver of notice before or after the meeting, and (b) no notice of an adjourned meeting need be given, except when required by law. Unless otherwise required by law, each notice of a meeting shall be given, in the manner permitted by law, not fewer than 10 nor more than 60 days before the meeting and shall state the time and place of the meeting. The attendance of any stockholder at a meeting, without protesting at the beginning of the meeting that the meeting is not lawfully called or convened, shall constitute a waiver of notice by such stockholder.

1.4 Quorum. At any meeting of stockholders, the presence in person or by proxy of the holders of no less than a majority of the voting power of the outstanding shares entitled to vote shall constitute a quorum for the transaction of any business, unless or to the extent that the presence of a larger number may be required by law or by the rules of any stock exchange upon which the Corporation's securities are listed. In the absence of a quorum, stockholders may adjourn the meeting by the affirmative vote of majority of the voting power present in person or by proxy. Any officer entitled to preside at or to act as Secretary of the meeting may also adjourn the meeting until a quorum is present. At any adjourned meeting at which a quorum is present, any action may be taken that might have been taken at the meeting as originally called. No notice of an adjourned meeting need be given, if the time and place are announced at the meeting at which the adjournment is taken, except that, if adjournment is for more than 30 days or if, after the adjournment, a new record date is fixed for the meeting, notice of the adjourned meeting shall be given in the manner required by law.

1.5 Voting; Proxies. Unless otherwise required by the Certificate of Incorporation or in these By-Laws, each stockholder of record shall be entitled to one vote, in person or by proxy, for each share registered in such stockholder's name. Corporate action to be taken by stockholder vote at a meeting, other than the election of directors, shall be authorized by the affirmative vote of a majority of the votes cast (affirmatively or negatively) at a meeting of



stockholders, except as otherwise required by law or the rules of any stock exchange upon which the Corporation's securities are listed. Directors shall be elected in the manner provided in Section 2.1. Voting need not be by ballot, unless ordered by the Chairman of the meeting. Each stockholder entitled to vote at any meeting of stockholders or to express consent to or dissent from corporate action in writing without a meeting may authorize another person to act for such stockholder by proxy. No proxy shall be valid after three years from its date, unless it provides otherwise.

1.6 List of Stockholders. Not fewer than 10 days prior to the date of any meeting of stockholders, the Corporation shall prepare a complete list of stockholders entitled to vote at the meeting; provided, however, if the record date for determining the stockholders entitled to vote is less than 10 days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in such stockholder's name. Nothing contained in this section shall require the Corporation to include electronic mail addresses or other electronic contact information on such list. For a period of not fewer than 10 days prior to the meeting, the list shall be available during ordinary business hours for inspection by any stockholder for any purpose germane to the meeting. During this period, the list shall be kept either (a) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (b) during ordinary business hours, at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then a list of stockholders entitled to vote at the meeting shall be produced and kept at the time and place of the meeting during the whole time thereof and may be examined by any stockholder who is present.

1.7 Action by Consent Without a Meeting. Any action required or permitted to be taken at any meeting of stockholders may be taken without a meeting and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not fewer than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice shall be given to those stockholders who did not consent in writing.

1.8 Record Date for Action By Written Consent. In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting (including by electronic transmission as permitted by law), the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which date shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board. Any stockholder of record seeking to have the stockholders authorize or take corporate action by consent shall, by written notice to the Secretary, request the Board to fix a record date. The Board shall promptly, but in all events within 10 days after the date on which such a request is received, adopt a resolution fixing the record date (unless a record date has previously been fixed by the Board pursuant to the first sentence of this Section 1.8). If no record date has been fixed by the Board within 10 days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate

action in writing without a meeting, when no prior action by the Board is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation in the manner required by law. If no record date has been fixed by the Board and prior action by the Board is required by applicable law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board adopts the resolution taking such prior action.

#### 1.9 Advance Notice of Nominations and Business For Annual Meetings.

(A) Nominations of persons for election to the Board and the proposal of business to be transacted by the stockholders may be made at an annual meeting of stockholders (1) pursuant to the Corporation's proxy materials with respect to such meeting, (1) by or at the direction of the Board, or (1) by any stockholder of record of the Corporation (the "Record Stockholder") at the time of the giving of the notice required in the following paragraph, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this section. For the avoidance of doubt, the foregoing clause (3) shall be the exclusive means for a stockholder to make nominations or propose business (other than business included in the Corporation's proxy materials pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (such act, and the rules and regulations promulgated thereunder, the "Exchange Act")) at an annual meeting of stockholders.

(B) For nominations or business to be properly brought before an annual meeting by a Record Stockholder pursuant to clause (3) of the foregoing paragraph, (1) the Record Stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, (2) any such business must be a proper matter for stockholder action under Delaware law and (3) the Record Stockholder and the beneficial owner, if any, on whose behalf any such proposal or nomination is made, must have acted in accordance with the representations set forth in the Solicitation Statement required by these By-Laws. To be timely, a Record Stockholder's notice shall be received by the Secretary at the principal executive offices of the Corporation not less than 90 or more than 120 days prior to the one-year anniversary of the preceding year's annual meeting of stockholders; provided, however, that, subject to the last sentence of this Section 1.9 (B), if the meeting is convened more than 30 days prior to or delayed by more than 60 days after the anniversary of the preceding year's annual meeting, or if no annual meeting was held in the preceding year, notice by the Record Stockholder to be timely must be so received not later than the close of business on the later of (a) the 90th day before such annual meeting or (b) the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall an adjournment, or postponement of an annual meeting for which notice has been given, commence a new time period for the giving of a Record Stockholder's notice.

(C) Such Record Stockholder's notice shall set forth:

(1) If such notice pertains to the nomination of directors, as to each person whom the Record Stockholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies

for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act, and such person's written consent to serve as a director if elected;

(2) As to any business that the Record Stockholder proposes to bring before the meeting, a brief description of such business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend these By-Laws, the text of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such Record Stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and

(3) As to (a) the Record Stockholder giving the notice and (b) the beneficial owner, if any, on whose behalf the nomination or proposal is made (each, a "party"):

(i) the name and address of each such party;

(ii) (A) the class, series, and number of shares of the Corporation that are owned, directly or indirectly, beneficially and of record by each such party, (B) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise directly or indirectly owned beneficially by each such party, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Corporation (a "Derivative Instrument"), (C) any proxy, contract, arrangement, understanding, or relationship pursuant to which either party has a right to vote, directly or indirectly, any shares of any security of the Corporation, (D) any short interest in any security of the Corporation held by each such party (for purposes of this Section 1.9 (C), a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (E) any rights to dividends on the shares of the Corporation owned beneficially directly or indirectly by each such party that are separated or separable from the underlying shares of the Corporation, (F) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which either party is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (G) any performance-related fees (other than an asset-based fee) that each such party is directly or indirectly entitled to based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of each such party's immediate family sharing the same household (which information set forth in this paragraph shall be supplemented by such Stockholder or such beneficial owner, as the case may be, not later than 10 days after the record date for determining the stockholders entitled to vote at the meeting; provided, that if such date is after the date of the meeting, not later than the day prior to the meeting);

(iii) any other information relating to each such party that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or the election of directors in a contested election pursuant to Section 14 of the Exchange Act; and

(iv) a statement whether or not each such party will deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of voting power of all of the shares of capital stock of the Corporation required under applicable law to carry the proposal or, in the case of a nomination or nominations, at least the percentage of voting power of all of the shares of capital stock of the Corporation reasonably believed by the Record Stockholder or beneficial holder, as the case may be, to be sufficient to elect the nominee or nominees proposed to be nominated by the Record Stockholder (such statement, a "Solicitation Statement").

(D) A person shall not be eligible for election or re-election as a director at a meeting unless (1) the person is nominated by a Record Stockholder in accordance with Section 1.9 (A)(3) or (2) the person is nominated by or at the direction of the Board. To be eligible to be a nominee for election or re-election as a director of the Corporation, a person must deliver to the Secretary of the Corporation at the principal executive offices of the Corporation the following information: (a) a written representation and agreement, which shall be signed by such person and pursuant to which such person shall represent and agree that such person: (i) consents to serving as a director if elected and currently intends to serve as a director for the full term for which such person is standing for election; (ii) is not and will not become a party to any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity: (A) as to how the person, if elected as a director, will act or vote on any issue or question that has not been disclosed to the Corporation; or (B) that could limit or interfere with the person's ability to comply, if elected as director, with such person's fiduciary duties under applicable law; (iii) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director or nominee that has not been disclosed to the Corporation; and (iv) if elected as a director, will comply with all of the Corporation's corporate governance, conflict of interest, confidentiality, and stock ownership and trading policies and guidelines, and any other Corporation policies and guidelines applicable to directors (which will be provided to such person promptly following a request therefor); and (b) all completed and signed questionnaires required of the Corporation's directors (which will be provided to such person promptly following a request therefor). A nominee for election or re-election as a director of the Corporation shall also provide to the Corporation such other information as the Corporation may reasonably request. The Corporation may request such additional information as necessary to permit the Corporation to determine the eligibility of such person to serve as a director of the Corporation, including information relevant to a determination whether such person can be considered an independent director. Notwithstanding any other provision of these By-Laws, if a stockholder has submitted notice of an intent to nominate a candidate for election or re-election as a director pursuant to Section 1.9(B), the questionnaires and the additional information required by this Section 1.9(D) shall be considered timely if provided to the Corporation promptly upon request by the Corporation, but in any event within five business days after such

request, and all information provided pursuant to this Section 1.9(D) shall be deemed part of the stockholder's notice submitted pursuant to Section 1.9(B).

(E) Only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. The chairman of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these By-Laws and, if any proposed nomination or business is not in compliance with these By-Laws, to declare that such defectively proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

(F) For purposes of these By-Laws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(G) Notwithstanding the foregoing provisions of this Section 1.9, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 1.9. Nothing in this Section 1.9 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

#### 1.10 Special Meetings.

(A) Special meetings of the stockholders may be called by the affirmative vote of a majority of the entire Board or by the Chairman and shall be called by the Secretary upon the written request of the holders of at least 20% (the "Requisite Percent") of the outstanding shares entitled to vote, provided that a special meeting called at the request of one or more stockholders (a "Stockholder Requested Special Meeting") shall be called by the Secretary of the Corporation only if each of the stockholder(s) requesting such meeting is a stockholder of record at the time of the request, is entitled to vote at the special meeting and complies with the notice procedures set forth in this section.

(B) In order for a Stockholder Requested Special Meeting to be called by the Secretary of the Corporation, one or more written requests for a special meeting (individually or collectively, a "Special Meeting Request") signed and dated by stockholders of record that own the Requisite Percent of outstanding stock of the Corporation, must be delivered to the Secretary at the principal executive offices of the Corporation and must be accompanied by:

(1) In the case of any Stockholder Requested Special Meeting at which director nominations are proposed to be presented, the information required by Sections 1.9(C)(1) and 1.9(D);

(2) In the case of any Stockholder Requested Special Meeting at which any business other than director nominations is proposed to be presented, the information required by Section 1.9(C)(2); and

(3) As to (a) each stockholder of record of the Corporation signing such request and (b) the beneficial owner, if any, on whose behalf the Stockholder Special Meeting Request is made, the information required by 1.9(C)(3).

(C) One or more written requests for a special meeting delivered to the Secretary shall constitute a valid Special Meeting Request only if such written request satisfies the requirements set forth above and has been dated and delivered to the Secretary within sixty (60) days of the earliest valid, dated request. The determination of the validity of a Special Meeting Request shall be made in good faith by the Board of Directors, which determination shall be conclusive and binding on the Corporation and the stockholders, and the date of such determination is referred to herein as the “Request Receipt Date.” A Special Meeting Request shall not be valid if: (1) such request relates to an item of business that is not a matter on which stockholders are authorized to act under, or that involves a violation of, applicable law, (2) such request relates to an item of business that is the same or substantially similar to any item of business that was voted on at a meeting of stockholders occurring within ninety (90) days preceding the earliest dated request for a special meeting, (3) such request does not comply with the requirements of the By-Laws, or (4) such request is received during the period commencing ninety (90) days prior to the first anniversary of the date of the most recent annual meeting of stockholders and ending on the date of the next annual meeting of stockholders.

(D) A stockholder may revoke a Special Meeting Request by delivering a written revocation to the Secretary of the Corporation at any time prior to the Stockholder Requested Special Meeting, but if as a result of such revocation(s), there no longer are unrevoked requests from the Requisite Percent to call a Stockholder Requested Special Meeting, the Board shall have the discretion to determine whether or not to proceed with the Stockholder Requested Special Meeting.

(E) Business and nominations to be transacted at a Stockholder Requested Special Meeting shall be limited to (1) the business stated in the valid Special Meeting Request(s) received from the Requisite Percent of stockholders and (2) any additional business that the Board of directors determines to include in the Corporation’s notice of meeting. In addition to the other requirements set forth in these By-Laws, for nominations and business to be properly brought before a special meeting, the record stockholder and beneficial owner, if any, on whose behalf such proposal or nomination is made, must have acted in accordance with the representations set forth in the Solicitation Statement required by these By-Laws. If none of the stockholders who submitted Special Meeting Request(s) (or their qualified representatives) appears at the Stockholder Requested Special Meeting to present the matter or matters to be brought before the special meeting that were specified in the Special Meeting Request(s), the Corporation need not present the matter or matters for a vote at the meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(F) Any special meeting of stockholders shall be held at such date and time as may be fixed by the Board of Directors in accordance with these By-Laws and Section 213 of the Delaware General Corporation Law (the “DGCL”); provided, however, that a Stockholder Requested Special Meeting shall be called for a date not later than the date that is (1) ninety (90) days after the Request Receipt Date, or (2) fifty (50) days after the date the Corporation files definitive soliciting materials with respect to such meeting pursuant to Schedule 14A under the Exchange Act, whichever is latest.

(G) Only such business shall be conducted at a special meeting of stockholders as shall have been included in the notice of the meeting, which shall describe the purpose for which the meeting is called. Nominations of persons for election to the Board may be made at a special meeting of stockholders at which directors are to be elected (1) by or at the direction of the Board, and (2) in the case of a special meeting other than a Stockholder Requested Special Meeting, or in the case of a special meeting that is a Stockholder Requested Special Meeting if the stockholder wishing to make such nomination did not deliver a Stockholder Meeting Request with respect to such meeting, by such stockholder of record at the time of giving of notice provided for in this paragraph, who shall be entitled to vote at the meeting and who delivers a written notice to the Secretary setting forth the information set forth in Section 1.9 and 1.10 above. Nominations by stockholders of persons for election to the Board may be made at such special meeting of stockholders only if such stockholder of record’s notice required by the preceding sentence shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees otherwise proposed to be elected at such meeting. In no event shall an adjournment, or postponement of a special meeting for which notice has been given, commence a new time period for the giving of a stockholder of record’s notice. A person shall not be eligible for election or reelection as a director at a special meeting unless the person is nominated (i) by or at the direction of the Board or (ii) by a stockholder of record in accordance with the notice procedures set forth in this Section 1.10.

(H) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. The chairman of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these By-Laws and, if any proposed nomination or business is not in compliance with these By-Laws, to declare that such defectively proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

(I) Notwithstanding the foregoing provisions of this Section 1.10, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 1.10. Nothing in this Section 1.10 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation’s proxy statement pursuant to Rule 14a-8 under the Exchange Act.

1.11 Organization. Such person as the Board may have designated or, in the absence of such a person, the Chairman of the Board or, in his or her absence, the President of the Corporation or, in his or her absence, such person as may be chosen by the holders of a majority of the voting power of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as chairman of the meeting. In the absence of the Secretary of the Corporation, the secretary of the meeting shall be such person as the chairman of the meeting appoints.

## 2. BOARD OF DIRECTORS.

2.1 Number, Qualification, Election and Term of Directors. The business of the Corporation shall be managed by the entire Board, which shall consist of such number of directors as shall be determined from time to time by the affirmative vote of a majority of the entire Board. A nominee for director shall be elected (a) where there is an uncontested election, if the votes cast for nominee's election exceed the votes cast against such nominee's election, with any incumbent director who fails to receive such a majority vote obligated to tender his or her resignation, and the Board obligated to decide and state publicly within 90 days whether it has accepted that resignation and the reasons for that decision and (b) where there is a contested election, by a plurality of the votes cast with respect to that director. For purposes of these By-Laws, there shall be a "contested election" where the Secretary of the Corporation receives a notice that a stockholder has nominated a person for election to the Board in compliance with the advance notice requirements for stockholder nominees for director set forth in these By-Laws and such nomination has not been withdrawn by such stockholder on or before the tenth day before the Corporation first mails its notice of meeting for such meeting to the stockholders. Each director elected shall hold office until the next annual meeting of stockholders and until the election and qualification of their respective successors, subject to the provisions of Section 2.9 of these By-Laws. As used in these By-Laws, the term "entire Board" means the total number of authorized directors the Corporation would have if there were no vacancies on the Board.

2.2 Quorum and Manner of Acting. A majority of the entire Board shall constitute a quorum for the transaction of business at any meeting. Action of the Board shall be authorized by the affirmative vote of the majority of the directors present at the meeting, if there is a quorum, unless otherwise required by law, by the Certificate of Incorporation, or by these By-Laws. To the fullest extent permitted by law, in the absence of a quorum, a majority of the directors present may adjourn any meeting from time to time until a quorum is present, without further notice or waiver of notice.

2.3 Place of Meetings. Meetings of the Board may be held in or outside Delaware as determined by the Board from time to time.

2.4 Annual and Regular Meetings. Annual meetings of the Board, for the election of officers and consideration of other matters, shall be held either (a) without notice immediately



after the annual meeting of stockholders and at the same place, or (b) as soon as practicable after the annual meeting of stockholders, on notice as provided in Section 2.6. Regular meetings of the Board may be held without notice at such times and places as the Board determines. If the day fixed for a regular meeting is a legal holiday, the meeting shall be held on the next business day.

2.5 Special Meetings. Special meetings of the Board may be called by the Chairman, the Chief Executive Officer or by any two directors of the Board.

2.6 Notice of Meetings; Waiver of Notice. Notice of the time, date and place of each special meeting of the Board, and of each annual meeting not held immediately after the annual meeting of stockholders and at the same place, shall be given to each director by whom it is not waived by mailing written notice to such director at his or her residence or usual place of business at least three days before the meeting, or by delivering notice by facsimile or other electronic transmission or by telephone at least two days before the meeting. Notice need not be given to any director who submits a waiver of notice before or after the meeting or who attends the meeting without protesting at the beginning of the meeting the transaction of any business because the meeting was not lawfully called or convened. To the fullest extent permitted by law, notice of any adjourned meeting need not be given, other than by announcement at the meeting at which the adjournment is taken.

2.7 Board or Committee Action Without a Meeting. Any action required or permitted to be taken by the Board or by any committee of the Board may be taken without a meeting, if all the members of the Board or the committee consent in writing or by electronic transmission to the adoption of a resolution authorizing the action. The resolution and the consents by the members of the Board or the committee shall be filed with the minutes of the proceedings of the Board or the committee.

2.8 Participation in Board or Committee Meetings by Conference Telephone. Any or all members of the Board or any committee of the Board may participate in a meeting of the Board or the committee by means of a conference telephone or other communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at the meeting.

2.9 Resignation and Removal of Directors. Any director may resign at any time by delivering his or her resignation, in writing or by electronic transmission, to the Chairman, President or Secretary of the Corporation, to take effect at the time specified in the resignation; the acceptance of a resignation, unless required by its terms, shall not be necessary to make it effective. Any or all of the directors may be removed at any time, either with or without cause, by vote of the stockholders.

2.10 Vacancies and Newly Created Directorships. Subject to the rights of the holders of any series of preferred stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board resulting from death, resignation, disqualification, removal from office or other cause shall, unless otherwise required by law or by resolution of the Board, be filled only by a majority vote of the directors then in office, though less than a quorum (and not by stockholders), and directors so chosen shall serve

for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been chosen expires or until such director's successor shall have been duly elected and qualified. No decrease in the authorized number of directors shall shorten the term of any incumbent director.

2.11 Compensation. Directors shall receive such compensation as the Board determines, together with reimbursement of their reasonable expenses in connection with the performance of their duties. A director also may be paid for serving the Corporation or its affiliates or subsidiaries in other capacities.

### 3. COMMITTEES.

3.1 Executive Committee. The Board, by resolution adopted by the affirmative vote of a majority of the entire Board, may designate an executive committee of one or more directors, which shall have all the powers and authority of the Board, except as otherwise provided in the resolution, Section 141(c) of the DGCL or any other applicable law. The members of the executive committee shall serve at the pleasure of the Board.

3.2 Other Committees. The Board, by resolution adopted by the affirmative vote of a majority of the entire Board, may designate other committees of one or more directors, which shall serve at the Board's pleasure and have such powers and duties as the Board determines.

3.3 Rules Applicable to Committees. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In case of the absence or disqualification of any member of a committee, the member or members present at a meeting of the committee and not disqualified, whether or not a quorum, may unanimously appoint another director to act at the meeting in place of the absent or disqualified member. Each committee shall adopt rules of procedure and shall meet as provided by those rules or by resolutions of the Board.

### 4. OFFICERS.

4.1 Number; Security. The officers of the Corporation shall be the Chairman, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Secretary and such other officers as may be appointed from time to time by or in the manner determined by the Board. Any two or more offices may be held by the same person. The Board may require any officer, agent or employee to give security for the faithful performance of his or her duties.

4.2 Election; Term of Office. The officers of the Corporation shall be elected by or in the manner determined by the Board, and each such officer shall hold office until the next annual meeting of the Board and until the election of his or her successor.

4.3 Subordinate Officers. The Board may appoint subordinate officers (including assistant secretaries and assistant treasurers), agents or employees, each of whom shall hold office for such period and have such powers and duties as the Board determines.

4.4 Resignation and Removal of Officers. Any officer may resign at any time by delivering his or her resignation, in writing or by electronic transmission, to the Chairman, President or Secretary of the Corporation, to take effect at the time specified in the resignation; the acceptance of a resignation, unless required by its terms, shall not be necessary to make it effective. Any officer may be removed by or in the manner determined by the Board either with or without cause.

4.5 Vacancies. A vacancy in any office may be filled for the unexpired term in the manner prescribed in Sections 4.2 and 4.3 for election or appointment to the office.

4.6 The Chairman. The Chairman of the Board shall preside over all meetings of the Board at which he or she is present, and shall have such other powers and duties as chairmen of the boards of corporations usually have or the Board assigns to him or her.

4.7 The Chief Executive Officer. Subject to the control of the Board, the Chief Executive Officer of the Corporation shall manage and direct the daily business and affairs of the Corporation and shall communicate to the Board reports, proposals and recommendations for the Board's consideration or action. He or she may do and perform all acts on behalf of the Corporation and shall have such powers and perform such duties as the Board may from time to time prescribe or as may be prescribed in these By-Laws, and in the event of the absence, incapacity or inability to act of the Chairman, then the Chief Executive Officer shall perform the duties and exercise the powers of the Chairman.

4.8 President. The President shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-Laws.

4.9 Chief Operating Officer. The Chief Operating Officer shall have such powers and duties as the Board or the Chairman may from time to time prescribe.

4.10 Chief Financial Officer. The Chief Financial Officer shall have such other powers and duties as the Board or the President may from time to time prescribe.

4.11 The Secretary. The Secretary shall be the Secretary of, and keep the minutes of, all meetings of the Board and the stockholders, shall be responsible for giving notice of all meetings of stockholders and the Board, and shall keep the seal and, when authorized by the Board, apply it to any instrument requiring it. The Secretary shall have such powers and duties as the Board or the President may from time to time prescribe. In the absence of the Secretary from any meeting, the minutes shall be kept by the person appointed for that purpose by the presiding officer.

## 5. SHARES.

5.1 Certificates. Each holder of stock represented by certificates shall be entitled to a certificate signed by, or in the name of the Corporation. Each certificate shall be signed by the Chairman, Chief Executive Officer, President, a Vice President, the Secretary, an Assistant Secretary, the Treasurer, an Assistant Treasurer or any two authorized officers, and shall be sealed with the

Corporation's seal or a facsimile of the seal. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

5.2 Transfers. Upon compliance with provisions restricting the transfer or registration of transfer of shares of capital stock, if any, share of the capital stock of the Corporation may be transferred on the books of the Corporation only by the holder of such shares or by its duly authorized attorney, upon the surrender to the Corporation or its transfer agent of the certificate representing such stock properly endorsed and the payment of taxes due thereon.

5.3 The Board or any transfer agent of the Corporation may direct one or more new certificate(s) representing stock of the Corporation to be issued in place of any certificate or certificates theretofore issued by the Corporation, alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the Board (or any transfer agent of the Corporation authorized to do so by a resolution of the Board) may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or such owner's legal representative, to give the Corporation a bond in such sum as the Board (or any transfer agent so authorized) shall direct to indemnify the Corporation against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, or destroyed or the issuance of such new certificates, and such requirement may be general or confined to specific instances.

5.4 Determination of Stockholders of Record. The Board may fix, in advance, a date as the record date for the determination of stockholders entitled to notice of or to vote at any meeting of the stockholders, or any adjournment thereof, or to express consent to or dissent from any proposal without a meeting, or to receive payment of any dividend or the allotment of any rights, or for the purpose of any other action.

5.5 Regulations. The Board shall have power and authority to make all such rules and regulations as it may deem expedient concerning the issue, transfer, registration, cancellation, and replacement of certificates representing stock of the Corporation.

## 6. INDEMNIFICATION AND INSURANCE.

6.1 Right to Indemnification. Each person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer or employee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action or inaction in an official capacity or in any other capacity while serving as director, officer or employee (any such person, an "indemnatee") shall be indemnified and held harmless by the Corporation to the fullest

extent permitted by the DGCL, as amended from time to time, against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith, and that indemnification shall continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of such person's heirs, executors and administrators; provided, however, that, except as provided in Section 6.2, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by that person, only if that proceeding (or part thereof) was authorized by the Board. In addition to the right to indemnification, the indemnitees above shall have the right to be paid by the Corporation the expenses (including attorney's fees) incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the DGCL requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by that person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced, if it shall ultimately be determined that such director or officer is not entitled to be indemnified under these By-Laws or otherwise. The Corporation may, by action of its Board, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

6.2 Right of Claimant to Bring Suit. If a claim under Section 6.1 is not paid in full by the Corporation within 30 days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant also shall be entitled to be paid the expense of prosecuting that claim to the fullest extent permitted by law. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition, where the required undertaking, if any, is required and has been tendered to the Corporation) that the claimant has failed to meet a standard of conduct that makes it permissible under Delaware law for the Corporation to indemnify the claimant for the amount claimed. Neither the failure of the Corporation (including its Board, its independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he has met that standard of conduct, nor an actual determination by the Corporation (including its Board, its independent counsel or its stockholders) that the claimant has not met that standard of conduct, shall be a defense to the action or create a presumption that the claimant has failed to meet that standard of conduct.

6.3 Non-Exclusivity of Rights. The right to indemnification and the advancement of expenses conferred in this Section 6 shall not be exclusive of any other right any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-Law, agreement, vote of stockholders or disinterested directors or otherwise.

6.4 Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation,

partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against that expense, liability or loss under Delaware law.

6.5 Expenses as a Witness. To the extent any director, officer or employee is by reason of such position, or a position with another entity at the request of the Corporation, a witness in any action, suit or proceeding, such person shall be indemnified against all costs and expenses actually and reasonably incurred by such person or on such person's behalf in connection therewith.

6.6 Indemnity Agreements. The Corporation may enter into agreement with any director, officer, employee or agent of the Corporation providing for indemnification to the fullest extent permitted by Delaware law.

## 7. MISCELLANEOUS.

7.1 Seal. The Board shall adopt a corporate seal, which shall be in the form of as the Board shall determine.

7.2 Fiscal Year. The Board may determine the Corporation's fiscal year. Until changed by the Board, the last day of the Corporation's fiscal year shall be December 31.

7.3 Voting of Shares in Other Entities. Unless the Board otherwise determines, shares in other entities held by the Corporation may be represented and voted by any officer of this Corporation or by a proxy or proxies appointed by an officer.

7.4 Amendments. The Board or the stockholders may adopt, amend and repeal By-Laws of the Corporation as set forth below. Notwithstanding any other provision of these By-Laws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law, these By-Laws or any preferred stock, the affirmative vote of a majority of the outstanding voting power of all of the then-outstanding shares entitled to vote thereon, voting together as a single class, shall be required to adopt, amend or repeal any provision of these By-Laws.

7.5 Electronic Transmission. For purposes of these By-Laws, "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, including the use of, or participation in, 1 or more electronic networks or databases (including 1 or more distributed electronic networks or databases), that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

7.6 Time Periods. In applying any provision of these By-Laws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.



**Certification**

I, William J. Grubbs, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cross Country Healthcare, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ William J. Grubbs

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William J. Grubbs  
President, Chief Executive Officer, Director  
(Principal Executive Officer)



**Certification**

I, Christopher R. Pizzi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cross Country Healthcare, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ Christopher R. Pizzi

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Christopher R. Pizzi  
SVP & Chief Financial Officer (Principal Accounting and Financial Officer)

## CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying Quarterly Report on Form 10-Q of Cross Country Healthcare, Inc. (the Company) for the quarterly period ended June 30, 2018, (the "Periodic Report"), I, William J. Grubbs, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2018

/s/ William J. Grubbs

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William J. Grubbs  
President, Chief Executive Officer, Director  
(Principal Executive Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Cross Country Healthcare, Inc. and will be retained by Cross Country Healthcare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is provided solely for purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act of 2002.

## CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying Quarterly Report on Form 10-Q of Cross Country Healthcare, Inc. (the "Company") for the quarterly period ended June 30, 2018, (the "Periodic Report"), I, Christopher R. Pizzi, SVP & Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2018

/s/ Christopher R. Pizzi

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Christopher R. Pizzi

SVP & Chief Financial Officer (Principal Accounting and Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Cross Country Healthcare, Inc. and will be retained by Cross Country Healthcare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is provided solely for purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act of 2002.