

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2002

or

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

Commission File Number 0-33169



CROSS COUNTRY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

13-4066229
(IRS Employer
Identification Number)

6551 Park of Commerce Blvd, N.W. Suite 200
Boca Raton, Florida
(Address of principal executive offices)

33487
(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 Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /x/ No //

The Registrant had outstanding 32,244,663 shares of Common Stock, par value \$.0001 per share, as of April 30, 2002.

CROSS COUNTRY, INC.

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FORM 10-Q

MARCH 31, 2002

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Cross Country, Inc.
Condensed Consolidated Balance Sheets
(Dollar amounts in thousands)

	March 31, 2002	December 31, 2001
	(Unaudited)	
Current assets:		
Cash	\$ 868	\$ 2,736
Accounts receivable, net	95,276	87,415
Assets from discontinued operations, net	4,851	3,948
Other current assets	13,514	14,996
	114,509	109,095
Total current assets	114,509	109,095
Property and equipment, net	9,182	8,037
Goodwill, net	225,354	218,749
Trademarks, net	15,749	15,399
Other identifiable intangible assets, net	9,159	9,308
Other assets	1,428	1,392
	375,381	361,980
Total assets	\$ 375,381	\$ 361,980
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,328	\$ 3,172
Accrued employee compensation and benefits	30,921	26,930
Current portion of long-term debt	6,058	2,425
Note payable	820	1,365
Liabilities from discontinued operations	163	174
Income taxes payable	2,651	—
Other current liabilities	2,979	1,832
	47,920	35,898
Total current liabilities	47,920	35,898
Interest rate swap	1,919	2,509
Deferred income taxes	8,800	8,570
Long-term debt	39,192	45,076
	97,831	92,053
Total liabilities	97,831	92,053
Commitments and contingencies		
Stockholders' equity:		
Common stock	3	3
Additional paid-in capital	258,408	258,152

Other stockholder's equity	19,139	11,772
Total stockholders' equity	277,550	269,927
Total liabilities and stockholders' equity	\$ 375,381	\$ 361,980

See accompanying notes to the condensed consolidated financial statements

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Cross Country, Inc.
Condensed Consolidated Statement of Operations
(Unaudited, amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2002	2001
Revenue from services	\$ 154,861	\$ 103,872
Operating expenses:		
Direct operating expenses	117,156	79,002
Selling, general and administrative expenses	21,766	13,993
Bad debt expense	285	420
Depreciation	695	505
Amortization	770	3,546
Non-recurring secondary offering costs	1,008	—
Total operating expenses	141,680	97,466
Income from operations	13,181	6,406
Other expenses:		
Interest expense, net	1,147	4,008
Income before income taxes and discontinued operations	12,034	2,398
Income tax expense	(4,799)	(1,181)
Income before discontinued operations	7,235	1,217
Discontinued operations	(238)	(1,208)
Net income	\$ 6,997	\$ 9
Net income/(loss) per common share—basic:		
Income before discontinued operations	\$ 0.23	\$ 0.05
Discontinued operations	(0.01)	(0.05)
Net income	\$ 0.22	\$ 0.00
Net income/(loss) per common share—diluted:		
Income before discontinued operations	\$ 0.22	\$ 0.05
Discontinued operations	(0.01)	(0.05)
Net income	\$ 0.21	\$ 0.00
Weighted average common shares outstanding-basic	32,231	23,205
Weighted average common shares outstanding-diluted	33,995	23,205

See accompanying notes to the condensed consolidated financial statements.

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Cross Country, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, amounts in thousands)

Three Months Ended

March 31,

	2002	2001
Operating activities		
Net income	\$ 6,997	\$ 9
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	770	3,546
Depreciation	695	505
Bad debt expense	285	420
Cumulative interest due at maturity	—	1,033
Estimated loss of disposal of discontinued operations	—	623
Changes in operating assets and liabilities:		
Accounts receivable	(4,547)	(695)
Prepaid rent, deposits, and other current assets	1,927	(229)
Accounts payable and accrued expenses	4,156	(1,916)
Net assets/liabilities from discontinued operations	(913)	552
Other current liabilities	4,368	738
Net cash provided by operating activities	13,738	4,586
Investing activities		
Acquisitions	(11,000)	(31,394)
Purchase of property and equipment	(1,685)	(820)
Other investing activities	(3)	32
Net cash used in investing activities	(12,688)	(32,182)
Financing activities		
Repayment of debt	(26,353)	(14,922)
Proceeds from issuance of debt	23,750	43,500
Repayment of note payable	(546)	—
Other financing activities	231	(982)
Net cash (used in) provided by financing activities	(2,918)	27,596
Change in cash	(1,868)	—
Cash at beginning of period	2,736	—
Cash at end of period	\$ 868	\$ —

See accompanying notes to the condensed consolidated financial statements

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

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of Cross Country, Inc. and its wholly-owned direct and indirect subsidiaries (the "Company"). All material intercompany transactions and balances have been eliminated in consolidation. 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These operating results are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2002. The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2001 included in the Company's Form 10-K as filed with the Securities and Exchange Commission.

2. RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the current period's presentation.

3. EARNINGS PER SHARE

In accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 128, *Earnings Per Share*, basic earnings per share is computed by dividing net income or loss by the weighted average number of shares outstanding and diluted earnings per share reflects the dilutive effects of stock options (as calculated utilizing the treasury stock method). Certain shares of common stock that are issuable upon the exercise of options have been excluded

from the per share calculation because their effect would have been anti-dilutive. Such shares amounted to 38,475 and 3,102,092 at March 31, 2002, and March 31, 2001, respectively. Incremental shares of common stock included in the diluted weighted average shares outstanding calculation for the three months ended March 31, 2002, and March 31, 2001 were 1,763,310, and 0, respectively.

4. GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board issued FASB Statement No. 141, *Business Combinations*, and FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FASB Statement No. 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated before July 1, 2001. The Company adopted the provisions of FASB Statement No. 141 as of January 1, 2002.

FASB Statement No. 142 further clarifies the criteria to recognize intangible assets separately from goodwill and promulgates that goodwill and certain intangible assets not be amortized. Instead, these assets will be reviewed for impairment annually with any related losses recognized in earnings when incurred. The Company adopted the provisions of FASB Statement No. 142 as of January 1, 2002. The Company completed the transitional impairment test of goodwill and indefinite lived intangible assets during the first quarter of 2001. Based on the results of this test, the Company determined that there was no impairment of goodwill or indefinite lived intangible assets as of January 1, 2002.

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As of March 31, 2002 and December 31, 2001, the Company had the following acquired intangible assets:

	March 31, 2002			December 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Unaudited, amounts in thousands)			(Amounts in thousands)		
Intangible assets subject to amortization:						
Database	\$ 11,445	\$ 5,959	\$ 5,486	\$ 11,350	\$ 5,382	\$ 5,968
Hospital relations	3,989	612	3,377	3,820	549	3,271
Non-compete agreements	503	207	296	253	184	69
Total	\$ 15,937	\$ 6,778	\$ 9,159	\$ 15,423	\$ 6,115	\$ 9,308
Intangible assets not subject to amortization:						
Goodwill	\$ 246,227	\$ 20,873	\$ 225,354	\$ 239,622	\$ 20,873	\$ 218,749
Trademarks	17,150	1,401	15,749	16,800	1,401	15,399
Total	\$ 263,377	\$ 22,274	\$ 241,103	\$ 256,422	\$ 22,274	\$ 234,148

Aggregate amortization expense for intangible assets subject to amortization was \$0.7 million for the three months ended March 31, 2002 and March 31, 2001. Estimated annual amortization for the years ended December 31, 2002 through December 31, 2006 is \$2.7 million, \$2.6 million, \$0.9 million, \$0.8 million, and \$0.7 million, respectively.

As of March 31, 2002 and December 31, 2001, the Company had unamortized goodwill of \$225.4 million and \$218.7 million, respectively. The changes in the carrying amount of goodwill by segment for the three months ended March 31, 2002, are as follows:

	Healthcare Staffing Segment	Other Human Capital Management Services Segment	Total
	(Unaudited, amounts in thousands)		
Balance as of January 1, 2002	\$ 200,873	\$ 17,876	\$ 218,749
Goodwill acquired	4,494	611	5,105
Earnout paid to Heritage	—	1,500	1,500
Balance as of March 31, 2002	\$ 205,367	\$ 19,987	\$ 225,354

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The following reconciliation adjusts net income for amortization expense related to goodwill that is no longer amortized under the provisions of FASB Statement No. 142:

Three Months Ended

March 31, 2001

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

Net income	\$	9
Goodwill amortization, net of tax		1,608
Trademark amortization, net of tax		150
Adjusted net income	\$	1,767
Basic and diluted earnings per share:		
Net income	\$	0.00
Goodwill amortization		0.07
Trademark amortization		0.01
Adjusted net income	\$	0.08

5. ACQUISITIONS

In January 2002, the Company acquired substantially all of the assets of NovaPro, the healthcare staffing division of HRLLogic Holdings, Inc., a professional employer organization, for approximately \$7.1 million in cash and a post-closing adjustment of approximately \$0.5 million. Approximately \$4.5 million was allocated to goodwill, which is not subject to amortization under the provisions of FASB Statement No. 142. NovaPro targets nurses seeking more customized benefits packages.

In March 2002, the Company acquired all of the outstanding stock of Jennings, Ryan & Kolb, Inc. (JRK), a healthcare management consulting company, for approximately \$1.8 million in cash and the assumption of \$0.3 million in debt. In addition, the agreement provides for potential earnout payments of approximately \$1.8 million. Approximately \$0.6 million was allocated to goodwill which is not subject to amortization under the provisions of FASB Statement No. 142. Both acquisitions were accounted for in accordance with FASB Statement No. 141 and, accordingly, their results of operations have been included in the condensed consolidated statement of operations from their respective dates of acquisition.

6. DISPOSAL OF BUSINESS

In August 2001, the Financial Accounting Standards Board issued FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. The Company adopted the provisions of FASB Statement No. 144 as of January 1, 2002.

In March 2002, the Company committed itself to a formal plan to dispose of its subsidiary, E-Staff, Inc. (E-Staff), through a sale of this business in 2002. E-Staff was previously included in the Company's other human capital management services segment. E-Staff is an application service provider that has developed an internet subscription based communication, scheduling, credentialing and training service business for healthcare providers. The Company is not a software vendor, and prospective E-Staff clients were concerned about the risk of placing their health care employees names and credentials on servers owned or controlled by one of the nation's largest health care staffing companies. Therefore,

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the Company has decided to sell this subsidiary. Pursuant to FASB Statement No. 144, the condensed consolidated financial statements of the Company have been reclassified to reflect the discontinuance of E-Staff. Accordingly the revenue, costs and expenses, assets and liabilities of E-Staff have been segregated and reported as discontinued operations in the accompanying condensed consolidated balances sheets and statements of operations.

Discontinued operations during the three months ended March 31, 2001 included E-Staff results as well as HospitalHub. E-Staff operations generated a loss of \$0.1 million for the three months ended March 31, 2001. HospitalHub, which was discontinued in December 2000, was sold in the second quarter of 2001. At that time, under APB Opinion No. 30, *Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, an estimated loss from the sale was recorded. During the three months ended March 31, 2001, the Company recorded \$1.1 million of additional estimated losses on the sale of HospitalHub.

7. NON-RECURRING SECONDARY OFFERING COSTS

In March 2002, the Company filed a registration statement with the Securities and Exchange Commission for the sale of 9,000,000 shares of common stock by existing shareholders. Additionally, the underwriters exercised the over-allotment option to purchase 700,000 shares from the selling stockholders. The Company did not receive any of the proceeds from the sale of these shares. Estimated costs associated with this secondary offering have been expensed as non-recurring secondary offering costs and approximated \$1.0 million, pretax, for the three months ended March 31, 2002.

8. COMPREHENSIVE INCOME

The Company has adopted FASB Statement No. 130, *Comprehensive Income*, which requires that an enterprise: 1) classify items of other comprehensive income by their nature in the financial statements; and b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The items of other comprehensive income that are typically required to be displayed are foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. The Company recorded the fair value of the interest rate swap transaction, which resulted in an increase in consolidated stockholder's equity of approximately \$0.4 million and a decrease in consolidated stockholder's equity of approximately \$0.9 million at March 31, 2002 and March 31, 2001, respectively. There are no other components of comprehensive income or loss other than the Company's consolidated net income and the accumulated derivative loss during the three months ended March 31, 2002 and March 31, 2001.

9. INTEREST RATE SWAP

The Company is party to an interest rate swap agreement which effectively fixes the interest rate paid on \$45.0 million of borrowings under our credit facility at 6.71%, effective January 1, 2001, plus the applicable margin. The swap matures in February 2003. In accordance with FASB Statement No. 133, the Company has recorded the fair value of this instrument as a liability of \$1.9 million and \$2.5 million, on the condensed consolidated balance sheets, at March 31, 2002 and December 31, 2001, respectively.

10. DEBT

The Company's debt is comprised of a revolving credit facility of up to \$30.0 million, including a swing-line sub-facility of \$7.0 million and a letter of credit sub-facility of \$10.0 million, and a \$45.0 million term loan facility. The revolving credit facility matures on July 29, 2005 and the term loan

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facility has staggered maturities in 2002 through 2005. The unused credit facility balance as of March 31, 2002 was \$23.7 million.

11. SEGMENT DATA

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

	Three Months Ended March 31,	
	2002	2001
(Unaudited, amounts in thousands)		
Revenue from services:		
Healthcare Staffing	\$ 143,634	\$ 96,269
Other Human Capital Management Services	11,227	7,603
	<u>\$ 154,861</u>	<u>\$ 103,872</u>
Contribution income:		
Healthcare Staffing	\$ 20,550	\$ 14,309
Other Human Capital Management Services	1,534	1,392
Unallocated corporate overhead	(6,430)	(5,244)
	<u>15,654</u>	<u>10,457</u>
EBITDA	15,654	10,457
Interest expense	1,147	4,008
Depreciation and amortization	1,465	4,051
Non-recurring secondary offering costs	1,008	—
	<u>12,034</u>	<u>2,398</u>
Income before income taxes and discontinued operations	\$ 12,034	\$ 2,398

Contribution income is defined as earnings before interest, taxes, depreciation, amortization and expenses not specifically identified to a reporting segment. EBITDA is defined as income before interest, income taxes, depreciation, amortization and non-recurring secondary offering costs. EBITDA and contribution income are not measures of financial performance under generally accepted accounting principles and are used by management when assessing segment performance.

12. CONTINGENCIES

The Company is liable for contingent payments of approximately \$12.0 million relating to its acquisitions of E-Staff, Heritage, Gill/Balsano, and JRK. Each of these contingent payments are either based on profitability measures as defined by their respective purchase agreements (earnout payments), or a development milestone. Upon payment, the amounts will be allocated to goodwill as additional purchase price. During the three months ended March 31, 2002, the Company paid \$1.5 million in earnout payments for Heritage in accordance with its purchase agreement. Additionally, the Company paid \$0.5 million to the seller of E-Staff based on a defined development milestone which was achieved, in accordance with its purchase agreement, during the three months ended March 31, 2002. This amount is included in assets from discontinued operations, net, at March 31, 2002.

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the outcome of these matters will not have a significant effect on the Company's consolidated financial position or results of operations.

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

The Company's condensed consolidated financial statements present a consolidation of all its operations. 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 Form 10K as filed for the year ended December 31, 2001 and is intended to assist the reader in understanding the financial results and condition of the Company.

The following table summarizes, for the periods indicated, selected statement of operations data expressed as a percentage of revenues:

	Three Months Ended March 31,	
	2002	2001
Revenue from services	100.0%	100.0%
Direct operating expenses	75.6	76.0
Selling, general and administrative expenses	14.1	13.5
Bad debt expense	0.2	0.4
EBITDA (a)	10.1	10.1
Depreciation & amortization	0.9	3.9
Non-recurring secondary offering costs	0.7	0.0
Income from operations	8.5	6.2
Interest expense, net	0.7	3.9
Income before income taxes and discontinued operations	7.8	2.3
Income tax expense	(3.1)	(1.1)
Income before discontinued operations	4.7	1.2
Discontinued operations	(0.2)	(1.2)
Net income	4.5%	0.0%

- (a) We define EBITDA as income before interest, income taxes, depreciation, amortization and non-recurring secondary offering costs. EBITDA should not be considered a measure of financial performance under generally accepted accounting principles. Items excluded from EBITDA are significant components in understanding and assessing financial performance. EBITDA is a key measure used by management to evaluate our operations and provide useful information to investors. EBITDA should not be considered in isolation or as an alternative to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the condensed consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculation, EBITDA as presented may not be comparable to other similarly titled measures of other companies.

SEGMENT INFORMATION

	Three Months Ended March 31,	
	2002	2001
(Unaudited, amounts in thousands)		
Revenue from services:		
Healthcare Staffing	\$ 143,634	\$ 96,269
Other Human Capital Management Services	11,227	7,603
	\$ 154,861	\$ 103,872
Contribution income (a):		
Healthcare Staffing	\$ 20,550	\$ 14,309
Other Human Capital Management Services	1,534	1,392
Unallocated corporate overhead	(6,430)	(5,244)
EBITDA	\$ 15,654	\$ 10,457

- (a) We define contribution income as earning before interest, income taxes, depreciation, amortization and expenses not specifically identified to a reporting segment. Contribution income is not a measure of financial performance under generally accepted accounting principles and is only used by management when assessing segment performance.

RESULTS OF OPERATIONS—Three months ended March 31, 2002 compared to three months ended March 31, 2001

REVENUE FROM SERVICES increased \$51.0 million or 49.1% to \$154.9 million for the three months ended March 31, 2002 as compared to \$103.9 million for the three months ended March 31, 2001. Approximately 73% of the revenue growth was organic with the remainder coming from acquisitions. Revenue from ClinForce, NovaPro, Inc. (NovaPro) and Jennings Ryan & Kolb, Inc. (JRK) which were acquired in March 2001, January 2002, and March 2002, respectively, totaled \$15.4 million for the three months ended March 31, 2002 and \$1.5 million for the three months ended March 31, 2001. Excluding the effects of these acquisitions, revenue increased \$37.1 million, or 36.3%. This increase is primarily from the organic growth in our healthcare staffing business segment.

Revenue from our healthcare staffing business segment for the three months ended March 31, 2002 totaled \$143.6 million as compared to \$96.3 million for the three months ended March 31, 2001. Approximately 74% of the revenue growth was organic with the remainder coming from acquisitions. Revenue from the Clinforce and NovaPro acquisitions, totaled \$13.9 million and \$1.5 million for the three months ended March 31, 2002 and March 31, 2001, respectively. Excluding the effects of these acquisitions, revenue increased \$35.0 million or 36.9%. This increase is primarily due to an increase in the average number of travel nursing and travel allied health field employees contributing \$18 million, an increase in the average hourly bill rate, contributing \$16 million, and the remainder due to a higher staffing contract mix. The average number of FTEs on contract increased 30% from the prior year. The average hourly bill rate increased primarily as a result of bill rate increases and, to a lesser extent, an increase in the percentage of nurses working under staffing rather than mobile contracts. Staffing contracts, where the traveler is on our payroll, accounted for 99% of our volume in the first quarter of 2002, up one percentage point versus the prior year. For the three months ended March 31, 2002,

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86.3% of healthcare staffing revenue was generated by nurse staffing operations and 13.7% was generated by other operations. For the three month period ending March 31, 2001, 90.8% of healthcare staffing revenue was generated from nursing operations and 9.2% was generated by other operations. This shift is primarily a result of the Company's expansion of healthcare staffing services into the clinical trials sector through its acquisition of Clinforce.

Revenue from other human capital management services increased \$3.6 million, or 47.7%, for the three months ended March 31, 2002 compared to the three months ended March 31, 2001. Excluding revenue from the JRK and Gil Balsano acquisitions, other human capital management services revenue increased \$2.1 million or 27.9% for the three month period ending March 31, 2002 compared to the three month period ending March 31, 2001, reflecting increased business in educational and consulting services. The number of seminars conducted in 2002 increased approximately 20%.

DIRECT OPERATING EXPENSES are comprised primarily of field employee compensation expenses, housing expenses, travel expenses and field insurance expenses. Direct operating expenses totaled \$117.2 million for the three months ended March 31, 2002 as compared to \$79.0 million for the three months ended March 31, 2001. As a percentage of revenue, direct operating expenses represented 75.6% of revenue for the three months ended March 31, 2002 as compared to 76.0% of revenue for the three months ended March 31, 2001. The decrease in direct operating expenses as a percent of revenue was mostly attributable to the lower direct operating expenses as a percent of revenue from the ClinForce acquisition.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES totaled \$21.8 million for the three months ended March 31, 2002 as compared to \$14.0 million for the three months ended March 31, 2001. As a percentage of revenue, selling, general and administrative expenses were 14.1% and 13.5% for the three months ended March 31, 2002 and 2001, respectively. This increase is primarily due to our acquisitions of Clinforce, NovaPro and JRK which, due to the nature of the businesses, operate with higher selling, general and administrative costs as a percentage of revenue. Excluding the effect of acquisitions, selling, general and administrative expenses decreased as a percentage of revenues by approximately 0.6%.

BAD DEBT EXPENSE totaled \$0.3 million for the three months ended March 31, 2002 as compared to \$0.4 million for the three months ended March 31, 2001. As a percentage of revenue, bad debt expense represented 0.2% of revenue for the three months ended March 31, 2002 as compared with 0.4% for the three months ended March 31, 2001.

EBITDA, as a result of the above, totaled \$15.7 million for the three months ended March 31, 2002 as compared to \$10.5 million for the three months ended March 31, 2001. As a percentage of revenue, EBITDA represented 10.1% of revenue for the three months ended March 31, 2002 and 2001.

DEPRECIATION AND AMORTIZATION EXPENSE totaled \$1.5 million for the three months ended March 31, 2002 as compared to \$4.1 million for the three months ended March 31, 2001. As a percentage of revenue, depreciation and amortization expense declined to 0.9% of revenue for the three months ended March 31, 2002 as compared to 3.9% for the three months ended March 31, 2001. This decrease was primarily due to a decrease in amortization of intangibles due to the adoption of FASB Statement No. 142 and the writeoff of \$6.4 million of debt issuance costs in October 2001. We adopted FASB Statement No. 142 in January 2002. The accounting standard promulgates that goodwill and certain intangible assets, that have indefinite lives should not be amortized. Instead, goodwill and certain intangible assets are reviewed annually, for impairment. During the first quarter of 2002, we determined that no impairment charges were necessary as of January 1, 2002 or for the three months ended March 31, 2002.

NON-RECURRING SECONDARY OFFERING COSTS for the three months ended March 31, 2002 were \$1.0 million, all relating to estimated expenses incurred as a result of our secondary offering in

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March 2002. We did not receive any proceeds in this offering and accordingly, did not capitalize any of the associated expenses.

NET INTEREST EXPENSE totaled \$1.1 million for the three months ended March 31, 2002 as compared to \$4.0 million for the three months ended March 31, 2001. This decrease was primarily due to our repayment of \$134.5 in debt using the proceeds from our initial public offering in October 2001. Additionally, our effective interest rate on debt decreased from 9.86% for the three months ended March 31, 2001 to 9.68% for the three months ended March 31, 2002.

INCOME TAX EXPENSE totaled \$4.8 million for the three months ended March 31, 2002 as compared to \$1.2 million for the three months ended March 31, 2001. The effective tax rate was 39.9% for the three months ended March 31, 2002 compared with 49.3% for the three month period ended March 31, 2001.

The tax rate has been impacted by our adoption of FASB Statement No. 142. Certain non-tax deductible intangible assets which were being amortized during the three months ended March 31, 2001 were not amortized during the three months ended March 31, 2002. The tax treatment of these intangible assets remained the same. Accordingly, the effective tax rate is lower in the first quarter of 2002.

DISCONTINUED OPERATIONS for the three months ended March 31, 2002 generated a loss of \$0.2 million. This included the results of our operations relating to the development of our E-Staff technology, a web-enabling scheduling business. Effective March 31, 2002, we made the decision to pursue a sale of this business. Accordingly, the Company has adopted FASB Statement No. 144. Pursuant to FASB Statement No. 144, the condensed consolidated financial statements have been reclassified to reflect the discontinuance of E-Staff.

Discontinued operations during the three months ended March 31, 2001 included the E-Staff results as well as HospitalHub. E-Staff operations generated a loss of \$0.1 million. HospitalHub, which was discontinued in December 2000, was sold in the second quarter of 2001. At that time, under APB Opinion No. 30, *Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, an estimated loss from the sale was recorded. During the three months ended March 31, 2001, we recorded \$1.1 million of additional estimated losses on the sale of HospitalHub.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, we had a current ratio, the amount of current assets divided by current liabilities, of 2.4. Working capital decreased \$6.6 million. The decrease in working capital was primarily attributable to an increase in accounts payable and accrued expenses and was partially offset by an increase in accounts receivable. The increase in accounts payable and accrued expenses was due to timing of payroll cycles. Although accounts receivable increased, days sales outstanding decreased to 56 days from 64 days at December 31, 2001. This improvement was due to improved collections and a higher accounts receivable balance at year end.

Cash provided by operating activities for the three months ended March 31, 2002 increased \$9.1 million to \$13.7 million compared to \$4.6 million for the three months ended March 31, 2001. This increase is primarily due to an increase in net income before non-cash charges and a decrease in working capital as described above.

Investing activities totaled \$12.7 million for the three months ended March 31, 2002, primarily attributable to the current year acquisitions. NovaPro and JRK were acquired in the three months ended March 31, 2002 using cash of \$9.5 million. The remainder of cash used was for earnout payments relating to previous acquisitions.

Net cash used in financing activities for the three months ending March 31, 2002 totaled \$2.9 million, primarily used to repay borrowings with cash generated by operations. Net cash provided by financing

activities for the three months ended March 31, 2001 totaled \$27.6 million and was primarily from net proceeds from the issuance of debt.

Operating cash flows have been our primary source of liquidity and historically have been sufficient to fund our working capital, capital expenditures, and internal business expansion and debt service. We believe that our capital resources are sufficient to meet our working capital requirements for the next twelve months. We expect to meet our future working capital, capital expenditure, internal business expansion, and debt service from a combination of operating cash flows and funds available under the credit facility.

Our credit facility is provided by a lending syndicate. It is comprised of (i) a revolving credit facility of up to \$30.0 million, including a swing-line sub-facility of \$7.0 million and a letter of credit sub-facility of \$10.0 million, and (ii) a \$45.0 million term loan facility. The terms of the amended credit facility include customary covenants and events of defaults. The revolving facility matures on July 29, 2005 and the term loan facility has staggered maturities in 2001 through 2005.

Borrowings under the amended credit facility bear interest at variable rates based, at our option, on LIBOR or the prime rate plus various applicable margins, which are determined by the amended credit facility. As of March 31, 2002, the weighted average effective interest rate under the amended credit facility was 9.09%. We are required to pay a quarterly commitment fee at a rate of 0.50% per annum on unused commitments under the revolving loan facility. As of March 31, 2002 we had availability under our revolving credit facility of \$23.7 million.

CRITICAL ACCOUNTING PRINCIPLES AND ESTIMATES

In response to the SEC's Release Numbers 33-8040 "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" and 33-8056, "Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations," we have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements. The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to asset impairment, accruals for self-insurance and compensation and related benefits, revenue recognition, allowance for doubtful accounts, and contingencies and litigation. We state these accounting policies in the notes to the audited consolidated financial statements and related notes for the year ended December 31, 2001, contained in our Annual Report of Form 10-K as filed with the Securities and Exchange Commission and in relevant sections in this discussion and analysis. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements:

- We have recorded goodwill and intangibles resulting from our acquisitions through March 31, 2002. Through December 31, 2001, goodwill and other intangibles were amortized on a straight-line basis over their lives of 4.5 to 25 years. Upon the adoption of FASB Statement No. 142 on January 1, 2002, we ceased amortizing goodwill and have performed an annual impairment analysis to assess the recoverability of the goodwill, in accordance with the provisions of FASB Statement No. 142. The results of the analysis indicated no impairment of goodwill or other indefinite lived intangible assets. If we are required to record an impairment charge in the future, it would have an adverse impact on our results of operations.

- We maintain an accrual for our health, workers compensation and professional liability that are partially self-insured and are classified in accrued employee compensation and benefits in our condensed consolidated balance sheets. We determine the adequacy of these accruals by periodically evaluating our historical experience and trends related to health, workers compensation, and professional liability claims and payments, based on actuarial computations and industry experience and trends. If such information indicates that our accruals are overstated or understated, we will adjust the assumptions utilized in our methodologies and reduce or provide for additional accruals as appropriate.
- 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 are subject to various claims and legal actions in the ordinary course of our business. Some of these matters include professional liability and employee-related matters. Our hospital and healthcare facility clients may also become subject to claims, governmental inquiries and investigations and legal actions to which we may become a party relating to services provided by our professionals. From time to time, and depending upon the particular facts and circumstances, we may be subject to indemnification obligations under our contracts with our hospital and healthcare facility clients relating to these matters. Although we are currently not aware of any such pending or threatened litigation that we believe is reasonable likely to have a material adverse effect on us, if we become aware of such claims against us, we will evaluate the probability of an adverse outcome and provide accruals for such contingencies as necessary.

INTEREST RATE SWAP

We are exposed to interest rate changes, primarily as a result of our credit facility, which bears interest based on floating rates. We are party to an interest rate swap agreement which effectively fixes the interest rate paid on \$45.0 million of borrowings under our credit facility at 6.71%, effective January 1, 2001, plus the applicable margin. The swap matures in February 2003. In accordance with FASB Statement No. 133, the Company has recorded the fair value of this instrument, as a liability of \$1.9 million, separately stated on the condensed consolidated balance sheets.

INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

This Form 10-Q includes forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," and similar expressions are 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 the following our ability to attract and retain qualified nurses and other healthcare personnel, costs and availability of short-term leases for our travel nurses, 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 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, the effect of liabilities and other claims asserted against us, the effect of competition in the markets we serve, and other factors set forth under the caption "RISK FACTORS" in the Company's Annual Report on Form 10-K filed for the year ended December 31, 2001.

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Although we believe that these statements are based upon reasonable assumptions, we cannot guarantee future results. Given these uncertainties, the forward-looking statements discussed in this Form 10-Q might not occur. The Company does not have a policy of updating or revising forward-looking statements, and thus it should not be assumed that our silence over time means that actual events are occurring as expressed or implied in such forward-looking statements.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risks

There have been no material changes in the reported market risks since the filing of the Company's Annual Report on Form 10K for the year ended December 31, 2001.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- See Exhibit Index immediately following signature pages
- Form 8-Ks have been filed pursuant to Item 5, Other Events and Regulation FD disclosures, on the following dates: January 4, 2002, February 21, 2002, March 1, 2002, March 13, 2002, and March 26, 2002.

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SIGNATURES

As of April 16, 2001

Mr. Kevin P. Conlin
491 Rosslare Drive
St. Charles, MO 63304

Dear Kevin:

Cross Country, Inc., a Delaware corporation, (the "Company") hereby agrees to employ you, and you hereby agree to accept such employment under the following terms and conditions:

1. *Term of Employment.* Except for earlier termination as provided in Section 9 below, your employment under this Agreement shall be for a term commencing on the date hereof and terminating on December 31, 2003 (the "Term"). On December 31, 2002, and on each December 31 thereafter, the Term of this Agreement shall automatically be extended for an additional 12 months, unless either you or the Company notify the other party at least 30 days prior to such date that the Term shall not be extended.

2. *Compensation.* You shall be compensated for all services rendered by you under this Agreement as follows:

(a) You will receive a base salary at the rate of \$225,000 per annum, (such salary, as it may from time to time be increased, is hereinafter referred to as the "Base Salary"), payable in such manner as is consistent with the Company's payroll practices. At the discretion of the Chief Executive Officer, along with the Board of Directors, your performance shall be reviewed at each anniversary of your employment, taking into account the earnings of the Company during the prior year, and the Company's economic prospects for the coming year, and consideration will be given as to whether to increase the Base Salary payable to you hereunder.

(b) You will be eligible for an annual bonus program which shall provide you with a target bonus opportunity of not less than 100% of your annual Base Salary, subject to the attainment of mutually agreed upon performance targets. Such targets will primarily focus on the performance of the consulting division of the Company (the "Consulting Division"), but may also include targets for overall corporate profitability. For 2001, your performance targets are set forth on Schedule A attached hereto.

(c) On your first day of employment, you will receive an option grant under the Company's Equity Participation Plan ("EPP") to purchase 16,000 shares of the Company's Class A common stock. The prices of the shares subject to this option will vary. The lowest option price will be determined based on a formula used in all previous grants, which is based on the Company's earnings before interest, taxes, depreciation and amortization. Your EPP option grants will vest pursuant to the terms of the EPP.

3. *Duties.*

(a) You shall serve as President of the Consulting Division subject to the direction and control of the Board of Directors of the Company. In your capacity as President of the Consulting Division, you shall have such duties, responsibilities and authority as shall be reasonably assigned to you by the president of the Company. You shall diligently and faithfully perform all duties assigned to the best of your abilities in a professional manner.

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(b) You shall devote your full business time, energies and attention to the business and affairs of the Company and its subsidiaries. You agree that you will not hold any concurrent employment or business positions without the prior express written consent of the Company.

(c) You shall, except as otherwise provided herein, be subject to the Company's rules, practices and policies applicable to the Company's employees.

4. *Benefits.*

(a) You shall be eligible to participate in any and all plans and programs maintained by the Company from time to time that provide benefits for its senior executives and its salaried employees generally, including, without limitation, pension, profit sharing or other retirement plans, any life, accident, medical, hospital or similar group insurance program, personal leave, sick leave, vacation leave, holiday leave and any other fringe benefit plan or program, subject to the normal terms and conditions of such plans, including any residency requirements. The foregoing, however, shall not be construed to require the Company or the Consulting Division to establish any benefit plans or to prevent the Company or the Consulting Division from modifying or terminating any such plans, and no such action or failure thereof shall affect this Agreement.

(b) The compensation set forth in Section 2 and the benefits set forth in Section 4(a) (collectively, "Compensation and Benefits") shall be the full consideration for the services to be rendered by you to the Company hereunder. The Company shall deduct or cause to be deducted from your Compensation and Benefits all taxes and amounts required by law to be withheld.

5. *Expenses.* The Company will reimburse you for reasonable expenses, including travel expenses, meals and lodging incurred by you in connection with the business of the Company upon the presentation by you to the Chief Financial Officer of the Company of appropriate substantiation for such expenses.

6. *Restrictive Covenants.*

(a) During such time as you shall be employed by the Company, and (subject to the further provisions of this sentence) for a period of two years thereafter, you shall not, without the written consent of the President of the Company, directly or indirectly become associated with, render services to, invest in, represent, advise or otherwise participate as an officer, employee, director, stockholder, member, partner, agent or consultant for, any business in the United States which

is competitive with the business in which the Company and its subsidiaries (collectively, the "Company Group") was engaged during your employment and at the time your employment with the Company Group ceases; *provided, however*, that: (1) nothing herein shall prevent you from acquiring up to 5% of the securities of any company listed on a national securities exchange or quoted on the NASDAQ quotation system, provided your involvement with any such company is solely that of a stockholder; and (2) if your employment hereunder shall be terminated during the Term by you with Good Reason (as defined below) or by the Company without Just Cause (as defined below), then the foregoing noncompetition agreement shall only be effective provided (A) the Company so elects and (B) the Company pays to you during a twelve-month period after such termination your monthly Base Salary in effect at the time of termination (the "Total Payment"). The Company's obligation to make such Total Payment shall be offset by any payment made by the Company to you pursuant to Sections 9(d), 9(e) or 9(f) hereof. The Company shall provide you written notice of the exercise of its rights pursuant to clause (2) of the immediately preceding sentence within thirty (30) days of the date of the termination of your employment and shall be obligated to make such twelve-month Total Payment if the Company exercises its rights, or shall be deemed to have irrevocably waived such rights, and you shall not be subject to the non-competition covenant in this Section 6(a).

(b) Nothing in paragraph 6(a) above shall be construed to prevent you from becoming an employee of or consultant for a hospital or health system following your termination of employment, including

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any of its related entities (other than a consulting business in which a hospital or health system is a stockholder, owner or member), whether or not such hospital, health system or related entity engages in the same types of services that are provided commercially by the Company and its subsidiaries. You acknowledge that should you become employed by a hospital or health system or related entity as a result of that entity's relationship with the Company, the Company may seek to impose a recruiting fee on such entity at the then prevailing market rates for an executive of your level.

(c) The parties hereto intend that the covenant contained in this Section 6 shall be deemed a series of separate covenants for each country, state, county and city in which the Company's business is conducted. If, in any judicial proceeding, a court shall refuse to enforce all the separate covenants deemed included in this Section 6 because, taken together, they cover too extensive a geographic area, the parties intend that those of such covenants (taken in order of the countries, states, counties and cities therein which are least populous) which if eliminated would permit the remaining separate covenants to be enforced in such proceeding shall, for the purpose of such proceeding, be deemed eliminated from the provisions of this Section 6.

7. Confidentiality, Non-Interference and Proprietary Information.

(a) *Confidentiality.* In the course of your employment by the Company hereunder, you will have and have had access to confidential or proprietary data or information of the Company Group, and their respective operations. You will not, in any capacity, at any time divulge, communicate, disclose or make available to any person nor shall you direct any Company Group employee to divulge, communicate, disclose or make available to any person (other than to a person bound by confidentiality obligations similar to those contained herein and other than as necessary in performing your duties hereunder) or use to the detriment of the Company Group or for the benefit of any other person, any of such data or information. The provisions of this Section 7(a) shall survive your employment hereunder, whether by the normal expiration thereof or otherwise. The term "confidential or proprietary data or information" as used in this Agreement shall mean information relating to the Company Group or any of its affiliates not generally available to the public or generally known within the education, training and seminar industry, including, without limitation, personnel information, financial information, customer lists, supplier lists, trade secrets, information regarding operations, systems, services, know-how, computer and any other processed or collated data, computer programs, pricing, advertising data, source code, object code, manual, product specification or plan for a new or revised service or product, any lists relating to the foregoing, and any business, marketing, financial or sales record, data plan, or survey, and any other record or information relating to the present or future business, services or products of the Company Group or any of its affiliates. Notwithstanding anything to the contrary contained in this Section 7, the term "confidential or proprietary data or information" shall not include any information which (i) has been rightly received from a third party without restriction or breach of this Agreement, (ii) becomes generally available to the public or generally known within the education, training and seminar industry without a violation by you of this Agreement, or (iii) is required to be disclosed by law, regulation or court order, provided, however, that you shall provide the Company with notice at least 30 days prior to your disclosure of such information.

(b) *Non-Interference.* You agree that you will not for your own account or for the account of any other person (i) tortuously interfere with the Company Group's relationship with any of its suppliers, customers, independent contractors or employees during the Term and any time after termination or (ii) solicit, divert or induce any person who is an employee, executive or consultant of the Company Group to leave or to work for you or any person with whom you are connected or affiliated during the Term and for three years after termination.

(c) *Proprietary Information and Disclosure.* You agree that you will at all times promptly disclose to the Company Group and any of its affiliates, in such form and manner as the Company Group may reasonably require, any inventions, improvements or procedural or methodological innovations,

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developments, programs, methods, forms, systems, services, designs, analysis, drawings, reports, marketing ideas, products or processes (whether or not capable of being trademarked, copyrighted or patented) and all components and derivatives thereof, whether completed or not, conceived, developed, made, implemented, delivered or created by you during or in connection with your employment hereunder and which relate to the Company Group's or its affiliates' actual or anticipated business, research and development, or existing or future products or services ("Intellectual Property"). You agree that (i) all such Intellectual Property is and shall be the sole property of the Company Group, (ii) all right, title, and ownership interest (throughout the universe, in all media, now existing or created in the future, for all versions and elements, in all languages, and for the entire duration of such rights) in such Intellectual Property lie, at creation, exclusively with the Company Group, and (iii) you reserve no rights in such Intellectual Property. You further agree that you will execute such instruments and perform such acts as may reasonably be requested by the Company Group to transfer to, and perfect in the Company all legally protectible rights in, such Intellectual Property.

(d) *Return of Property.* All written materials, records and documents made by you or coming into your possession during your employment concerning any products, processes or equipment, manufactured, used, developed, investigated or considered by the Company Group or otherwise concerning the business or affairs of the Company Group, shall be the sole property of the Company Group, and upon termination of your employment, or upon request of the Company during your employment, you shall promptly deliver same to the Company. In addition, upon termination of your employment, or upon request of the Company during your employment, you will deliver to the Company all other Company Group property in your possession or under your control, including, but not limited to, financial statements, marketing and sales data, patent applications, drawings and other documents, and all Company Group credit cards and automobiles.

8. *Equitable Relief.* With respect to the covenants contained in Sections 6 and 7 of this Agreement, you agree that any remedy at law for any breach of said covenants may be inadequate and that the Company Group shall be entitled to specific performance or any other mode of injunctive and/or other equitable relief to enforce its rights hereunder or any other relief a court might award. The existence of any claim or cause of action which you or any such other person may have against the Company Group shall not constitute a defense or bar to the enforcement of any of the covenants contained in Sections 6 and 7 hereof.

9. *Earlier Termination.* Your employment hereunder shall terminate prior to the expiration of the Term on the following terms and conditions:

(a) This Agreement shall terminate automatically on the date of your death.

(b) This Agreement shall be terminated if you are unable to perform your duties hereunder for 90 days (whether or not continuous) during any period of 120 consecutive days by reason of physical or mental disability. The disability shall be deemed to have occurred on the 90th day of your absence or lack of adequate performance.

(c) This Agreement shall terminate immediately upon the Company's sending you written notice terminating your employment hereunder for "Just Cause," which shall mean one or more of the following: (i) an act or acts of fraud or dishonesty by you which results in the personal enrichment of you or another person or entity at the expense of the Company; (ii) your admission, confession or conviction of (X) any felony (other than third-degree vehicular infractions), or (Y) any other crime or offense involving misuse or misappropriation of money or other property; (iii) your continued material breach of any obligations or representations under this Agreement 30 days after the Company has given you written notice thereof in reasonable detail, if such breach has not been cured by you during such period; and (iv) your gross negligence or willful misconduct with respect to your duties or gross malfeasance of office.

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(d) This Agreement shall terminate immediately upon the Company's sending you written notice terminating your employment hereunder for any reason or for no reason. Upon a termination due to an event described in Section 9(a), 9(b) or 9(c) hereof, the Company's sole obligation to you shall be to pay you the earned but unpaid portion of your then current Base Salary up to the date of termination (which shall be paid as and when such amounts would have been due had your employment continued) and any accrued vacation. Upon a termination by the Company for any reason other than those described in Section 9(a), 9(b) or 9(c) hereof the Company Group's sole obligation to you shall be to pay you (i) twelve months of your then current Base Salary, (ii) the bonus you would have been entitled to for the year in which your termination of employment occurs, prorated to reflect the number of days worked by you in such year prior to your termination date, and (iii) any accrued vacation. Such amounts shall be paid as and when such amounts would have been due had your employment continued; provided however, if such termination occurs following a Change in Control (as defined in Section 9(h) below), such Base Salary shall be paid in a lump sum amount as soon as practicable following your termination of employment. Compensation pursuant to this Section 9(d) shall be the sole and exclusive compensation to you in the event you are terminated by the Company for any reason and will be paid only if you first execute and deliver to the Company a general release agreement (in form acceptable to the Company and you), with such release agreement providing for, among other things, the full release of the Company Group, its owners, directors, managers, officers, employees, executives, representatives, agents, predecessors, successors and assigns.

(e) This Agreement shall terminate immediately upon your sending the Company written notice terminating your employment hereunder for "Good Reason," which shall mean the occurrence of only one or more of the following events: (a) a material decrease in your Base Salary or bonus opportunity; (b) a change in the location of your principal place of work from the St. Louis, Missouri area without your consent; or (c) your voluntary termination of employment for any reason other than death or disability during the 60-day period beginning on the date of a Change in Control. Upon any such termination, the Company's obligation to you shall be to pay you (i) twelve months of your then current Base Salary, (ii) the bonus you would have been entitled to for the year in which your termination of employment occurs, prorated to reflect the number of days worked by you in such year prior to your termination date, and (iii) any accrued vacation. Such amounts shall be paid as and when such amounts would have been due had your employment continued; provided, however, if such termination occurs within 60 days of a Change in Control, such Base Salary shall be paid in a lump sum amount as soon as practicable following your termination of employment. Compensation pursuant to this Section 9(e) shall be the sole and exclusive compensation to you in the event you terminate your employment with the Company for Good Reason and will be paid only if you first execute and deliver to the Company a general release agreement (in form acceptable to the Company and you), with such release agreement providing for, among other things, the full release of the Company Group, its owners, directors, managers, officers, employees, executives, representatives, agents, predecessors, successors and assigns.

(f) Upon the expiration of the Term of this Agreement or any extension thereof, the Company shall pay you (i) six months of your then current Base Salary, (ii) the bonus you would have been entitled to for the year in which your termination of employment occurs, prorated to reflect the number of days worked by you in such year prior to your termination date and (iii) any accrued vacation.

(g) This Agreement shall terminate thirty (30) days following receipt by the Company from you of written notice terminating your employment hereunder without Good Reason, in which event you shall have no further liabilities or obligations hereunder, other than pursuant to Sections 6, 7, 8 and 10 hereof and the Company's sole obligation to you shall be to pay you the earned but unpaid portion of your Base Salary up to the date of termination (which shall be paid as and when such amounts would have been due had your employment continued) and any accrued vacation.

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(h) For purposes of this Agreement, "Change in Control" shall (i) have the meaning ascribed to that term in Section 8.2 of the EPP and (ii) shall mean a sale of all or substantially all of the assets or business of the Consulting Division; provided, however, in the case of the sale of the assets or business of the Consulting Division, such sale shall not be deemed to be a Change in Control if, on or before the effective date of such transaction, you are offered another position with the Company Group of comparable authority and responsibility to your position with the Consulting Division; and provided, further, that an initial public offering the Company's common stock will not be deemed to be a Change in Control under this Agreement.

(i) Except as specifically set forth in Sections 9(d), 9(e) and 9(f) hereof, upon termination of this Agreement, the Company's obligations hereunder shall cease.

10. *Representations and Warranties.*

You hereby represent and warrant to the Company that (i) there are no restrictions, agreements or understandings whatsoever to which you are a party which would prevent or make unlawful your execution of this Agreement or your employment hereunder, (ii) your execution of this Agreement and your employment

[Exhibit 10.1](#)

As of August 1, 2001

Ms. Annette Gardner
3003 Terramar Street
Fort Lauderdale, FL 33304

Dear Ms. Gardner:

Cross Country, Inc. (f/k/a Cross Country Staffing, Inc.), a Delaware corporation (the "Company"), hereby agrees to employ you and you hereby agree to accept such employment under the following terms and conditions:

1. *Term of Employment.* Except for earlier termination as provided in Section 9 below, your employment under this Agreement shall be for a term commencing as of the date hereof (the "Effective Date"), and terminating on December 31st immediately following the fourth anniversary of the Effective Date (the "Term").

2. *Compensation.*

(a) Subject to the provisions of Section 3(c) below, you shall be compensated for all services rendered by you under this Agreement at the rate of \$206,000 per annum, increasing on August 1st of each year at a rate of 3% (such salary, as it may from time to time be increased, is hereinafter referred to as the "Base Salary"), payable in such manner as is consistent with the Company's payroll practices for executive employees. Prior to August 1st of each year, the Board of Directors shall review your performance, the earnings of the Company during the prior year, and the Company's economic prospects for the coming year, and shall consider in its sole discretion whether to increase, but in no event decrease, the Base Salary payable to you hereunder.

(b) During the Term, you shall be eligible to receive an incentive bonus (the "Incentive Bonus") as and to the extent set forth on **Exhibit 1** annexed hereto.

3. *Duties.*

(a) You shall serve as President of the Company's per diem nurse staffing subsidiary, Cross Country Local, Inc. ("Cross Country Local"), subject to the direction and control of the Board of Directors of the Company. You shall report directly to the Chief Executive Officer of the Company. In such capacity, you shall have such duties, responsibilities and authority as are customary of a president in similarly situated subsidiaries of the Company; provided, however, you shall not be required to perform any acts that will cause you to breach the Healthstaf Restrictive Covenants (as defined in Section 10(a) hereof). Cross Country Local shall not engage in per diem nurse staffing in any geographic location restricted under the Healthstaf Restrictive Covenants (the "Restricted Region") during the applicable restricted period (the "Restricted Period") and any division, subsidiary or controlled affiliate of the Company may provide per diem nurse staffing in the Restricted Region during the Restricted Period. Within six months following the lapse of the Restricted Period, unless Cross Country Local has not met its quarterly revenue and EBITDA projections set forth on Schedule A for two consecutive quarters, any per diem nurse staffing that is being carried out by any division, subsidiary or controlled affiliate of the Company (other than Cross Country Local or by a business that the Company may acquire, the name of which has previously been disclosed to you by the Company in a letter dated April 2002 (the "Acquisition Target")) in the Restricted Region at the end of the Restricted Period shall be transferred to and assumed by Cross Country Local, to the extent reasonably practicable.

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(b) You shall devote your full business time, energies and attention to the business and affairs of Cross Country Local and E-Staff, Inc. during the first year of the Term, and you shall devote your full business, time, energies and attention to the business and affairs of Cross Country Local for the following 17 months of the Term; provided, however, that you (i) shall be permitted to maintain your ownership interests in Bates and Associates Inc. and A&J's Pearl, Ltd., and may continue to be involved with those companies on a strategic planning and advisory level and receive compensation from them and (ii) shall be free to participate in board, civic and charitable activities, so long as such activities described in clauses (i) and (ii) do not interfere with your duties and responsibilities to the Company hereunder. As soon as reasonably practicable, the Company shall use its commercially reasonable efforts to hire a chief operating officer of E-Staff (who shall be subject to your approval), on terms that are competitive for the industry in which E-Staff operates. The Company shall use its commercially reasonable efforts to employ a COO of E-Staff during at least the first 28 months of the Term and during such period, the COO shall report to and be supervised by you, subject to the direction and control of the Board of the Company.

(c) Beginning January 1, 2004, you shall devote your time, energies and attention to the business and affairs of Cross Country Local, and you shall be entitled, at your discretion, to work on a flexible work schedule, so long as you work at least four 8-hour days every two weeks. For each business day on and after January 1, 2004 for which you do not work a full 8-hour day, your Base Salary will be reduced by .4167%; provided, however, that nothing in this Section 3(c) is intended to, or shall be deemed to, disqualify you from any other benefits to which you are otherwise entitled under this Agreement unless the law or the terms of any benefit plan provide otherwise.

(d) You shall, except as otherwise provided herein, be subject to the Company's rules, practices and policies applicable to the Company senior executive employees.

4. *Benefits.*

(a) In addition to the benefits set forth in Section 4(b) and 4(c) below, you shall be entitled to such benefits, if any, as are generally provided by the Company to its senior executive employees including, without limitation, personal leave, sick leave, vacation leave and holiday leave. You also shall have the benefit of any life and medical insurance plans, pensions and other similar plans as the Company may have or may establish from time to time for its senior executive employees, however, participation in certain plans may be limited by residency restrictions. The foregoing, however, shall not be construed to require the Company to establish any such plans or to prevent the Company from modifying or terminating any such plans, and no such action or failure thereof shall affect

this Agreement. Notwithstanding anything herein to the contrary, for purposes of calculating vesting and coverage waiting periods under any benefit plan or policy (including 401(k) Plan), to the extent that such plans or policies will so allow without the payment of additional monies or fees, the applicable start date of employment shall be deemed to be the date of your employment by E-Staff.

(b) As of October 1, 2000, you received incentive stock options to purchase up to 13,000 shares (on a pre-split basis) of Class A Common Stock, \$.01 par value per share of the Company (the "Company Options") under the Company's Equity Participation Plan (the "Plan"), which Company Options vest over a four year period, in such percentages and at such rates and other terms set forth in the Stock Option Agreement dated as of October 1, 2000 between you and the Company.

(c) The salary and bonus set forth in Section 2 (as modified by Section 3) and the benefits set forth in Section 4 (collectively, "Compensation and Benefits") shall be the full consideration for the services to be rendered by you to the Company and its subsidiaries hereunder. The Company shall deduct or cause to be deducted from your Compensation and Benefits all taxes and amounts required by law to be withheld. Notwithstanding anything in this Section 4 to the contrary, you will be entitled to at least four weeks of vacation each year (earned pro rata over the course of each year, with a maximum

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accrual at any given time of four weeks), provided, however, beginning January 1, 2004, vacation time shall be prorated, on a percentage basis, based upon the number of days worked.

5. *Expenses.* The Company will reimburse you for reasonable expenses, including travel expenses (including expenses for car rental outside of the Philadelphia, PA metropolitan area and up to \$650 per month for car expenses in lieu of car rentals for car usage in the Boca Raton metropolitan area) incurred by you in connection with the business of the Company, up to \$10,000.00 per year for the accompanying travel of your domestic partner, and up to \$5,000 per year for expenses related to professional and business organizations that you join in furtherance of your duties to the Company outlined in Section 3 hereof upon the presentation by you to the Chief Financial Officer of the Company of appropriate substantiation for such expenses.

6. *Restrictive Covenants.*

(a) During such time as you shall be employed by the Company or its subsidiaries, and for a period of three years thereafter, with respect to Sections 6(a)(i) and (iii) below, and during the first year of the Term (or such lesser period if your employment is terminated earlier) and for a period of three years thereafter with respect to Section 6(a)(ii) below, you shall not, without the written consent of the board of directors of the Company, directly or indirectly become associated with, render services to invest in, represent, advise or otherwise participate as an officer, employee, director, stockholder, partner, agent of or consultant for, any business in the United States which (i) is competitive with the business in which Cross Country Local is engaged during your employment and at the time your employment with the Company ceases, (ii) is competitive with the business in which E-Staff is engaged during the first year of the Term (or, up to the date your employment terminates, if earlier), or (iii) is engaged in travel nurse staffing. Notwithstanding anything in the prior sentence to the contrary, (1) after you are no longer employed by the Company or any of its subsidiaries, you shall not be restricted from engaging in per diem nurse staffing outside of a 50-mile radius from any locations in which the Cross Country Local had offices during your employment or has offices at the time your employment with the Company ceases and, (2) nothing herein shall prevent you from acquiring up to 3% of the securities of any company listed on a national securities exchange or quoted on the NASDAQ quotation system, provided your involvement with any such company is solely that of a stockholder. If your employment hereunder shall be terminated during the Term by you with Good Reason (as defined below) or by the Company without Just Cause (as defined below), then the foregoing noncompetition covenant shall only be effective for the applicable above-stated period after such termination; provided (A) the Company so elects and (B) the Company pays to you (i) six months of your Base Salary in effect at the time of such termination, and (ii) the cost to provide six months of any life and medical insurance benefits you were receiving at the time of such termination pursuant to Section 4 of this Agreement (collectively, the "Total Payment") over a six-month period and in accordance with the Company's regular payroll practices. Any payments made by the Company to you pursuant to Section 9(e) or 9(f) hereof shall be credited against the Total Payment obligation in this Section 6, although nothing in this Section 6 shall be construed to limit the Company's obligations under such sections. The Company shall provide you written notice of the exercise of its rights in the immediately preceding sentence within thirty (30) days of the date of the termination of your employment and shall be obligated to make such Total Payment if the Company exercises its rights, or if such notice is not given, the Company shall be deemed to have irrevocably waived such rights and you shall not be subject to the non-competition covenant in this Section 6(a).

(b) The parties hereto intend that the covenant contained in this Section 6 shall be deemed a series of separate covenants for each country, state, county and city in which the Cross Country Local's and E-Staff's business is conducted. If, in any judicial proceeding, a court shall refuse to enforce all the separate covenants deemed included in this Section 6 because, taken together, they cover too extensive a geographic area, the parties intend that those of such covenants (taken in order of the countries, states, counties and cities therein which are least populous) which if eliminated would permit the

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remaining separate covenants to be enforced in such proceeding shall, for the purpose of such proceeding, be deemed eliminated from the provisions of this Section 6.

7. *Confidentiality. Non-Interference and Proprietary Information.*

(a) *Confidentiality.* In the course of your employment by the Company hereunder and your employment by Cross Country Local, E-Staff and E-Staff, Inc., a Pennsylvania corporation ("Former E-Staff"), you will have and have had access to confidential or proprietary data or information of the Company and its subsidiaries, Former E-Staff and their respective operations. You will not, in any capacity, at any time divulge, communicate, disclose or make available to any person nor shall you direct any Company employee to divulge, communicate, disclose or make available to any person (other than to a person bound by confidentiality obligations similar to those contained herein and other than as necessary in performing your duties hereunder) or use to the detriment of the Company or any of its subsidiaries or for the benefit of any other person, any of such data or information. The provisions of this Section 7(a) shall survive your employment hereunder, whether by the normal expiration thereof or otherwise. The term "confidential or proprietary data or information" as used in this Agreement shall mean information relating to the Company, its subsidiaries or any of its affiliates not generally available to the public or generally known within the scheduling, training service or per diem nurse staffing industry, including, without limitation, personnel information, financial information, customer lists, supplier lists, trade secrets, information regarding operations, systems, services, know-how, computer and any other processed or collated data, computer programs, pricing, advertising data, data models and schema, source code, object code, manual, product specification or plan for a new or revised service or product, any lists relating to the foregoing, and any business, marketing, financial or sales record, data plan, or survey, and any other record or information relating to the present or future business, services or products of the Company or any of its affiliates. Notwithstanding anything to the contrary contained in this

Section 7, the term "confidential or proprietary data or information" shall not include any information which (i) has been rightly received from a third party without restriction or breach of this Agreement or (ii) is required to be disclosed by law, regulation or court order, provided, however, that you shall provide the Company with notice at least 15 days prior to your disclosure of such information, to the extent reasonably practicable.

(b) *Non-Interference.* You agree that you will not for your own account or for the account of any other person, directly or indirectly: (i) tortuously interfere with the Company's or any of its subsidiary's relationship with any of its suppliers, customers or employees during the Term and any time after termination of this Agreement, (ii) during the Term and for three years after termination of this Agreement, employ, engage, interfere with, solicit or endeavor to entice away any person who is or was an employee, subcontractor or consultant of Cross Country Local, or (iii) during the first year of the Term (or such lesser period if your employment is terminated earlier) and until three years thereafter, employ, engage, interfere with, solicit or endeavor to entice away any person who is or was an employee, subcontractor or consultant of E-Staff; provided, however that (i) you may employ (a) your personal assistant after this Agreement is terminated and (b) any other person who has not been employed by the Company or any of its subsidiaries or affiliates in any capacity during the trailing six months prior to the date of such person's expected employment by you, and (ii) nothing in this Section shall prohibit Bates and Associates Inc. (of which you are a shareholder) from engaging in executive search and consulting services in the healthcare field or soliciting persons in connection with such business.

(c) *Proprietary Information and Disclosure.* You agree that you will at all times promptly disclose to the Company (which, for the purposes of this Section 7, shall include the Company and any subsidiaries and affiliates of the Company), in such form and manner as the Company may reasonably require, any inventions, improvements or procedural or methodological innovations, developments, programs, methods, forms, systems, data models and schema, services, designs, analysis, drawings, reports, marketing ideas, products or processes (whether or not capable of being trademarked, copyrighted or

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patented) and all components and derivatives thereof, whether completed or not, conceived, developed, made, implemented, delivered or created by you during or in connection with your employment hereunder and which relate to the Company's or any subsidiaries' or affiliates' actual or anticipated business, research and development, or existing or future products or services ("Intellectual Property"). You agree that (i) all such Intellectual Property is and shall be the sole property of the Company, (ii) all right, title, and ownership interest (throughout the universe, in all media, now existing or created in the future, for all versions and elements, in all languages, and for the entire duration of such rights) in such Intellectual Property lie, at creation, exclusively with the Company, and (iii) you reserve no rights in such Intellectual Property. You further agree that you will execute such instruments and perform such acts as may reasonably be requested by the Company to transfer to, and perfect in the Company all legally protectible rights in, such Intellectual Property.

(d) *Return of Property.* All written materials, records and documents made by you or coming into your possession during your employment concerning any products, processes or equipment, manufactured, used, developed, investigated or considered by the Company or otherwise concerning the business or affairs of the Company, shall be the sole property of the Company, and upon termination of your employment, or upon request of the Company during your employment, you shall promptly deliver same to the Company. In addition, upon termination of your employment, or upon request of the Company during your employment, you will deliver to the Company all other Company property in your possession or under your control, including, but not limited to, financial statements, marketing and sales data, patent applications, drawings and other documents, and all Company credit cards and automobiles.

8. *Equitable Relief.* With respect to the covenants contained in Sections 6 and 7 of this Agreement, you agree that any remedy at law for any breach of said covenants may be inadequate and that the Company shall be entitled to specific performance or any other mode of injunctive and/or other equitable relief to enforce its rights hereunder or any other relief a court might award. The existence of any claim or cause of action that you or any such other person may have against the Company shall not constitute a defense or bar to the enforcement of any of the covenants contained in Sections 6 and 7 hereof.

9. *Earlier Termination.* Your employment hereunder shall terminate prior to the expiration of the Term on the following terms and conditions:

(a) This Agreement shall terminate automatically on the date of your death.

(b) This Agreement shall be terminated if you are unable to perform your duties hereunder for 120 days (whether or not continuous) during any period of 180 consecutive days by reason of physical or mental disability. The disability shall be deemed to have occurred on the 120th day of your absence or lack of adequate performance.

(c) This Agreement shall terminate immediately upon the Company's sending you written notice terminating your employment hereunder for "Just Cause," which shall mean only one or more of the following: (i) an act or acts of fraud or dishonesty by you which results in the personal enrichment of you or another person or entity at the expense of the Company; (ii) your admission, confession or conviction of (X) any felony (other than third-degree vehicular infractions), or (Y) any other crime or offense involving misuse or misappropriation of money or other property; (iii) your continued material breach of any obligations or representations under this Agreement 30 days after the Company has given you notice thereof in reasonable detail, if such breach has not been cured by you during such period; and (iv) your gross negligence or willful misconduct with respect to your duties or gross misfeasance of office.

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(d) This Agreement shall terminate immediately upon the Company's sending you written notice terminating your employment hereunder for any reason or for no reason (other than as set forth in Section 9 (c)).

(e) Upon a termination due to an event described in Section 9(a), 9(b) or 9(c) hereof, the Company's sole obligation to you shall be to pay you the earned but unpaid portion of your Base Salary in effect at the time up to the date of termination (which shall be paid as and when such amounts would have been due had your employment continued) and, except in the case of a termination pursuant to Section 9(c), a pro rata portion of the Incentive Bonus which would have been due to you for the year during which the termination occurs. Upon a termination by the Company due to an event described in Section 9(d) hereof, the Company's sole obligation to you shall be to pay you your Base Salary in effect at the time and the Incentive Bonus that would have been due to you for the remainder of Term (which shall be paid as and when such amounts would have been due had your employment continued); provided, however, such amount will be paid only if you first execute and deliver to the Company a general release agreement (in form acceptable to the Company), with such release agreement providing for, among other things, the full release of the Company, its owners, subsidiaries, directors, managers, officers, employees, executives, representatives, agents, predecessors, successors and assigns.

(f) This Agreement shall terminate immediately upon your sending the Company written notice terminating your employment hereunder for "Good Reason," which shall mean the occurrence of any one or more of only the following events: (a) a material decrease in your responsibilities or authority which is not cured within thirty (30) days after notice thereof from you to the Company; or (b) a decrease in your Base Salary. Upon any such termination, the Company's obligation to you shall be to pay you your Base Salary in effect at the time and the Incentive Bonus that would have been due to you for the remainder of the Term (which shall be paid as and when such amounts would have been due had your employment continued); provided, however, such amount will be paid only if you first execute and deliver to the Company a general release agreement (in form acceptable to the Company), with such release agreement providing for, among other things, the full release of the Company, its owners, subsidiaries, directors, managers, officers, employees, executives, representatives, agents, predecessors, successors and assigns.

(g) This Agreement shall terminate thirty (30) days following receipt by the Company from you of written notice terminating your employment hereunder without Good Reason, in which event you shall have no further liabilities or obligations hereunder, other than pursuant to Sections 6, 7, 8 and 10(b) hereof and the Company's sole obligation to you shall be to pay you the earned but unpaid portion of your Base Salary in effect at the time up to the date of termination (which shall be paid as and when such amounts would have been due had your employment continued).

(h) Except as specifically set forth in Sections 9(e) and 9(f) hereof, upon termination of this Agreement, the Company's obligations hereunder shall cease.

(i) Notwithstanding anything herein to the contrary, you shall have no obligation to mitigate damages, and except for the offset provided in Section 6(a), the Company shall have no right to offset any sums earned by you or on your behalf against any amounts payable by the Company under this Agreement.

10. *Representations and Warranties; Indemnity.*

(a) You hereby represent and warrant to the Company that (i) there are no restrictions, agreements or understandings whatsoever to which you are a party which would prevent or make unlawful your execution of this Agreement or your employment hereunder, (ii) your execution of this Agreement and your employment hereunder shall not constitute a breach or violation of any law, contract, agreement or understanding, oral or written, to which you are a party or by which you are bound, (iii) you are free and able to execute this Agreement and to enter into employment with the Company, (iv) you

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have not violated nor are you in violation of any law, regulation, rule, order, stipulation or the like relevant to the Company's business, (v) this Agreement is your valid and binding obligation, enforceable in accordance with its terms, (vi) the Company has made available to you the opportunity to ask questions and receive answers from the Company concerning the Company and review information relating to the Company, and (vii) you have relied solely upon your own investigations and the advice of third parties (hired by you on your behalf) in determining to enter into this Agreement. The foregoing representations and warranties shall forever survive the termination of this Agreement. Notwithstanding anything in this Section or any other section of this Agreement to the contrary, the Company acknowledges that you are subject to certain restrictive covenants in favor of Nurseworks, Inc. and Healthstaf Medical Services, Inc., which are set forth in Exhibit 10 to this Agreement (the "Healthstaf Restrictive Covenants"), and the Company agrees that your compliance with such restrictions shall not constitute a breach by you of this Agreement. If, due to the performance of your duties in compliance with the terms of this Agreement, legal proceedings are commenced against you or Former E-Staff pursuant to the Healthstaf Restrictive Covenants, the Company shall indemnify, defend (and control such defense) and hold you harmless from and against any and all actual out-of-pocket, reasonable third-party costs and expenses (including reasonable attorneys' fees) incurred by you and any judgments, orders or settlements obtained by a third party to be paid by you (and to which the Company has consented in writing, if such judgments, orders or settlements are negotiated by the parties) arising from such legal proceedings.

(b) In addition to all other rights and remedies that the Company has at law and equity, during the Term and thereafter, in the event of a breach by you of any representation, warranty, covenant or agreement contained in this Agreement, you shall, at such time, indemnify, defend and hold harmless the Company, its affiliates, and their stockholders, owners, members, directors, managers, officers, employees, executives, representatives and agents from and against any and all losses, liabilities, costs and expenses (including, but not limited to, reasonable attorney's fees) arising from any such breach by you.

11. *Effectiveness; Entire Agreement; Modification.*

(a) The provisions of Section 7(b) hereof shall only become effective at such time as the obligations under Section 7(b) of that certain Asset Purchase Agreement dated as of July 21, 2000 among the Company, you and Former E-Staff (the "Asset Purchase Agreement") are determined by a court of competent jurisdiction to be unenforceable or are terminated prior to the date of termination set forth in the Asset Purchase Agreement, unless with the parties' written consent.

(b) This Agreement, together with Article 7 of the Asset Purchase Agreement, constitutes the full and complete understanding of the parties and supercede all prior agreements between the parties, E-Staff, Former E-Staff and their respective affiliates with respect to your employment arrangements, including that certain Letter of Intent dated June 13, 2000 and that certain Employment Agreement dated July 21, 2000 (the "Prior Agreements"). By executing this Agreement, you hereby release the Company and its affiliates, effective as of the Effective Date, from all obligations to you under the Prior Agreements. No representations, inducements, promises, agreements or understandings, oral or otherwise, have been made by either party to this Agreement, or anyone acting on behalf of either party, which are not set forth herein, and any others are specifically waived. This Agreement may not be modified or amended except by an instrument in writing signed by the party against which enforcement thereof may be sought.

12. *Severability.* Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction.

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13. *Waiver of Breach.* The waiver of either party of a breach of any provision of this Agreement, which waiver must be in writing to be effective, shall not operate as or be construed as a waiver of any subsequent breach,

14. *Notices.* All notices hereunder shall be in writing and shall be sent by express mail or by certified or registered mail, postage prepaid, return receipt requested, if to you, to your residence as listed in the Company's records with a copy to Blank Rome Comisky and McCauley LLP, Attn: Alan L. Zeiger, Esq., and if to the Company, c/o Cross Country, Inc., 6551 Park of Commerce Boulevard, Boca Raton, Florida 33431, Attn.: Joseph Boshart with a copy to Proskauer Rose LLP, 1585 Broadway, New York, New York 10036, Attn.: Stephen W. Rubin, Esq.

15. *Assignability; Binding Effect.* This Agreement is a personal employment contract for your personal services, and your rights and duties hereunder shall not be assignable or delegable by you. This Agreement shall be binding upon and inure to the benefit of you, your legal representatives, heirs and distributees, and shall be binding upon and inure to the benefit of the Company, its successors and assigns.

16. *Governing Law.* All questions pertaining to the validity, construction, execution and performance of this Agreement shall be construed and governed in accordance with the laws of Florida without regard to the conflicts or choice of law provisions thereof.

17. *Headings.* The headings of this Agreement are intended solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

18. *Counterparts.* This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

19. *Disputes.* In the event of any dispute under this Agreement, the non- prevailing party shall pay all legal fees and expenses of the prevailing party.

If this letter correctly sets forth our understanding, please sign the duplicate original in the space provided below and return it to the Company, whereupon this shall constitute the employment agreement between you and the Company effective and for the term as stated herein.

CROSS COUNTRY, INC.

By: /s/ JOSEPH A. BOSHART

 Name: Joseph A. Boshart
 Title: President and CEO

Agreed as of the date first above written:

/s/ ANNETTE GARDNER

 Annette Gardner

Exhibit 1

If both the revenue *and* Adjusted EBITDA (as defined below) of Cross Country Local are equal to or greater than the amounts set forth in the table named "Targeted Amounts" below, for each year during 2002-2005 you shall be entitled to receive, as additional incentive compensation, a percentage of Cross Country Local's Adjusted EBITDA for such year, in the amounts as set forth in the table "% of Adjusted EBITDA (Plan)" below.

Targeted Amounts

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in thousands)			
Revenue	\$ 25,016	\$ 44,810	\$ 68,499	\$ 100,049
Adjusted EBITDA	\$ 1,195	\$ 4,270	\$ 8,257	\$ 13,004

% of Adjusted EBITDA (Plan)

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
10%	11%	15%	16%

If either the revenue or Adjusted EBITDA of Cross Country Local is less than the amounts set forth in the table "Targeted Amounts" above for any year during 2002-2005, you shall be entitled only to receive, as additional incentive compensation, a percentage of Cross Country Local's Adjusted EBITDA for such year, as set forth in the table named "Reduced %" below, in lieu of the percentage of Adjusted EBITDA for such year set forth in the table "% of Adjusted EBITDA (Plan)" above:

Reduced %

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
10%	8%	6%	5%

The "Adjusted EBITDA" means EBITDA of Cross Country Local, calculated in accordance with GAAP, without taking into account all Corporate Overhead Expenses (defined below) of Cross Country Local. To the extent that the Company (or any of its subsidiaries) enters into contracts to provide per diem nurse staffing in the Restricted Region prior to the expiration of the Restricted Period, unless Cross Country Local has failed to meet its revenue and EBITDA projections for the prior two consecutive quarters as set forth in *Schedule A* or if such business is being conducted by the Acquisition Target, any such contract existing as of the date that the Restricted Period terminates will, to the extent practicable, be transferred to and assumed by Cross Country Local and all revenue under such contracts shall be counted for purposes of the Adjusted EBITDA calculations; *provided, however*, that the Adjusted EBITDA for each year shall be reduced by the net profit earned on account of such transferred contracts for the fiscal year immediately preceding the year in which the transfer and assumption occurs. Up to an aggregate of \$1,000,000 of selling and operating expenses of Cross Country Local will be excluded from the calculation of Adjusted EBITDA for the year in which such expense was incurred. "Corporate Overhead Expenses" shall mean expenses for Accounting Services, Legal Services, Audit Services, General Liability Insurance Coverage, General Furniture, Personnel Furniture (G&A), Personnel Furniture (Staffing), Personnel Furniture (VM), Personnel Furniture (SG&A), Servers, Phone Systems, and Server Software (email, website, back office).

The calculation of Adjusted EBITDA shall be made within 90 days after the end of each fiscal year by the Company's independent accountants, which calculations shall be subject to the reasonable review, audit and verification by your accountants. Payment of incentive compensation, if any, shall be made by the Company within 10 business days following such calculation. To the extent there is a dispute as to

the amount of payment, the Company shall have the obligation to pay any undisputed portion within such time frame.

Except as described below, no bonus payable to you pursuant to this *Exhibit 1* shall exceed \$1 million in any year (the "Annual Cap") and the aggregate amount of all incentive bonuses paid shall not exceed \$4 million (the "Cumulative Cap"), *provided* that if the bonus amount that you earn for any year would have been less than Annual Cap (the "Unused Amount"), you shall be entitled to add such Unused Amount to the Annual Cap for the following year during 2003-2005 (but under no circumstances shall the Cumulative Cap be exceeded).

If Cross Country Local's revenue is greater than \$89,621,000 for the year ending December 31, 2003, \$136,998,000 for the year ending December 31, 2004 or \$200,099,000 for the year ending December 31, 2005, then the Annual Cap shall be increased to \$2 million for the year in which such revenue amount was exceeded and the Cumulative Cap shall be increased to \$8 million. The treatment of the Unused Amount shall also apply to the increased Annual Cap.

Exhibit 10

During the period that ends three (3) years from July 20, 1999, you may not, directly or indirectly:

- (a) engage or participate in any way, as an owner, officer, partner, member, employee, agent, independent contractor, board member, stockholder or otherwise, in any activities that are competitive with or directly or indirectly related to the business of providing temporary medical staffing services anywhere within seventy-five (75) miles of the city limits of the cities of Bala Cynwyd, Pennsylvania, San Diego, California, and Ft. Lauderdale, Florida; provided, however, that Executive may sell, develop, and consult with regard to scheduling software in any geographic area, so long as such activities do not otherwise violate this provision;
- (b) solicit or otherwise encourage any officer, employee, agent or independent contractor of Nurseworks, Inc. ("NWI"), Healthstaf Medical Services, Inc. ("Healthstaf"), or the subsidiaries or affiliates of Healthstaf to terminate or alter his or her employee, agent or independent contractor relationship with NWI, Healthstaf, or its subsidiaries or affiliates;
- (c) solicit or interfere with, in any way, as an owner, officer, partner, member, employee, agent, independent contractor, board member, executive or otherwise, the customers or suppliers of NWI or Healthstaf, or in any such capacity solicit orders from any customers of NWI, Healthstaf, or any of its subsidiaries or affiliates; and
- (d) notwithstanding items (a) through (c) above, ownership, in and of itself, of not more than three percent (3%) or a class of equity securities issued by any competitor of Healthstaf listed on any national securities exchange or interdealer quotation system shall not be deemed a violation of items (a) through (c) above.

QuickLinks

[Exhibit 10.2](#)

[Exhibit 1](#)

[Targeted Amounts
% of Adjusted EBITDA \(Plan\)
Reduced %](#)

[Exhibit 10](#)