

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

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

**For the Fiscal Year Ended December 31, 2013**

**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 Healthcare, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**13-4066229**

(I.R.S. Employer Identification No.)

**6551 Park of Commerce Boulevard, N.W.**

**Boca Raton, Florida 33487**

(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: **(561) 998-2232**

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

**Title of each class**

Common Stock, par value \$0.0001 per share

**Name of each exchange on which registered**

The NASDAQ Stock Market

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

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act: Large accelerated filer o Accelerated filer  Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of Common Stock on June 28, 2013 of \$5.16 as reported on the NASDAQ National Market, was \$155,431,281. This calculation does not reflect a determination that persons are affiliated for any other purpose.

As of February 28, 2014, 31,085,289 shares of Common Stock, \$0.0001 par value per share, were outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement, for the 2014 Annual Meeting of Stockholders, which statement will be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Report, are incorporated by reference into Part III hereof.

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## TABLE OF CONTENTS

	<u>Page</u>
<b>PART I</b>	
<a href="#">Item 1.</a> <a href="#">Business</a>	<a href="#">1</a>
<a href="#">Item 1A.</a> <a href="#">Risk Factors</a>	<a href="#">12</a>
<a href="#">Item 1B.</a> <a href="#">Unresolved Staff Comments</a>	<a href="#">18</a>
<a href="#">Item 2.</a> <a href="#">Properties</a>	<a href="#">19</a>
<a href="#">Item 3.</a> <a href="#">Legal Proceedings</a>	<a href="#">19</a>
<b>PART II</b>	
<a href="#">Item 4.</a> <a href="#">Mine Safety Disclosures</a>	<a href="#">20</a>
<a href="#">Item 5.</a> <a href="#">Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	<a href="#">20</a>
<a href="#">Item 6.</a> <a href="#">Selected Financial Data</a>	<a href="#">21</a>
<a href="#">Item 7.</a> <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">24</a>
<a href="#">Item 7A.</a> <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	<a href="#">46</a>
<a href="#">Item 8.</a> <a href="#">Financial Statements and Supplementary Data</a>	<a href="#">46</a>
<a href="#">Item 9.</a> <a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	<a href="#">46</a>
<a href="#">Item 9A.</a> <a href="#">Controls and Procedures</a>	<a href="#">46</a>
<a href="#">Item 9B.</a> <a href="#">Other Information</a>	<a href="#">49</a>
<b>PART III</b>	
<a href="#">Item 10.</a> <a href="#">Directors, Executive Officers and Corporate Governance</a>	<a href="#">49</a>
<a href="#">Item 11.</a> <a href="#">Executive Compensation</a>	<a href="#">49</a>
<a href="#">Item 12.</a> <a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters</a>	<a href="#">49</a>
<a href="#">Item 13.</a> <a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	<a href="#">49</a>
<a href="#">Item 14.</a> <a href="#">Principal Accountant Fees and Services</a>	<a href="#">49</a>
<b>PART IV</b>	
<a href="#">Item 15.</a> Exhibits, Financial Statement Schedules	<a href="#">50</a>
<b>SIGNATURES</b>	<a href="#">51</a>

All references to "we," "us," "our," or "Cross Country" in this Report on Form 10-K means Cross Country Healthcare, Inc., its subsidiaries and affiliates.

## **Forward-Looking Statements**

In addition to historical information, this Form 10-K contains statements relating to our future results (including certain projections and business trends) that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the “safe harbor” created by those sections. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, “suggests”, “appears”, “seeks”, “will” and variations of such words and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the section entitled “Item 1A - Risk Factors.” Readers should also carefully review the “Risk Factors” section contained in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in fiscal year 2014.

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

## **PART I**

### **Item 1. Business.**

#### **Overview of Our Company**

Cross Country Healthcare, Inc. (NASDAQ: “CCRN”) is a national leader in providing healthcare staffing and workforce solutions. Our traditional staffing includes temporary and permanent placement of travel nurses and allied professionals, branch based local nurses and allied staffing, and locum tenens physicians. We provide flexible workforce solutions to the healthcare market through diversified offerings meeting the special needs of each client. Our services include: managed service programs (MSP), workforce assessments, internal resource pool consulting and development, electronic medical record (EMR) transition staffing, recruitment process outsourcing services, and traditional staffing. Our clients include: public and private acute-care and non-acute care hospitals, government facilities, schools, outpatient clinics, ambulatory care facilities, physician practice groups, retailers, and many other healthcare providers. We also provide education and training programs to the healthcare industry and retained search services for physicians and healthcare executives. Our business currently consists of three business segments: (1) nurse and allied staffing, (2) physician staffing, and (3) other human capital management services.

Our healthcare clients use our diversified service offerings to manage their changing workforce needs due to fluctuations in patient census, normal attrition, leaves of absence, seasonality, EMR technology conversions, facility expansions, and the uncertainty of workforce needs created by the Patient Protection and Affordable Care Act of 2010 (“ACA”), among other things. By utilizing our diversified healthcare solutions, clients are able to flex their workforce up and down, streamline their purchasing needs, access specialties not available in their local area, and access quality healthcare personnel to provide continuity of care in order to improve patient outcomes.

Nurses, allied professionals and physicians work with us for a variety of reasons, such as the ability to explore different geographic areas of the country, work flexible shifts, gain clinical experience by working in prestigious healthcare facilities, and position themselves for permanent positions. Our fees are paid directly by our clients and in certain instances by vendor managers. As a result, we have no direct exposure to Medicare or Medicaid reimbursements.

In February 2013, we sold our clinical trial services business so that we could focus on our core business of providing flexible workforce solutions to the healthcare market. Accordingly, our former clinical trials business segment is reflected as discontinued operations on our consolidated financial statements contained in this Report. For additional information, see Footnote 3 - Assets Held for Sale and Discontinued Operations to the consolidated financial statements contained elsewhere in this Report.

In December 2013, we acquired the assets of On Assignment, Inc.'s Allied Healthcare Staffing division for \$28.7 million. We believe this acquisition complements our current operations by: (1) adding new skillsets to our traditional staffing offerings, (2) expanding our local branch network, which will allow us to expand our local market presence and our MSP business, (3) diversifying our customer base into the local ambulatory care and retail market, which provides more balance between our large volume based customers and our small local customers, and (4) better positioning us to take additional market share at our MSP accounts. Certain transitional services, including, but not limited to, billing and payroll, are being provided post-acquisition by On Assignment, Inc. to our Allied Health Group until we completely transition that business to our systems. We anticipate having the transition substantially completed by the end of the second quarter of 2014. This business has been included in the presentation of our financial statements contained in this Report. For more information on this acquisition, see Footnote 5 - Acquisitions to the consolidated financial statements contained elsewhere in this report.

Our operations reflect a diversified revenue mix across healthcare customers. For the full year 2013, our revenue from continuing operations was \$438 million. Our nurse and allied staffing business segment was 63% of revenue and is comprised of travel nurse, travel allied and branch based local nurse and allied staffing. Our physician staffing business segment was 28% of our revenue and consists of physician staffing services with placements across multiple specialties. Our other human capital management services business segment was 9% of our revenue and consists of education and training, as well as retained search services related primarily to physicians and healthcare executives. On a company-wide basis, we have more than 3,000 active contracts with healthcare clients, and we provide our staffing services and workforce solutions in all 50 states. In 2013, no client accounted for more than 10% of our revenue. For additional financial information concerning our business segments see Footnote 16 - Segment Information to the consolidated financial statements, contained elsewhere in this report.

## **Competition**

The principal competitive factors in attracting and retaining healthcare clients in our nurse, allied and physician staffing businesses include the ability to fill client needs on a timely basis, price, customer service, quality assurance and screening capabilities, having an understanding of the client's work environment, risk management policies, insurance coverage, and general industry reputation. The principal competitive factors in attracting qualified candidates for temporary employment include a large national pool of desirable assignments based on geographic location and clinical setting, pay and benefits, speed of placements, customer service, quality of accommodations, and overall industry reputation. We focus on retaining our nurse and allied professional employees by providing high-quality customer service, as well as providing long-term benefits, such as 401(k) plans and bonuses for field employees. We focus on attracting and retaining physician independent contractors by providing high-quality customer service, as well as occurrence based medical malpractice insurance.

The nurse and allied staffing segment is very fragmented with few national providers, but with many regional and local competitors. We believe we are one of the two largest providers of nurse and allied staffing services in the United States. We compete against many small to moderate size locum tenens physician staffing companies on a regional and local basis, but with only a few nationally. We believe we are one of the top four providers of locum tenens physician staffing services in the United States. We also believe we are one of the top five providers of retained physician and healthcare executive search services, as well as a leading provider of education and training programs in the healthcare marketplace. Some of our competitors in the healthcare staffing, workforce solutions, education and search businesses include: AMN Healthcare Services, Inc., CHG Healthcare Services, Medical Staffing Network Holdings, Inc., Maxim Healthcare, Jackson Healthcare, Team Health, Parallon, MedAssets, PESI Healthcare and Witt Kiefer.

We believe we benefit competitively from the following:

***Brand Recognition.*** Our brands are well-recognized among leading hospitals and healthcare facilities, as well as by many healthcare professionals. All of our business segments have been operating for more than twenty years.

***Strong and Diverse Client Relationships.*** We provide healthcare staffing and workforce solutions to a diverse client base throughout the United States pursuant to more than 3,000 active contracts with hospitals and healthcare facilities, and other healthcare providers. As a result we have a diverse choice of assignments for our healthcare professionals to choose from.

***Breadth of Services Offered and Workforce Solutions.*** Unlike many of our regional and local competitors, we are able to offer a wide range of workforce solutions to our healthcare clients given the breadth of our service offerings, the large number of healthcare professionals we have access to, and the expertise and best practices we have developed from working with a large variety of healthcare clients throughout the country for many years.

**Managed Service Provider Capabilities.** By leveraging technology and our single-point of contact service model, Cross Country Staffing™ (CCS) is able to provide managed service programs for its clients. We provide strategic and operational advantages for our healthcare clients by streamlining processes. We efficiently manage candidate hiring, simplify contracting and billing, provide consistent quality credential verification and candidate testing, and drive improved usages through tracking and trending reports.

**Recruiting and Placement of Healthcare Professionals.** In 2013, more than 17,000 healthcare professionals applied with us through our differentiated nursing and allied healthcare recruitment brands. We believe our access to such a large and diverse group of healthcare professionals makes us more attractive to healthcare institutions and facilities seeking healthcare staffing and workforce solutions.

**Certifications.** The staffing businesses of our Cross Country Staffing, MedStaff and Allied Health Group brands are certified by The Joint Commission under its Health Care Staffing Services Certification Program. In addition, Credent Verification and Licensing Services, a subsidiary of Medical Doctor Associates, is NCQA certified -- one of only a handful of competitors to achieve such certification.

## Demand and Supply Drivers

### *Drivers of Demand*

**Demographics.** We believe the long-term macro drivers of our business are demographic in nature and consist of both a growing and aging U.S. population demanding more healthcare services. Between 2012 and 2060, the U.S. Census Bureau projects the American population will cross the 400 million mark in 2051, reaching 420.3 million in 2060 -- with the older population (age 65 and older) outnumbering the young (age 18 and under) by 2056. The number of people age 65 and older is projected to more than double from 43.1 million in 2012 to 92 million in 2060, while over this same period the number of people age 85 and older is projected to more than triple from 5.9 million to 18.2 million or 4.3 % of the total population (U.S. Census Bureau).

Utilization of healthcare services is significantly higher among older people. Based on the most recent data from a 2010 report by the U.S. Department of Health and Human Services, there were over 1 billion physician office, hospital outpatient and emergency department visits in the United States in 2010. People aged 65 and over averaged seven doctor visits per year while people aged 45-65 averaged less than four visits annually, and those aged 1 to 44 averaged two or three visits per year. This report also found that approximately one-third of people age 65 and older were admitted to acute care hospitals for treatment, which is about three times the comparable rate for people under age 65. The American Hospital Association (AHA) has also projected the share of hospital admissions for the over-65 age group to rise from 38% in 2004 to 56% in 2030.

**Healthcare Reform.** We believe the ACA will create a large demand for healthcare professionals in order to accommodate the significant number of new patients expected to begin using these health benefits. The Congressional Budget Office (CBO) estimated that by 2023 about 24 million people will gain health insurance coverage under the ACA. Meanwhile, the CBO also estimated the number of individuals expected to enroll in Medicaid and the Children's Healthcare Insurance Program in 2023 will be 13 million (May 14, 2013 Report by U.S. Congressional Budget Office). In 2014, national health spending is expected to grow 6.1% as more Americans gain health insurance coverage through health insurance marketplaces or Medicaid. For 2015-2022, average annual healthcare spending is expected to grow at 6.2% largely as a result of the end of the sequester, the aging population, the continued implementation of the ACA and faster projected economic growth (Centers for Medicaid and Medicare Services, 2013). Similarly, the U.S. staffing market is expected to grow 7% in 2014, accelerating from 4% growth in 2013 (2014 Growth Assessment: Healthcare Staffing, Staffing Industry Analysts, December 2013). The Center for Medicaid and Medicare Services also estimates total health spending will be approximately 19.9% of the country's gross domestic product (GDP) by 2022 (December 2013, Centers for Medicaid and Medicare Services).

**Rise in Use of Temporary Workforce.** The penetration of temporary workers is near an all-time peak of 2.03% (U.S. Bureau of Labor Statistics). In the first quarter of 2013, U.S. staffing companies employed an average of 2.9 million temporary and contract workers. This represents a 2.9% growth in the same period from 2012 (American Staffing Association). Within the healthcare sector, we believe the uncertainty about the ACA, decreased reimbursements by the Centers for Medicaid and Medicare Services and lingering concerns generally about the economy has exacerbated hospitals' needs for more flexibility to match revenue and payroll. We believe hospitals will maintain a lower percentage of permanent staff over time and will supplement their staffing needs with temporary healthcare

professionals to allow them to flex their workforce up and down in order to address both cost concerns and patient census needs.

**Electronic Medical Records Implementations.** Many hospitals and physician groups continue to undergo EMR implementations. We believe the demand for our staffing services will be positively impacted in the short term from new deadlines adopted by Center for Medicaid and Medicare Services (CMS) regarding EMR implementations, because hospitals often use temporary staff to fill in for permanent staff being trained on new technologies. Stage 2 compliance for EMR implementations has been extended through the end of 2016 for “meaningful use” for Medicare and Medicaid EMR Incentive Programs, and Stage 3 has been extended to the beginning of 2017 for those providers that have completed at least two years in Stage 2 (December 2013, Centers for Medicaid and Medicare Services).

**Adoption of Strategic Outsourced Workforce Solutions.** In June 2013, Staffing Industry Analysts reported MSPs and vendor management systems are assuming a more dominant role in managing contingent labor. As a result of the ACA and reductions in Medicaid reimbursements, healthcare buyers are expected to increase the use of outsourced workers and staffing agency workers in order to streamline workflows to garner more efficiency and improve patient outcomes. This environment should improve the demand for our MSP services.

**Shortage of Healthcare Workers.** The supply of healthcare professionals in the marketplace is dependent upon the number of healthcare professionals entering or already active in their respective professions, less the number of professionals leaving or retiring from the workforce.

**Nursing Shortage from Aging Workforce and Aging Faculty.** Overlaid on an expected increase in demand for healthcare services is a projected shortage of registered nurses (RNs) resulting from both an aging nurse workforce and a nurse education system constrained by both an aging faculty and a lack of accredited teaching facilities. By 2020, nearly half of all RNs will reach traditional retirement age. Currently, the average age of a nurse in the United States is 50. In addition, nursing schools are experiencing faculty shortages. Faculty age continues to increase, reducing the number of education years of current faculty and a flat enrollment in doctoral programs of nursing further hampers the number of qualified educators (American Association of the Colleges of Nursing, 2013).

**Nursing Shortage From Economic Growth.** During the past several years, hospital employment of RNs increased significantly due to several factors related to the economic downturn and the weak national labor market: full and part-time staff RNs increased the number of shifts working directly for hospital employers, many retired RNs returned to bedside care, older RNs contemplating retirement remained in the workforce longer to maintain household income, and there was an increase in younger RNs entering the workforce. In the last recession, hospital employment of RNs increased by an estimated 243,000 full-time equivalents -- the largest increase during any 2-year period in the prior four decades (Healthcare Traveler). These factors served to substantially ease the shortage of RNs working in hospitals. However, it is believed that many RNs who entered the workforce during the economic downturn are likely to leave their jobs once the economy fully recovers, making it likely that growth in demand for RNs over the next few years will exceed the projected growth in the workforce, leading to renewed shortages of RNs in the near-term (*New England Journal of Medicine*, April 2012).

**Physician Shortage.** The U.S. Department of Health and Human Services estimates that the physician supply will increase by only 7% in the next 10 years, however, demand for physicians is projected to grow 29.7% between 2008 and 2025, from 706,500 to 916,000, according to the Association of American Medical Colleges (AAMC) Center for Workforce Studies (June 2010). This demand is largely due to the projected aging of the population, the passage of ACA, and the lower number of expected graduates from medical school. The U.S. is expected to face a shortage of more than 90,000 primary care, surgical and medical specialty physicians by 2020 - a number that will grow to more than 130,000 by 2025, according to analysis by the AAMC (June 2010). The AAMC expects nearly one-third of all physicians will retire in the next decade. And, while the number of applicants to U.S. medical schools is increasing, it will not keep pace with expected future demand.

**Ambulatory and Other Outpatient Care.** In 2012, ambulatory services employed 42% of healthcare workers compared to 35% employed by hospitals. In addition, ambulatory services employment grew 15% from 2007 to 2012, but hospital employment only grew 6% during the same period. (2014 Growth Assessment: Healthcare Staffing, Staffing Industry Analysts, December 2013). Since staffing agencies have had a stronger penetration in hospital settings than in ambulatory settings, the ambulatory care market should provide a robust area of growth for staffing agencies with a strong local market presence, as well as agencies that are able to provide Advance Practitioners, such

as Nurse Practitioners and Physicians Assistants, who frequently provide oversight in ambulatory settings (2014 Growth Assessment: Healthcare Staffing, Staffing Industry Analysts, December 30, 2013).

**Physicians Seeking Full-Time Employment.** Hospitals are seeking to gain market share by increasing their referral base and capturing admissions while physician practices are facing a combination of factors that include: stagnant or declining reimbursement rates, increased regulatory burden, rising costs, greater risk associated with operating a private practice, and an increased desire for a better work-life balance. Becoming hospital staff provides financial certainty and the ability to focus more on practicing medicine. Over the long term, we believe this shift in employment will increase demand for locum tenens physicians, because hospitals will need to fill open positions when these staff physicians take vacation time, leaves of absence, and attend continuing education seminars. Generally speaking, employed physicians are expected to offer fewer hours of service than their self-employed counterparts, which may further exacerbate the shortage of physicians. In addition, we believe this shift in employment will also create more demand for our physician search business as hospitals seek to fill more permanent positions.

**Creation of New Health Care Jobs.** The proportion of workers employed in private-sector health services has exceeded 11 % in recent years. Employment in healthcare has continued to grow, adding 559,000 jobs since the beginning of the recession in December 2007. Out of the approximately 2.4 million jobs created in 2013, 9.4% of those jobs were in healthcare. In addition, employment gains in the healthcare industry averaged 27,000 per month in 2012 and 17,000 in 2013 (U.S. Bureau of Labor Statistics, U.S. Department of Labor, January 10, 2014). The creation of additional jobs in the healthcare market should increase demand for our services as our temporary staff are typically hired to replace registered nurses and other healthcare workers taking vacation and leaves of absence.

#### *Drivers of Supply*

**Networking.** We rely heavily on word-of-mouth referrals for our healthcare professionals. Historically, more than half of our field employees have been referred to us by other healthcare professionals. Our most effective “sales force” is our network of healthcare professionals who have taken temporary or permanent assignments with us or who are currently working for us. Online social and professional networks have made it easier for us to connect with healthcare professionals and stay connected with them, thus enhancing our recruitment efforts.

**Traditional Reasons.** Nurses, allied professionals and locum tenens physicians work on temporary assignments to experience different geographic regions of the United States without moving permanently, work flexible schedules, gain professional development by working at prestigious healthcare facilities, earn top money and bonuses, travel with friends and family while enjoying quality accommodations, experience various clinical settings, look for a permanent position, and avoid workplace politics often associated with permanent staff positions.

**Economic Growth.** Many RNs who entered the workforce during the economic downturn are likely to leave their jobs once the economy fully recovers, making it likely that growth in demand for RNs over the next few years will exceed the projected growth in the workforce, leading to renewed shortages of RNs in the near-term (*New England Journal of Medicine*, April 2012). In connection with a statement by the Tri-Council of Nursing (July 2010), Dr. Peter Buerhaus, Associate Dean of Vanderbilt University’s School of Nursing, stated that once the jobs recovery begins and RNs’ spouses rejoin the labor market, many currently employed RNs could leave the workforce and their exit could be swift and deep. This includes many of the more than 100,000 RNs over the age of 50 that re-entered the workforce during 2007 and 2008, who are a part of the nearly 900,000 working RNs over the age of 50, of which Buerhaus expects large numbers of them to retire in the years ahead - independent of the pace and intensity of a jobs recovery. As these RNs leave permanent positions and transition to retirement, many may seek temporary or flexible assignments with travel or branch based local staffing agencies to supplement their retirement income.

**Portability of Healthcare.** We believe that employees have historically remained employed by their employers, in part for healthcare coverage. The portability of healthcare insurance provided by the ACA will provide more flexibility to employees, including healthcare professionals, which may result in a less committed relationship between employees and their employers. This should increase the supply of healthcare professionals willing to leave their permanent employment with hospitals and seeking assignments with staffing agencies.

**Increase in Number of Younger RN Graduates.** In 2011, Dr. Buerhaus noted a 62% increase in the number of 23-26 year olds who entered the RN workforce between 2002 and 2009 (Health Affairs, December 5, 2011). In addition, the number of RNs 30 years old and younger, as well as those 56 and older was substantially higher in 2011 than in 2004. This reflects an estimated 86% increase in the annual number of RN-BSN graduates, and a 67-percent increase in graduate degree awards, over just the past four years. (U.S. Nursing Workforce: Trends in Supply and Education, U.S.

Department of Health and Human Services, April 2013). We believe the increased number of RNs over 56 years old also represents older RNs who have delayed retirement or returned to the workforce due to the economy. The primary supply of contract nurses are typically from the younger population, so this influx of younger RNs in the workforce should increase the supply of contract nurses for healthcare staffing companies and reduce the nursing shortage.

**Temporary Physician Assignment.** Locum tenens assignments offer physicians the ability to focus on practicing medicine and avoid the stress of running their own practices, the ability to avoid paying the high costs of malpractice insurance, the opportunity to pick up extra shifts and weekends and work during vacation time from full-time staff jobs in order to earn extra money and repay student loans, and to maintain their autonomy while practicing medicine. The supply of physicians available for our physician staffing services is variable and is influenced by several factors: the desire of physicians to work temporary assignments, the desire of older physicians to work fewer hours, work-lifestyle balance among younger physicians, and the trend toward more female physicians in the workforce who traditionally work fewer hours than their male counterparts.

**Physicians Seeking Stability as Full-Time Staff.** Physicians are increasingly becoming employees of hospitals or health systems due to business pressures and costs of operating private practices. Physician practices are facing a combination of factors that include: stagnant or declining reimbursement rates, increased regulatory burden, rising costs, greater risk associated with operating a private practice, and an increased desire for a better work-life balance. We believe physicians have been seeking employment with hospitals at higher rates in the past few years due to: the difficulty of transitioning private practices to EMR, traversing the maze of insurance company requirements, financial strains on private practices from repeated threatened pay cuts based on Medicare's sustainable growth rate formulas, and the uncertain future of healthcare associated with the ACA. Becoming hospital staff provides financial certainty and the ability to focus more on practicing medicine. We believe this shift in employment will increase supply for our physician search business as physicians look for permanent employment with hospitals or health systems.

**Retiring Physicians.** The AAMC projects that the number of physicians will only increase 12.3% reflecting expectations that nearly one-third of all physicians will retire in the next decade and enrollments in medical schools will not be enough to meet demand just as more people will need health care. As these physicians leave permanent positions and transition to retirement, we believe many may seek temporary or flexible assignments to supplement their retirement income and maintain their skills which will increase the supply of physicians for locum tenens assignments.

**Nurse Licensure Compact Promoting Mobility for RNs.** As of May 2013, 24 states have implemented the Nurse Licensure Compact. The National Council of State Boards of Nursing created this mutual recognition plan to allow RNs and licensed practical nurses who reside in those 24 states to practice under the same license in states that have adopted this mutual recognition model. It eliminates the time and expense of obtaining a license in a new state and promotes a more streamlined and flexible licensure process, thereby enhancing the mobility of the nurse labor force.

## **Our Business Strategy**

Our long-term business strategy is to expand our market share and profitability by executing the following five (5) key elements:

*Strengthening and expanding current and new client relationships with hospitals and healthcare facilities by delivering innovative workforce solutions.* We provide flexible workforce solutions to the healthcare market through diversified offerings that meet the individual needs of each client. We have the ability to customize the services we provide to our clients based on our suite of service offerings: MSP, workforce assessments, internal resource pool consulting and development, EMR transition staffing, recruitment process outsourcing services, and traditional staffing.

*Using our recently expanded branch network to improve our fill rate at current MSP accounts and expand our MSP offerings in the outpatient market.* We believe the acquisition of our branch based allied healthcare staffing business will allow us to (i) increase our market share at our current MSPs by improving our fill rate of per diem, local and allied healthcare staffing professionals, (ii) incorporate the sale of allied healthcare staffing services at our already existing local branches, and (iii) sell our MSP services to current clients of the branch based allied healthcare staffing business. Our branch based network serves as a platform to sell all MSP services.

*Extend MSP services through cross-collaboration of all business segments.* We have expanded our MSP offerings to all business segments to provide a more comprehensive suite of workforce solutions to our customers. Each of our business segments enjoy strong customer relationships that may serve as a platform to sell our MSP services. As a result, we are

investing in sales and marketing to increase market share through cross-collaboration of business segments, including investments in contract relationship management technology.

*Growing our network of healthcare professionals by investing in technology initiatives and delivering quality customer service.* Recognizing that people communicate differently and have individual communication preferences, we are investing in technology initiatives to enhance the efficiency and effectiveness of our interactions with our hospital customers and healthcare professionals. We continue to invest in mobile and online technologies to increase our ability to attract and retain healthcare professionals. We believe providing communication options for our customers and healthcare professionals will strengthen our relationships with them and further enhance our delivery of high quality customer service.

*Making strategic and disciplined acquisitions in high growth, high margin businesses to strengthen and broaden our market presence.* We believe the best acquisitions follow a structured and disciplined approach with clear strategic objectives, detailed implementation plans and a focus on creating and capturing value for our shareholders. Our management team has broad and varied experience in multiple types of transactions.

## **Business Overview**

### *Services Provided*

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

Our nurse and allied staffing segment provides traditional staffing, including temporary and permanent placement of travel nurses and allied professionals, and branch based local nurses and allied staffing. We provide flexible workforce solutions to the healthcare market through diversified offerings meeting the special needs of each client. Our services include: MSP, workforce assessment, internal resource pool consulting and development, EMR transition staffing, recruitment process outsourcing services, and traditional staffing. Our clients include: public and private acute-care and non-acute care hospitals, government facilities, schools, outpatient clinics, ambulatory care facilities, physician practice groups, retailers, and many other healthcare providers. Our nurse and allied staffing businesses are certified by The Joint Commission under its Health Care Staffing Services Certification Program. Our nurse and allied staffing segment revenue and operating income is set forth in "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 16."

The majority of our revenue is generated from staffing RNs on long-term contract assignments (typically 13-weeks in length) at hospitals and health systems using the following brands: Cross Country TravCorps,™ NovaPro Travel, Medstaff Travel, CRU48 Travel, and Assignment America.™ The CRU48 Travel™ brand is used to identify and staff travel professionals on assignment who are pre-qualified and ready to begin assignments within one to two weeks (as opposed to the typical lead time of four to five weeks for travel healthcare professionals) at a hospital client which has an urgent need. Additionally, we offer a short-term staffing solution of RNs, licensed practical nurses, and certified nurse assistants on per diem and short-term assignments through our national network of local branch offices. We also provide travel allied health professionals on long-term contract assignments to hospitals, schools and skilled nursing facilities under the Cross Country TravCorps™ brand, and we provide more than 100 specialties of allied professionals on local per diem and short-term assignments in a variety of clinical settings under our Allied Health Group brand.

#### **Physician Staffing Segment**

We provide physicians in many specialties, certified registered nurse anesthetists (CRNAs), nurse practitioners (NPs) and physician assistants (PAs) under our Medical Doctor Associates™ (MDA) brand as independent contractors on temporary assignments throughout the United States at various healthcare facilities, such as acute and non-acute care facilities, medical group practices, government facilities, and managed care organizations. We recruit these professionals nationally and place them on assignments varying in length from several days up to one year. The revenue and operating income of the Physician Staffing Segment is set forth in "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 16."

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

We provide education and training programs to the healthcare industry and we also provide retained search services for physicians and healthcare executives. The revenue and operating income of our Other Human Capital Management

Services Segment is set forth in “Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 16.”

Our Cross Country Education™ (CCE) subsidiary, headquartered in Brentwood, Tennessee, offers “in person” one-day seminars, conferences and e-learning through various independent contractors who are experts in their field on topics pertaining to their profession. CCE is an approved provider of continuing education with more than 35 professional healthcare associations, and also works with national and state boards and associations. CCE is expanding its online presence and intends to continue to move toward a greater offering of blended learning opportunities for a professional that combines live seminar offerings with audio and e-learning products.

Our Cejka Search™ (Cejka) subsidiary is headquartered in Creve Coeur, Missouri. Cejka has been a leading physician, executive, advanced practice and allied health search firm for more than twenty years, recruiting top healthcare talent for organizations nationwide through a team of experienced professionals, advanced use of recruitment technology and commitment to service excellence. Serving clients nationwide, Cejka completes hundreds of search assignments annually for organizations spanning the continuum of healthcare, including physician group practices, hospitals and health systems, academic medical centers, accountable care organizations (ACOs), managed care and other healthcare organizations.

## **Our Business Model**

We have developed and will continue to focus our business model on growing market share and achieving greater profitability through higher efficiencies, all while continuing to offer the highest possible quality services to our healthcare facilities and our healthcare workers and physicians.

### **Marketing and Recruiting Healthcare Professionals**

We operate differentiated brands to recruit nurses and allied professionals. We believe our multi-brand recruiting model helps us reach a larger volume and a more diverse group of candidates to fill open positions at our clients throughout the United States in various clinical settings and in many different geographic areas. We believe nurses and allied professionals are attracted to us because we offer a wide range of diverse assignments in attractive locations, competitive compensation and benefit packages, scheduling options, as well as a high level of customer service. Our benefits may include professional liability insurance, 401(k) plan, health insurance, reimbursed travel, per diem allowances and housing. In 2013, more than 17,000 thousand nurse and allied healthcare professionals applied with us through our recruitment brands. Each of our nurse and allied healthcare professionals is employed by us under the terms of a written agreement, which typically provides for hourly wages and any other benefits they are entitled to receive during the assignment period.

Recruiters are an essential element of our nurse and allied staffing business, and are responsible for establishing and maintaining key relationships with candidates for the duration of their assignments with us. Recruiters match the supply of qualified candidates in our databases with the demand for open orders posted by our hospital clients. While we rely on word-of-mouth for referrals, we also market our brands on the Internet, including extensive utilization of social media, which has become an increasingly important component of our recruitment efforts. We maintain a number of websites to allow potential applicants to obtain information about our brands and assignment opportunities, as well as to apply online.

MDA recruits and contracts with physicians to provide medical services at MDA’s healthcare customers. Each physician is an independent contractor and enters into an agreement with MDA to provide medical services at a particular healthcare facility or physician practice group based on terms and conditions specified by that customer. Physicians are engaged to provide medical services for a healthcare customer ranging from a few days up to a year. We believe our physicians are attracted to us because we offer a wide variety of assignments, competitive fees, occurrence-based medical malpractice insurance and excellent customer service. MDA is one of the largest multi-specialty physician staffing companies that has procured an occurrence-based professional liability policy that provides coverage in all 50 states from a national insurance company. We believe this is an important competitive advantage for MDA in the recruitment of physicians as it covers incidents occurring during the policy period regardless of when they are reported. MDA relies on word-of-mouth referrals, but also markets its brands on the Internet and through extensive social media.

### **Sales and Marketing to Hospitals and Healthcare Facilities**

We market our nurse and allied staffing services to our hospital and healthcare facility clients using our Cross Country Staffing™ (CCS) and Allied Health Group brands. CCS typically contracts with our nurse and allied healthcare clients on behalf of itself and all of our other brands. Our traditional staffing includes temporary and permanent placement of travel nurses and allied professionals, branch based local nurses and allied staffing, and physicians. We provide healthcare

staffing opportunities to our healthcare professionals, and staffing and workforce solutions to our healthcare clients in all 50 states. We provide flexible workforce solutions to the healthcare market through diversified offerings meeting the special needs of each client. Our services include: MSP, workforce assessment, internal resource pool consulting and development, EMR transition staffing, recruitment process outsourcing services, and traditional staffing. Our clients include: public and private acute-care and non-acute care hospitals, government facilities, schools, outpatient clinics, ambulatory care facilities, physician practice groups, retailers, and many other healthcare providers. Orders for open positions and other services are entered into our various databases and are available to recruiters. Account managers, who develop relationships with our clients to understand their specific clinical settings and culture, submit candidate profiles to clients, and confirm offers and placements with the healthcare facility. In 2012, the market for nurse and allied staffing was estimated to be approximately \$7.3 billion, of which \$1.7 billion was travel nursing, \$2.7 billion was per diem staffing and \$2.9 billion was allied healthcare staffing (2013 List of Largest U.S. Healthcare Staffing Firms and Market Share Analysis, July 2013).

MDA markets its physician staffing operations to hospitals and other healthcare facilities on a national basis. We believe we attract physicians based on our wide variety of open positions in various specialties at locations throughout the United States, as well as our excellent long-standing reputation. Our recruiters use our large database of physicians and their expertise in their given specialties to contact physicians to schedule short and long-term engagements at healthcare customers. MDA successfully operates a multi-site business model with employees at several locations. Each recruiter typically covers one specialty and one geographic region. Historically, our locum tenens business has operated as a single desk model, with recruiters responsible for recruiting physicians, sourcing open positions, and collecting amounts due from customers. In late 2013, however, MDA began to hire a dedicated sales team in order to increase revenue and realize more leverage from the business.

CCE primarily recruits independent contractor speakers for its in-person continuing education and training seminars through its website and trade journal advertisements. Seminar attendees are recruited through direct mail marketing and CCE's website. Based on responses to its marketing efforts, CCE identifies venues for its in-person seminars throughout the United States. Once venues are identified, CCE's meeting planners rent space to hold the seminars and they schedule travel and hotels for the independent contractors to deliver the seminars. CCE receives revenue from attendees and pays the independent contractors a fee for each seminar based on attendance.

Cejka markets its retained search services to healthcare clients primarily through industry professional organizations, direct marketing, Cejka's website and word of mouth. Cejka identifies candidates to fill retained search positions using social networking, client referrals, and various other marketing technologies. Utilizing their expertise, Cejka's consultants review the specific skillsets necessary for a particular position and identify candidates who meet those particular needs. Cejka performs educational and reference checks, as well as other credentialing items specifically requested by healthcare clients as part of its placement services. Cejka bills healthcare clients a candidate acquisition fee and for Cejka's marketing expenses.

#### **Credentialing and Quality Management**

We screen all of our candidates prior to placement through our credentialing departments. While screening requirements are typically negotiated with our clients, each of our businesses has adopted its own minimum standard screening requirements. We continue to monitor our nursing and allied professional employees after placement in an effort to ensure quality performance, to determine eligibility for future placements and to manage our malpractice risk profile. Our credentialing processes are designed to ensure that our professionals have the requisite skillset and aptitude to meet the day-to-day requirements and challenges they would typically encounter on assignments where they are placed. We ask each of our healthcare clients to evaluate healthcare employees who work at their facility at the end of each assignment in order to continually assess client satisfaction and so that we may assist our employees with further educational development, if and where necessary.

#### **Client Billing**

We bill our nursing and allied employees at an hourly rate and assume all employer costs, including payroll, withholding taxes, benefits, professional liability insurance and other requirements, as well as any travel and housing arrangements, where applicable. Hours worked by field employees are recorded by our operations system, which then transmits the data directly to Automatic Data Processing, Inc. for payroll processing. Client billings are typically generated using time and attendance data captured by our payroll system. Our payroll coordinators also provide customer support services for field employees.

Hours worked by independent contractor physicians are reported to our MDA office in Berkeley Lake, Georgia. We bill our clients for hours worked by independent contractor physicians and for our recruitment fee. We negotiate payment for services with our clients based on market conditions and needs, and the amount we earn is not fixed. We keep a recruitment fee and pass on an agreed amount to the independent contractor physician on behalf of our clients.

Our educational seminars business collects the full amount of seminar fees from its customers and pays a negotiated percentage to its speakers, as well as other costs, such as hotel, travel, meals, and other related costs. For our retained search business, Cejka typically bills its clients a candidate acquisition fee and is reimbursed for certain marketing expenses.

### **Operations**

Our nursing, allied and physician businesses are operated through a relatively centralized business model servicing all assignment needs of our healthcare professional employees, physicians and client healthcare facilities through operation centers located in Boca Raton, Florida; Malden, Massachusetts; Tampa, Florida; Newtown Square, Pennsylvania; and Berkeley Lake, Georgia. In addition to the key sales and recruitment activities, these centers also perform support activities such as coordinating housing, payroll processing, benefits administration, billing and collections, travel reimbursement processing, customer service and risk management. After completing the integration of our new allied health business, we expect to have 29 branches.

CCE conducts its operations at its offices in Brentwood, Tennessee; and Cejka Search operates its business from its headquarters located in Creve Coeur, Missouri. These businesses operate relatively independently, other than certain ancillary services that are provided from our Boca Raton, Florida headquarters, such as payroll for corporate employees, sales, legal, finance, and information systems support. Payroll of corporate personnel is provided on a centralized basis to both of these businesses from our Malden, Massachusetts office.

### **Information Systems**

Our placement and support operations are enhanced by sophisticated information systems that facilitate interaction between our recruitment and support activities. Our proprietary information systems enable us to manage virtually all aspects of our operations. We believe these systems can accommodate significant future growth of our business. In addition, their scalable design allows further capacity to be added to the existing hardware platform. We have proprietary software that handles most facets of our business, including contract pricing and profitability, contract processing, job posting, housing management, billing/payroll and insurance. Our systems provide support to our facility clients, field employees and independent contractors, and enable us to efficiently fulfill and renew job assignments. Our systems also provide detailed information on the status and skillset of each candidate and independent contractor. In addition to our domestic information systems team, certain software development and information technology support is provided by our employees based in Pune, India.

Our financial, management reporting and human resources systems are managed on PeopleSoft, a leading enterprise resource planning software suite that provides modules used to manage our accounts receivable, accounts payable, general ledger, billing and human resources. This system is designed to accommodate future growth in our business.

### **Risk Management, Insurance and Benefits**

We have developed a risk management program that requires prompt notification of incidents by clients, clinicians and independent contractors, educational training to our employees, loss analysis, and prompt reporting procedures to reduce our risk exposure. Each of our temporary employees receives instructions regarding the timely reporting of claims and this information is also available on our website. We continuously review facts and incidents associated with professional liability and workers' compensation claims in order to identify trends and reduce our risk of loss in the future where possible. In addition, upon notification of an incident that may result in liability to us, we promptly gather all available documentation and review the actions of our employee and independent contractor to determine if he or she should remain on an assignment and whether he or she is eligible for another assignment with us. We consider assessments provided by our clients and we work with experts from our third party administrator on certain claims, as well as clinicians and experts from our insurance carriers, to determine employment eligibility and potential exposure. Prior to approving an employee or independent contractor for an assignment, we review records from applicable state professional associations, the national practitioners' database and other such databases available to us.

We provide workers' compensation insurance coverage, professional liability coverage and health care benefits for our eligible temporary professionals. We record our estimate of the ultimate cost of, and reserves for workers compensation and

professional liability benefits based on actuarial models prepared or reviewed by an independent actuary using our loss history as well as industry statistics. In determining our reserves, we include reserves for estimated claims incurred but not reported. We also estimate on a quarterly basis the health care claims that have occurred but have not been reported based on our historical claim submission patterns. The ultimate cost of workers' compensation, professional liability and health insurance claims will depend on actual amounts incurred to settle those claims and may differ from the amounts reserved by us for those claims.

The Company maintains a number of insurance policies including general liability, automobile liability and employers' liability; each with excess liability coverage. We also maintain workers' compensation, fidelity, fiduciary, directors and officers, and professional liability policies. These policies provide coverage subject to their terms, conditions, limits of liability, and deductibles, for certain liabilities that may arise from our operations. We also own a captive insurance company domiciled in the Cayman Islands that insures a portion of each medical malpractice claim brought against our physicians or MDA. There can be no assurance that any of the above policies will be adequate for our needs, or that we will maintain all such policies in the future.

## **Regulations**

We provide services directly to our clients on a contract basis and receive payment directly from them. However, many of our clients are reimbursed under the federal Medicare program and state Medicaid programs for the services they provide. In recent years, federal and state governments have made significant changes in these programs that have reduced reimbursement rates. In addition, insurance companies and managed care organizations seek to control costs by requiring that healthcare providers, such as hospitals, discount their services in exchange for exclusive or preferred participation in their benefit plans. While not affecting us directly, future federal and state legislation or evolving commercial reimbursement trends may further reduce or change conditions for our clients' reimbursement. Such limitations on reimbursement could reduce our clients' cash flows, hampering the pricing we can charge clients and their ability to pay us. We continuously monitor changes in regulations and legislation for potential impacts on our business.

Our business is subject to regulation by numerous governmental authorities in the jurisdictions in which we operate. Complex federal and state laws and regulations govern, among other things, the licensure of professionals, the payment of our employees (e.g., wage and hour laws, employment taxes and income tax withholdings, etc.) and the operations of our business generally. We conduct business primarily in the U.S. and are subject to federal and state laws and regulations applicable to our business, which may be amended from time to time. Future federal and state legislation or interpretations thereof may require us to change our business practices. Compliance with all of these applicable rules and regulations require a significant amount of resources. We endeavor to be in compliance with all such rules and regulations.

## **Employees**

As of December 31, 2013, we had approximately 1,100 corporate employees. During 2013, we maintained an average of 2,420 full-time equivalent field employees in our nurse and allied staffing segment. During 2013, we utilized approximately 1,500 independent contractor physicians and 140 independent contractors related to non-physician staffing. We are not subject to a collective bargaining agreement with any of our employees. We consider our relationship with employees to be good.

## **Additional Information**

Financial reports and filings with the Securities and Exchange Commission (SEC), including this Annual Report on Form 10-K, are available free of charge as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC, on or through our corporate website at [www.crosscountryhealthcare.com](http://www.crosscountryhealthcare.com). The information found on our website is not part of this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

## **Item 1A. Risk Factors.**

You should carefully consider the following risk factors, as well as the other information contained in this Annual Report on Form 10-K.

### ***Decreases in demand by our clients may adversely affect the profitability of our business.***

Among other things, changes in the economy which result in higher unemployment and low job growth, a decrease or stagnation in the general level of in-patient admissions at our clients' facilities, uncertainty regarding federal healthcare law and the willingness of our hospital, healthcare facilities and physician group clients to develop their own temporary staffing pools and increase the productivity of their permanent staff may, individually or in the aggregate, significantly affect demand for our temporary healthcare staffing services and hamper our ability to attract, develop and retain clients. When a hospital's admissions increase, temporary employees or other healthcare professionals are often added before full-time employees are hired. As admissions decrease, clients typically reduce their use of temporary employees or other healthcare professionals before undertaking layoffs of their permanent employees. In a down market, healthcare professionals may be less likely to leave a full-time position to work on temporary assignments and clients are also more likely to focus on internal solutions for their temporary staffing needs. In addition, we also may experience more competitive pricing pressure during periods when in-patient admissions are stagnant for periods of time or declining. In addition, if the trend towards providing healthcare in alternative settings, as opposed to acute care hospitals intensifies, it could result in a decline in in-patient admissions at our clients' facilities. These events individually or in the aggregate may cause a reduction in admissions that could negatively affect the demand for our services. Decreases in demand for our services may affect our ability to provide attractive assignments to our healthcare professionals thereby reducing our profitability.

### ***Our clients may terminate or not renew their contracts with us.***

Our arrangements with hospitals, healthcare facilities and physician group clients are generally terminable upon 30 to 90 days' notice. These arrangements may also require us to, among other things, guarantee a percentage of open positions that we will fill, and if we are unable to meet those obligations a client may terminate our contract which could have a negative impact on our profitability. We may have fixed costs, including housing costs, associated with terminated arrangements that we will be obligated to pay post-termination.

### ***We may be unable to recruit enough healthcare professionals to meet our clients' demands.***

We rely significantly on our ability to attract, develop and retain healthcare professionals who possess the skills, experience and, as required, licensure necessary to meet the specified requirements of our healthcare clients. We compete for healthcare staffing personnel with other temporary healthcare staffing companies, as well as actual and potential clients such as healthcare facilities and physician groups, some of which seek to fill positions with either permanent or temporary employees. Currently, there is a shortage of certain qualified nurses and physicians in many areas of the United States and competition for these professionals remains intense. The current economic conditions may make these healthcare professionals less willing to travel to temporary assignments, thus further intensifying the competition with other temporary healthcare staffing companies to recruit these healthcare professionals. Although demand is below historically normal levels, at this time we still do not have enough nurses and physicians to meet all of our clients' demands for these staffing services. This shortage of healthcare professionals generally and their willingness to leave stable full-time jobs to travel on temporary assignments in the current environment may limit our ability to increase the number of healthcare professionals that we successfully recruit, decreasing our ability to grow our business.

### ***The costs of attracting and retaining healthcare professionals may rise more than we anticipate.***

We compete with hospitals, healthcare facilities, physician groups and other healthcare staffing companies for qualified healthcare professionals. Because there is currently a shortage of certain qualified healthcare professionals, competition for them is intense. Our ability to recruit and retain healthcare professionals depends on our ability to, among other things, offer assignments that are attractive to healthcare professionals and offer them competitive wages and benefits or payments, as applicable. Our competitors might increase hourly wages or the value of benefits to induce healthcare professionals to take assignments with them. If we do not raise wages or increase the value of benefits in response to such increases by our competitors, we could face difficulties attracting and retaining qualified healthcare professionals. If we raise wages or increase benefits in response to our competitors' increases and are unable to pass such cost increases on to our clients, our margins could decline.

***Our costs of providing housing for our healthcare professionals may be higher than we anticipate and, as a result, our margins could decline.***

We provide housing for certain of our healthcare professionals when on an assignment with us. At any given time, we have over a thousand apartments on lease throughout the U.S. Typically, the length of an apartment lease is coterminous with the length of the assignment of a nurse or allied healthcare professional. If the costs of renting apartments and furniture for these healthcare professionals increase more than we anticipate and we are unable to pass such increases on to our clients, our margins may decline. To the extent the length of a nurse's housing lease exceeds the term of the nurse's staffing contract, we bear the risk that we will be obligated to pay rent for housing we do not use. To limit the costs of unutilized housing, we try to secure leases with term lengths that match the term lengths of our staffing contracts, typically 13 weeks. In some housing markets we have had, and believe we will continue to have, difficulty identifying short-term leases. If we cannot identify a sufficient number of appropriate short-term leases in regional markets, or, if for any reason, we are unable to efficiently utilize the apartments we do lease, we may be required to pay rent for unutilized housing, or, to avoid such risk, we may have to forego otherwise profitable opportunities.

***We are dependent on the proper functioning of our information systems.***

We are dependent on the proper functioning of our information systems in operating our business. Critical information systems used in daily operations identify and match staffing resources and client assignments and perform billing and accounts receivable functions. Additionally, we rely on our information systems in managing our accounting and financial reporting. If these systems are damaged or disrupted and unable to function properly in order to support our business operations or require significant costs to repair, maintain or further develop, our business and financial results could be materially adversely affected. Our information systems are protected through a secure hosting facility and additional backup remote processing capabilities also exist in the event our primary systems fail or are not accessible. However, the business is still vulnerable to fire, storm, flood, power loss, telecommunications failures, physical or software break-ins and similar events which may prevent personnel from gaining access to systems necessary to perform their tasks in an automated fashion. In the event that critical information systems fail or are otherwise unavailable, these functions would have to be accomplished manually, which could impact our ability to identify business opportunities quickly, to, among other things, maintain billing and clinical records reliably, to bill for services efficiently and to maintain our accounting and financial reporting accurately.

***Losses caused by natural disasters, such as hurricanes could cause us to suffer material financial losses.***

Catastrophes can be caused by various events, including, but not limited to, hurricanes and other severe weather. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure and the severity of the event. We do not maintain business interruption insurance for these events. We could suffer material financial losses as a result of such catastrophes.

***If applicable government regulations change, we may face increased costs that reduce our revenue and profitability.***

The temporary healthcare staffing industry is regulated in many states. For example, in some states, firms such as our nurse staffing companies must be registered to establish and advertise as a nurse-staffing agency or must qualify for an exemption from registration in those states. If we were to lose any required state licenses, we could be required to cease operating in those states. The introduction of new regulatory provisions could substantially raise the costs associated with hiring temporary employees. For example, some states could impose sales taxes or increase sales tax rates on temporary healthcare staffing services. These increased costs may not be able to be passed on to clients without a decrease in demand for temporary employees. In addition, if government regulations were implemented that limited the amounts we could charge for our services, our profitability could be adversely affected.

***If certain of our healthcare professionals are reclassified from independent contractors to employees our profitability could be materially adversely impacted.***

Federal or state taxing authorities could re-classify our locum tenens physicians and certified registered nurse anesthetists as employees, despite both the general industry standard to treat them as independent contractors and many state laws prohibiting non-physician owned companies from employing physicians (e.g., the "corporate practice of medicine"). If they were re-classified as employees, we would be subject to, among other things, employment and payroll-related tax claims, as well as any applicable penalties and interest. Any such reclassification would have a material adverse impact on our business model for that business segment and would negatively impact our profitability.

**We are exposed to increased costs and risks associated with complying with increasing and new regulation of corporate governance and disclosure standards.**

We spend significant time and resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosures. Compliance requires management's annual review and evaluation of our internal control systems and attestations of the effectiveness of these systems by our independent auditors. We may encounter problems or delays in completing the review and evaluation, the implementation of improvements and the receipt of a positive attestation by our independent auditors. If we are not able to timely comply with the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002, we might be subject to sanctions or investigation by regulatory authorities. Any such action could adversely affect our business and financial results.

***Our financial results could be adversely impacted by the loss of key management.***

If members of our senior management team become unable or unwilling to continue their present positions, our business and financial results could be adversely affected.

***Substantial changes in healthcare reform or reimbursement trends could hinder our clients' ability to pay us.***

While in most cases our fees are paid directly by our clients rather than by governmental or third-party payers, many of our clients are reimbursed under the federal Medicare program and state Medicaid programs for the services they provide. Changes made by federal and state governments could reduce reimbursement rates. In addition, insurance companies and managed care organizations seek to control costs by requiring that healthcare providers, such as hospitals, discount their services in exchange for participation in their benefit plans. Future federal and state legislation or evolving commercial reimbursement trends may further reduce, or change conditions for, our clients' reimbursement. Limitations on reimbursement could reduce our clients' cash flows, hampering their ability to pay us.

***Competition for acquisition opportunities may restrict our future growth by limiting our ability to make acquisitions at reasonable valuations and lack of liquidity in the credit markets may restrict our ability to make certain acquisitions.***

Our business strategy includes strategic acquisitions of companies that complement or enhance our business. We have historically faced competition for acquisitions. In the future, this could limit our ability to grow by acquisition or could raise the prices of acquisitions and make them less accretive to our earnings. In addition, even if we are able to negotiate acceptable terms at reasonable valuations, there can be no assurance that there will be sufficient liquidity available on terms favorable to us to complete acquisitions. If we are unable to secure necessary financing under our credit facility or otherwise, we may be unable to complete desirable acquisitions. Certain restrictive covenants in our credit facility may also limit our ability to complete acquisitions.

***We may face difficulties integrating our acquisitions into our operations and our acquisitions may be unsuccessful, involve significant cash expenditures or expose us to unforeseen liabilities.***

We continually evaluate opportunities to acquire companies that would complement or enhance our business and at times have preliminary acquisition discussions with some of these companies.

These acquisitions involve numerous risks, including:

- Potential loss of key employees or clients of acquired companies;
- Difficulties integrating acquired personnel and distinct cultures into our business;
- Difficulties integrating acquired companies into our operating, financial planning and financial reporting systems;
- Diversion of management attention from existing operations; and
- Assumptions of liabilities and exposure to unforeseen liabilities of acquired companies, including liabilities for their failure to comply with healthcare and tax regulations.

These acquisitions may also involve significant cash expenditures, debt incurrence and integration expenses that could have a material adverse effect on our financial condition and results of operations. Any acquisition may ultimately have a negative impact on our business and financial condition.

**We operate our business in a regulated industry and modifications, inaccurate interpretations or violations of any applicable statutory or regulatory requirements may result in material costs or penalties to our Company as well as litigation and could reduce our revenue and earnings per share.**

Our industry is subject to many complex federal, state, local and international laws and regulations related to, among other things, the licensure of professionals, the payment of our field employees (e.g., wage and hour laws, employment taxes and income tax withholdings, the HITECH Act, etc.) and the operations of our business generally (e.g., federal, state and local tax laws). If we do not comply with the laws and regulations that are applicable to our business (both domestic and foreign), we could incur civil and/or criminal penalties as well as litigation or be subject to equitable remedies.

***Impairment in the value of our goodwill, trade names or other intangible assets could negatively impact our net income and earnings per share.***

We are required to test goodwill and intangible assets with indefinite lives (such as trade names) annually, to determine if impairment has occurred. Long-lived assets and other identifiable intangible assets are also reviewed for impairment whenever events or changes in circumstances indicate that amounts may not be recoverable. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying amount of the goodwill or other intangible assets and the implied fair value of the goodwill or the fair value of the indefinite-lived intangible asset in the period the determination is made. The testing of goodwill and other intangible assets for impairment requires us to make significant estimates about our future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, changes in competition or potential changes in our stock price and market capitalization. Changes in these factors, or changes in actual performance compared with estimates of our future performance, could affect the fair value of goodwill, trade names or other intangible assets, which may result in an impairment charge. We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill, trade names or other intangible assets become impaired, there could be an adverse effect on us. At December 31, 2013, goodwill, trade names and other identifiable intangible assets (net of amortization) represented 90.7% of our stockholders' equity.

***Significant legal actions could subject us to substantial uninsured liabilities.***

In recent years, healthcare providers have become subject to an increasing number of legal actions alleging malpractice, vicarious liability, violation of certain consumer protection acts, negligent hiring, product liability or related legal theories. We may be subject to liability in such cases even if the contribution to the alleged injury was minimal. Many of these actions involve large claims and significant defense costs. In addition, we may be subject to claims related to torts or crimes committed by our corporate employees or healthcare professionals. In most instances, we are required to indemnify clients against some or all of these risks. A failure of any of our corporate employees or healthcare professionals to observe our policies and guidelines intended to reduce these risks, relevant client policies and guidelines or applicable federal, state or local laws, rules and regulations could result in negative publicity, payment of fines or other damages.

A key component of our business is the credentialing process. Ultimately, any hospital or other health care provider is responsible for its own internal credentialing process, and the provider typically makes the decision to allow a healthcare professional to provide services on its behalf. Nevertheless, in many situations, the provider will be relying upon the reputation and screening process of our Company. Errors in this process or failure to detect a poor or incorrect history could have a material effect on our reputation. In addition, we may not have access to all of the resources that are available to hospitals to check credentials.

To protect ourselves from the cost of these types of claims, we maintain professional malpractice liability insurance and general liability insurance coverage in amounts and with deductibles that we believe are appropriate for our operations. Our coverage is, in part, self-insured, and significant claims could adversely impact our profitability. In addition, our insurance coverage may not cover all claims against us or continue to be available to us at a reasonable cost. If we are unable to maintain adequate insurance coverage, we may be exposed to substantial liabilities.

***If our insurance costs increase significantly, these incremental costs could negatively affect our financial results.***

We purchase various insurance policies to limit or transfer certain risks inherent in our operations. The costs related to obtaining and maintaining professional and general liability insurance and health insurance for healthcare providers has generally been increasing. If the cost of carrying these insurance policies continues to increase significantly, we will recognize

an associated increase in costs, which may negatively affect our margins. This could have an adverse impact on our financial condition.

***If we become subject to material liabilities under our self-insurance programs, our financial results may be adversely affected.***

We provide workers compensation coverage through a program that is partially self-insured. In addition, we provide medical coverage to our employees through a partially self-insured preferred provider organization. A portion of our medical malpractice coverage is also through a partially self-insured program. If we become subject to substantial uninsured workers compensation, medical coverage or medical malpractice liabilities, our financial results may be adversely affected.

***We are subject to litigation, which could result in substantial judgment or settlement costs.***

We are party to various litigation claims and legal proceedings. We evaluate these litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, if any, we establish reserves and/or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. We may not have sufficient business insurance to cover these risks. Actual outcomes or losses may differ materially from those estimated by our current assessments which would impact our profitability. Adverse developments in existing litigation claims or legal proceedings involving our Company or new claims could require us to establish or increase litigation reserves or enter into unfavorable settlements or satisfy judgments for monetary damages for amounts in excess of current reserves, which could adversely affect our financial results for future periods.

***If provisions in our corporate documents and Delaware law delay or prevent a change in control of our Company, we may be unable to consummate a transaction that our stockholders consider favorable.***

Our certificate of incorporation and by-laws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our certificate of incorporation authorizes our Board of Directors to issue up to 10,000,000 shares of "blank check" preferred stock. Without stockholder approval, the Board of Directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire us. Delaware law may also discourage, delay or prevent someone from acquiring or merging with us.

***Terrorist attacks or armed conflict could adversely affect our normal business activity and results of operations.***

In the aftermath of the terrorist attacks on September 11, 2001, we experienced a temporary interruption of normal business activity. Similar events in the future or armed conflicts involving the United States could result in additional temporary or longer-term interruptions of our normal business activity and our results of operations. Future terrorist attacks could also result in reduced willingness of nurses to travel to staffing assignments by airplane or otherwise.

***Market disruptions may adversely affect our operating results and financial condition.***

Economic conditions and volatility in the financial markets may have an adverse impact on the availability of credit to us and to our customers and businesses generally. To the extent that disruption in the financial markets occurs, it has the potential to materially affect our and our customers' ability to tap into debt and/or equity markets to continue ongoing operations, have access to cash and/or pay debts as they come due. These events could negatively impact our results of operations and financial conditions. Although we monitor our credit risks to specific clients that we believe may present credit concerns, default risk or lack of access to liquidity may result from events or circumstances that are difficult to detect or foresee. Conditions in the credit markets and the economy generally could adversely impact our business and frustrate or prohibit us from refinancing our credit facility on terms favorable to us when it comes due in January 2016.

***Stock issuable under our stock option plans are presently in effect and sales of this stock could cause our stock price to decline.***

We registered 4,398,001 shares of common stock for issuance under our 1999 stock option plans and 3,500,000 shares of common stock for issuance under our 2007 Stock Incentive Plan. Fully vested options to purchase 177,300 shares of common stock were issued and outstanding as of February 28, 2014. In addition, 1,298,149 stock appreciation rights were issued and outstanding as of February 28, 2014, 763,274 of which were vested. Shares of restricted stock outstanding as of February 28, 2014, were 554,981. Common stock issued upon exercise of stock options, stock appreciation rights and restricted stock, under

our benefit plans, is eligible for resale in the public market without restriction. We cannot predict what effect, if any, market sales of shares held by any stockholder or the availability of these shares for future sale will have on the market price of our common stock.

***We could fail to generate sufficient cash to fund our liquidity needs and/or fail to satisfy the financial and other restrictive covenants to which we are subject under our existing indebtedness.***

We currently have sufficient liquidity to operate our business in the normal course. However, if we were to make an acquisition or enter into a similar type of transaction, our liquidity needs may exceed our current capacity. In addition, our existing credit facility currently contains financial covenants that require us: (1) under certain conditions, to operate above a minimum fixed charge coverage ratio, and (2) to maintain a certain level of accounts receivables in order to draw down funds on the loan. Further deterioration in our operating results could result in our inability to comply with these covenants which would result in a default under our credit facility. If an event of default exists, our lenders could call the indebtedness and we may be unable to renegotiate or secure other financing.

***If our healthcare facility clients increase the use of intermediaries it could impact our profitability.***

We have seen an increase in the use of intermediaries by our clients, including both vendor management companies (who solely provide technology) and managed service providers (who provide staffing services). These intermediaries typically enter into contracts with our clients and then subcontract with us and other agencies to provide staffing services, thus interfering to some extent in our relationship with our clients. Each of these intermediaries charges an administrative fee. If managed service providers win business with our current customers, the number of professionals we have on assignment at those clients could decrease. If we are unable to negotiate hourly rates with intermediaries for the services we provide at these clients which are sufficient to cover administrative fees charged by those intermediaries, it could impact our profitability. If those intermediaries become insolvent or fail to pay us for our services, it could impact our bad debt expense and thus our overall profitability.

We also provide comprehensive managed service provider (MSP) solutions directly to certain of our clients. While such contracts typically improve our market share at these facilities, they could result in less diversification of our customer base, increased liability and reduced margins. The loss of one or more of our large MSP accounts could materially affect our profitability.

***We are subject to business risks associated with international operations.***

We have international operations in India where our Cross Country Infotech, Pvt Ltd. (Infotech) subsidiary is located. Infotech provides in-house information systems development and support services as well as some back-office processing services. We have limited experience in supporting our services outside of North America. Operations in certain markets are subject to risks inherent in international business activities, including: fluctuations in currency exchange rates; changes in regulations, varying economic and political conditions; overlapping or differing tax structures; and regulations concerning compensation and benefits, vacation and the termination of employment. Our inability to effectively manage our international operations could result in increased costs and adversely affect our results of operations.

***The delay or cancellation of any EMR implementations could adversely impact our operational results.***

On February 17, 2009, President Obama signed into law the American Reinvestment and Recovery Act of 2009, or the ARRA, representing the largest government-driven investment in electronic healthcare technologies. Within ARRA, the Health Information Technology for Economic and Clinical Health Act, or HITECH, provisioned more than \$19 billion in incentives to healthcare organizations that modernize their medical records systems. Physicians and hospitals that do not use certified products in a meaningful way by certain specified dates will be penalized under the current legislation. Based on this legislation, we have seen an increase in the utilization of our nurse and allied healthcare staffing services as facilities train their staff on new electronic healthcare technologies being implemented (EMR Implementations). If a healthcare facility contracts with us for staffing services while it is undergoing an EMR Implementation and then that facility delays or cancels those staffing services, it could have a significant adverse impact on our operational and financial results. In addition, the revenue stream we derive by staffing hospitals undergoing EMR Implementations is not indefinite and based on current legislation is expected to lessen as we near 2017.

***Cyber security risks and cyber incidents could adversely affect our business and disrupt operations.***

Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data,

or causing operational disruption. The result of these incidents could include, but are not limited to, disrupted operations, misstated financial data, liability for stolen assets or information, increased cyber security protection costs, litigation and reputational damage adversely affecting customer or investor confidence. We do not have insurance to cover any of these potential incidents.

***Changes to healthcare delivery in the United States may impact our business.***

The Patient Protection and Affordable Care Act was signed into law on March 23, 2010 and later amended on March 30, 2010 (ACA). It is a very complex law that regulates a wide range of components in our healthcare system. The sweeping healthcare reforms outlined in the ACA are scheduled to take effect on various dates through 2020. Additional guidance on the ACA is expected to be forthcoming from the IRS, the Treasury Department, the U.S. Department of Health and Human Services, the U.S. Department of Labor and the states.

The ACA reforms the way Americans buy health insurance and creates a number of issues for employers that sponsor group health plans. The ACA could result in increased costs to us without the ability to increase our prices to customers to cover those costs.

***Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors and fraud, or in making all material information known in a timely manner to management.***

Our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations, misstatements due to error or fraud may occur and not be detected.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

We do not own any real property. Our principal leases as of March 1, 2014 are listed below.

<b>Location</b>	<b>Function</b>	<b>Square Feet</b>	<b>Lease Expiration</b>
Boca Raton, Florida	Headquarters and nurse and allied staffing administration	70,406	May 1, 2018
Berkeley Lake, Georgia	Temporary physician staffing and allied staffing offices	41,607	October 7, 2024
Newtown Square, Pennsylvania	Nurse and allied staffing administration and general office use	16,304	December 31, 2018
Creve Coeur, Missouri	Retained search headquarters	27,051	June 14, 2017
Malden, Massachusetts	Nurse and allied staffing administration and general office use	22,767	June 30, 2017
Pune, India	In-house information systems and development support	20,700	November 30, 2015
Brentwood, Tennessee	Education training headquarters	16,884	August 31, 2017
Tampa, Florida	Nurse and allied staffing administration and general office use	15,698	February 15, 2015

**Item 3. Legal Proceedings.**

On December 4, 2012, the Company's subsidiary, CC Staffing, Inc. (now known as Travel Staff, LLC) became the subject of a purported class action lawsuit (Alice Ogues, on behalf of herself and all others similarly situated, Plaintiffs, vs. CC Staffing, Inc., a Delaware corporation; and DOES 1-50, inclusive, Defendants) filed in the United States District Court, Northern District of California. Plaintiff alleges that traveling employees were denied meal periods and rest breaks, that they should have been paid overtime on reimbursement amounts, various other wage and hour claims, and that they are entitled to associated penalties. The parties have agreed to settle this lawsuit for \$750,000. The United States District Court, Northern District of California granted preliminary approval of the settlement on January 17, 2014, subject to the inclusion of language requiring a five-day cure period for deficient requests for exclusion from class members. On February 6, 2014, the parties amended the settlement agreement to include such language. A hearing for final approval of the settlement agreement is scheduled for May 16, 2014.

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

## PART II

### **Item 4. Mine Safety Disclosures.**

This item is not applicable to the Company.

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

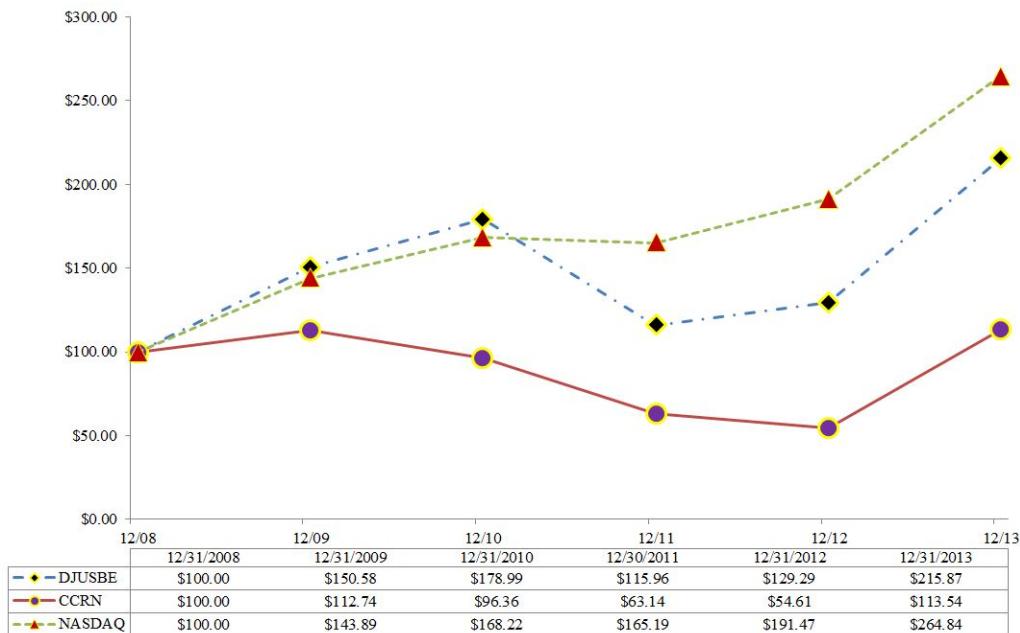
Our common stock currently trades under the symbol "CCRN" on the NASDAQ Global Select Market (NASDAQ). Our common stock commenced trading on the NASDAQ National Market under the symbol "CCRN" on October 25, 2001. The following table sets forth, for the periods indicated, the high and low sale prices per share of CCRN common stock. Such prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Calendar Period	Sale Prices		
	High	Low	
<b><u>2013</u></b>			
Quarter Ended March 31, 2013	\$ 6.23	\$ 4.86	
Quarter Ended June 30, 2013	\$ 5.60	\$ 4.59	
Quarter Ended September 30, 2013	\$ 6.19	\$ 5.14	
Quarter Ended December 31, 2013	\$ 10.53	\$ 5.55	
<b><u>2012</u></b>			
Quarter Ended March 31, 2012	\$ 6.73	\$ 4.40	
Quarter Ended June 30, 2012	\$ 5.64	\$ 3.87	
Quarter Ended September 30, 2012	\$ 5.12	\$ 3.90	
Quarter Ended December 31, 2012	\$ 4.98	\$ 3.80	

The graph below compares the Company to the cumulative 5-year total return of holders of the Company's common stock with the cumulative total returns of the NASDAQ Composite index and the Dow Jones US Business Training & Employment Agencies index. The graph assumes that the value of the investment in the company's common stock and in each of the indexes (including reinvestment of dividends) was \$100 on 12/31/2008 and tracks it through 12/31/2013.

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Cross Country Healthcare, Inc., the NASDAQ Composite Index,  
and the Dow Jones US Business Training & Employment Agencies Index



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

As of March 3, 2014, there were 130 stockholders of record of our common stock. In addition, there are 3,156 beneficial owners of our common stock held by brokers or other institutions on behalf of stockholders.

We have never paid or declared cash dividends on our common stock. Covenants in our credit agreement limit our ability to repurchase our common stock and declare and pay cash dividends on our common stock. On February 28, 2008, our Board of Directors authorized our most recent stock repurchase program whereby we may purchase up to 1.5 million of our common shares, subject to the terms of our current credit agreement. The shares may be repurchased from time-to-time in the open market and the repurchase program may be discontinued at any time at our discretion. At December 31, 2013, we had 942,443 shares of common stock left remaining to repurchase under this authorization, subject to the limitations of the Company's Credit Agreement.

Subject to certain conditions as described in its Loan Agreement entered into on January 9, 2013, the Company may repurchase up to an aggregate amount of \$5,000,000 of its Equity Interests. See Note 8- Long-term Debt, to our Consolidated Financial Statements for further information. See also – *Liquidity and Capital Resources* in the *Management's Discussion and Analysis of Financial Condition and Results of Operations* section of this report.

### Item 6. Selected Financial Data.

The selected consolidated financial data as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012, and 2011 are derived from the audited consolidated financial statements of Cross Country Healthcare, Inc., included elsewhere in this Report. The selected consolidated financial data as of December 31, 2011, 2010 and 2009 and for the years ended December 31, 2010 and 2009, are derived from the consolidated financial statements of Cross Country Healthcare, Inc., that have been audited but not included in this Report.

During the fourth quarter of 2012, we decided to divest our clinical trial services business. Accordingly, we classified clinical trial services segment as a disposal group held for sale as of December 31, 2012 and its results of operations as discontinued operations for the years ended December 31, 2012, 2011, 2010, 2009 and 2008. We completed the sale of this segment on February 15, 2013.

The following selected financial data should be read in conjunction with the consolidated financial statements and related notes of Cross Country Healthcare, Inc., "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere in this Report.

	Year Ended December 31,				
	2013 (a)	2012	2011	2010	2009
(Dollars in thousands, except share and per share data)					
<b>Consolidated Statements of Operations Data</b>					
Revenue from services	\$ 438,311	\$ 442,635	\$ 439,377	\$ 406,604	\$ 506,559
Operating expenses:					
Direct operating expenses	324,851	331,050	319,989	292,333	374,043
Selling, general and administrative expenses	106,117	109,417	104,544	97,379	106,875
Bad debt expense	1,078	786	574	248	107
Depreciation	3,886	4,905	5,965	7,122	7,713
Amortization	2,294	2,263	2,394	2,568	2,701
Acquisition costs (a)	473	—	—	—	—
Restructuring costs (b)	484	—	—	—	—
Impairment charges (c)	6,400	18,732	—	10,764	—
Legal settlement charge (d)	750	—	—	—	345
Total operating expenses	446,333	467,153	433,466	410,414	491,784
(Loss) income from operations	(8,022)	(24,518)	5,911	(3,810)	14,775
Other (income) expenses:					
Foreign exchange (gain) loss	(132)	(62)	(264)	68	61
Interest expense	849	2,341	2,856	4,244	6,243
Loss on early extinguishment and modification of debt	1,419	82	—	—	—
Other (income) expense, net	(119)	16	(298)	(172)	(69)
(Loss) income from continuing operations before income taxes	(10,039)	(26,895)	3,617	(7,950)	8,540
Income tax expense (benefit)	44,211	(6,150)	2,069	(2,693)	3,598
(Loss) income from continuing operations	(54,250)	(20,745)	1,548	(5,257)	4,942
Income (loss) from discontinued operations, net of tax	2,281	(21,476)	2,550	2,482	1,752
Net (loss) income	\$ (51,969)	\$ (42,221)	\$ 4,098	\$ (2,775)	\$ 6,694
Net (loss) income per common share – basic:					
Continuing operations	\$ (1.75)	\$ (0.67)	\$ 0.05	\$ (0.17)	\$ 0.16
Discontinued operations	0.07	(0.70)	0.08	0.08	0.06
Net (loss) income	\$ (1.68)	\$ (1.37)	\$ 0.13	\$ (0.09)	\$ 0.22
Net (loss) income per common share – diluted (e):					
Continuing operations	\$ (1.75)	\$ (0.67)	\$ 0.05	\$ (0.17)	\$ 0.16
Discontinued operations	0.07	(0.70)	0.08	0.08	0.06
Net (loss) income	\$ (1.68)	\$ (1.37)	\$ 0.13	\$ (0.09)	\$ 0.22
Weighted average common shares outstanding:					
Basic	31,009,218	30,842,723	31,146,165	31,060,426	30,824,660
Diluted (e)	31,009,218	30,842,723	31,192,016	31,060,426	30,999,446

	Year Ended December 31,				
	2013	2012	2011	2010	2009

#### Other Operating Data

##### Nurse and allied staffing statistical data:

FTEs (f)	2,420	2,446	2,472	2,185	2,735
Days worked (g)	883,300	895,236	902,280	797,525	998,275
Average revenue per FTE per day (h)	\$ 316	\$ 310	\$ 309	\$ 304	\$ 314

##### Physician staffing statistical data (i):

Days filled (j)	80,294	85,001	85,416	89,421	95,253
Revenue per day filled (k)	\$ 1,512	\$ 1,453	\$ 1,391	\$ 1,360	\$ 1,594

##### Cash flow data (\$000):

Net cash provided by operating activities	\$ 8,659	\$ 10,146	\$ 18,296	\$ 31,522	\$ 72,400
Net cash provided by (used in) investing activities	\$ 15,205	\$ 175	\$ (4,196)	\$ (16,199)	\$ (11,713)
Net cash used in financing activities	\$ (26,061)	\$ (10,583)	\$ (14,236)	\$ (11,191)	\$ (64,217)

#### Consolidated Balance Sheet Data (\$000)

Working capital (l)	\$ 39,030	\$ 66,205	\$ 50,348	\$ 59,145	\$ 64,505
Cash and cash equivalents	\$ 8,055	\$ 10,463	\$ 10,648	\$ 10,957	\$ 6,861
Total assets (l)	\$ 248,245	\$ 305,924	\$ 347,884	\$ 358,359	\$ 365,726
Total debt	\$ 8,576	\$ 33,859	\$ 42,046	\$ 53,513	\$ 62,514
Stockholders' equity	\$ 160,667	\$ 209,123	\$ 249,300	\$ 246,009	\$ 246,071

- (a) On December 2, 2013, the Company acquired the operating assets of On Assignment, Inc.'s Allied Healthcare Staffing division. The acquisition has been accounted for in accordance with FASB ASC Topic 805-*Business Combinations*, using the purchase method of accounting. The results of On Assignment's operations have been included in the Company's consolidated statements of operations since December 2, 2013, the date of the acquisition. For further information about this acquisition, refer to the notes to the consolidated financial statements (Note 5 - Acquisitions).
- (b) Restructuring costs primarily related to senior management employee severance pay.
- (c) Impairment charges include goodwill and other intangible asset impairment charges pursuant to the *Intangibles-Goodwill and Other* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) and the *Impairment or Disposal of Long-Lived Assets* subsection of the *Property, Plant and Equipment* Topic of the FASB ASC. In the fourth quarter of 2013, in conjunction with the annual testing of indefinite-lived intangible assets not subject to amortization, the Company recorded a pre-tax non-cash impairment charge of approximately \$6.4 million of which \$6.2 million related to the physician staffing segment and \$0.2 million related to the nurse and allied staffing segment. In the year ended December 2012, the Company recorded noncash impairment charges of \$18.7 million related to the impairment of goodwill in the Company's nurse and allied staffing reporting unit. In the fourth quarter of 2010, the Company recorded noncash pretax impairment charges of \$10.8 million, related to the impairment of specific trade names in its physician and nurse and allied staffing business segments related to its acquisition of MDA. Refer to further discussion of some of these impairment charges in our notes to the consolidated financial statements (Note 4 – Goodwill, Trade Names and Other Identifiable Intangible Assets).
- (d) During the year ended December 31, 2013, the Company agreed to settle a wage and hour class action lawsuit in California for \$0.75 million, subject to a final binding agreement and approval by the court. The courts granted preliminary approval of the settlement on January 17, 2014, subject to the inclusion of language requiring a five-day cure period for deficient requests for exclusion from class members. On February 6, 2014, the parties amended the settlement agreement to include such language. A hearing for final approval of the settlement

agreement is scheduled for May 16, 2014. See Note 11- Commitments and Contingencies to our consolidated financial statements. During the fourth quarter of 2009, the Company reached an agreement in principle to settle a class action lawsuit, *Maureen Petray and Carina Higareda v. MedStaff, Inc.*, which the court granted preliminary approval in October 2010. In the fourth quarter of 2009, the Company accrued a pretax charge of \$0.3 million (\$0.2 million after taxes) related to this lawsuit.

- (e) For purposes of calculating diluted earnings per common share in 2013, 2012 and 2010 the Company excluded potentially dilutive shares from the calculation as their effect would have been anti-dilutive, due to the Company's net loss from continuing operations in those years.
- (f) FTEs represent the average number of nurse and allied contract staffing personnel on a full-time equivalent basis.
- (g) Days worked is calculated by multiplying the FTEs by the number of days during the respective period.
- (h) Average nurse and allied staffing revenue per FTE per day is calculated by dividing the nurse and allied staffing revenue by the number of days worked in the respective periods. Nurse and allied staffing revenue includes revenue from permanent placement of nurses.
- (i) Beginning in the first quarter of 2011, the Company refined its statistical methodology related to its physician staffing days filled metrics. Accordingly, historical 2010 data for these metrics has been revised to conform to the 2011 presentation. Historical data for 2009 has not been reclassified due to excessive cost of applying the methodology, which, the Company believes outweighs the benefit of the additional information.
- (j) Days filled is calculated by dividing the total hours filled during the period by 8 hours.
- (k) Revenue per day filled is calculated by dividing the applicable revenue generated by the Company's physician staffing segment by days filled for the period presented.
- (l) Working capital and total assets as of December 31, 2012 includes the net assets held for sale related to our discontinued clinical trial services staffing business. See Note 3 – Assets Held for Sale and Discontinued Operations. Total assets presented include estimated insurance recoveries for all periods presented. See Note 7 – Accrued Compensation and Benefits. Working capital and total asset balance information has been reclassified to conform to the 2013 presentation of deferred taxes. See Note 12 - Income Taxes.

#### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Selected Financial Data, Risk Factors, Forward-Looking Statements and our Consolidated Financial Statements and the accompanying notes and other data, all of which appear elsewhere in this Annual Report on Form 10-K.*

*Certain prior year information has been reclassified to the current year's presentation.*

#### **Overview**

We are a national leader in providing healthcare staffing and workforce solutions. Our traditional staffing includes temporary and permanent placement of travel nurses and allied professionals, branch based local nurses and allied staffing, and locum tenens physicians. We provide flexible workforce solutions to the healthcare market through diversified offerings meeting the special needs of each client. Our services include: managed service programs (MSP), workforce assessments, internal resource pool consulting and development, electronic medical record (EMR) transition staffing, recruitment process outsourcing services, and traditional staffing. Our clients include: public and private acute-care and non-acute care hospitals, government facilities, schools, outpatient clinics, ambulatory care facilities, physician practice groups, retailers, and many other healthcare providers. We also provide education and training programs to the healthcare industry and retained search services for physicians and healthcare executives. We report three business segments: (1) nurse and allied staffing, (2) physician staffing, and (3) other human capital management services.

Our operations reflect a diversified revenue mix across healthcare customers. For the full year 2013, our revenue from continuing operations was \$438.3 million. Our nurse and allied staffing business segment was 63% of revenue and is comprised of travel nurse, travel allied and branch based local nurse and allied staffing. Our locum tenens business segment

was 28% of our revenue and consists of physician staffing services with placements across multiple specialties. Our other human capital management services business segment was 9% of our revenue and consists of education and training, as well as retained search services related primarily to physicians and healthcare executives.

In February 2013, we sold our clinical trial services business so that we could focus on our core business of providing flexible workforce solutions to the healthcare market. Accordingly, our former clinical trials business segment is reflected as discontinued operations on our consolidated financial statements contained in this Report. For additional information, see Footnote 3 - Assets Held for Sale and Discontinued Operations contained elsewhere in this report.

In December 2013, we acquired the assets of On Assignment, Inc.'s Allied Healthcare Staffing division for \$28.7 million. We believe this acquisition complements our current operations by: (1) adding new skillsets to our traditional staffing offerings, (2) expanding our local branch network, which will allow us to expand our local market presence and our MSP business, (3) diversifying our customer base into the local ambulatory care and retail market, which provides more balance between our large volume based customers and our small local customers, and (4) better positioning us to take additional market share at our MSP accounts. Certain transitional services, including, but not limited to, billing and payroll, are being provided post-acquisition by On Assignment, Inc. to our Allied Health Group until we completely transition that business to our systems. We anticipate having the transition substantially completed by the end of the second quarter of 2014. This business has been included in the presentation of our financial statements contained in this Report. For more information on this acquisition, see Footnote 5 - Acquisitions to the consolidated financial statements contained elsewhere in this report.

For the year ended December 31, 2013, our revenue from continuing operations was \$438.3 million, and we had a net loss from continuing operations of \$54.3 million, or a \$1.75 loss per diluted share. Our net loss from continuing operations in the year ended December 31, 2013 was entirely due to a deferred tax valuation allowance and a trade names impairment charge recorded in the fourth quarter of 2013. See Footnote 12 - Income Taxes, to the Consolidated Financial Statements.

During 2013, we generated \$8.7 million in cash flow from operations and received net cash of \$45.7 million from the sale of our clinical trial services business, which was used, in part, to reduce our total debt by \$25.3 million and to invest in the acquisition of the assets of On Assignment's Allied Healthcare Staffing division. We ended the year with total debt of \$8.6 million and \$8.1 million of cash, resulting in a ratio of debt, net of cash, to total capitalization of 0.3%.

In general, we evaluate our financial condition and operating results by revenue, contribution income (see Segment Information), and net (loss) income. We also use measurement of our cash flow generation and operating and leverage ratios to help us assess our financial condition. In addition, we monitor several key volume and profitability indicators such as number of orders, contract bookings, number of FTEs, days filled and price.

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

Our nurse and allied staffing segment provides traditional staffing, including temporary and permanent placement of travel nurses and allied professionals, and branch based local nurses and allied staffing. We provide flexible workforce solutions to the healthcare market through diversified offerings meeting the special needs of each client. Our services include: MSP, workforce assessment, internal resource pool consulting and development, EMR transition staffing, recruitment process outsourcing services, and traditional staffing. Our clients include: public and private acute-care and non-acute care hospitals, government facilities, schools, outpatient clinics, ambulatory care facilities, retailers, and many other healthcare providers.

The majority of our revenue is generated from staffing RNs on long-term contract assignments (typically 13-weeks in length) at hospitals and health systems using the following brands: Cross Country TravCorps,™ NovaPro Travel, Medstaff Travel, CRU48 Travel, and Assignment America.™ The CRU48 Travel™ brand is used to identify and staff travel professionals on assignment who are pre-qualified and ready to begin assignments within one to two weeks (as opposed to the typical lead time of four or five weeks for travel healthcare professionals) at a hospital client which has an urgent need. Additionally, we offer a short-term staffing solution of RNs, licensed practical nurses, and certified nurse assistants on per diem and short-term assignments through our national network of local branch offices. We also provide travel allied health professionals on long-term contract assignments to hospitals, schools and skilled nursing facilities under the Cross Country TravCorps™ brand, and we provide more than 100 specialties of allied professionals on local per diem and short-term assignments in a variety of clinical settings under our Allied Health Group brand.

Our nurse and allied staffing revenue and earnings are impacted by the relative supply of nurse and allied healthcare professionals and demand for our contract staffing services at healthcare facilities. Demand for our nurse and allied staffing services is primarily influenced by the strength or weakness of national acute care hospital admissions relative to expectations and the volume of patients at other medical facilities, as well as labor market dynamics that influence the number of hours.

worked by healthcare professionals. We believe demand for travel nurse staffing services will be favorably impacted in the long-term by an aging population, along with the anticipated increases in utilization of healthcare services resulting from the Patient Protection and Affordable Care Act (ACA), and an increasing shortage of nurses. We rely significantly on our ability to recruit and retain nurses and other healthcare professionals who possess the skills, experience and, as required, licensure necessary to meet the specified requirements of our clients. Shortages of qualified nurses and other healthcare professionals could limit our ability to fill open orders and grow our revenue and net income. In general, we believe nurses are more willing to seek travel assignments during relatively high levels of demand for contract employment, and conversely, are more reluctant to seek travel assignments during and immediately following periods of weak demand for contract employment.

Typically, as admissions increase for our hospital customers, temporary employees are often added before full-time employees are hired. As admissions decline, clients tend to reduce their use of temporary employees before undertaking layoffs of their staff employees.

In general, we evaluate the nurse and allied staffing business segment's financial condition and operating results by revenue and contribution income (see Segment Information). In addition, we monitor several key volume and profitability indicators such as number of open orders, contract bookings, number of FTEs and bill rate per hour of service provided.

We market our nurse and allied staffing services primarily to acute care hospitals and health systems, and provide our clients with staffing solutions through our Cross Country Staffing (CCS) and Allied Health Group brands. Our clients provide health and medical services across a broad range of clinical settings in the for-profit and not-for-profit sectors throughout the U.S., including acute care hospitals, physician practice groups, skilled nursing facilities, nursing homes and sports medicine clinics, and, to a lesser degree, and non-clinical settings such as home care and schools.

CCS is our largest brand. The vast majority of our activities are designed to help a diverse customer base of hospitals and health system clients meet their ongoing staffing needs for temporary nurses and allied health professionals. During 2013, we worked with more than a thousand hospitals and health system clients. Additionally, as a part of its business strategy, CCS provides comprehensive Managed Service Programs (MSP) solutions to large hospitals and health systems throughout the U.S. to manage their temporary clinical staffing. These MSP contracts are specifically tailored to each client based on their workforce goals and financial targets. Our MSP engagements typically incorporate one or more of our contract nurse, contract allied and/or per diem staffing solutions. These services are particularly beneficial to larger facilities and systems that require many healthcare professionals across a broad spectrum of medical disciplines and specialties. In addition to directly supplying a large majority of client needs under these MSP programs, CCS has relationships with hundreds of subcontractors throughout the U.S. to ensure that clients have access to a large pool of candidates to meet their staffing needs.

Another component of our business is contract staffing for hospitals and health systems undergoing electronic medical record (EMR) technology implementations. In these situations, we supply contract temporary healthcare professionals to provide patient care while hospital staff RNs are away in classroom settings undergoing training and to provide support to the staff RNs in utilizing the EMR technology upon their return to bedside care. Many hospitals and physician groups continue to undergo EMR implementations aided by grants available to healthcare facilities under the Health Information Technology for Economic and Clinical Act (HITECH Act) - adopted as part of the American Recovery and Reinvestment Act. We believe the demand for our staffing services will be positively impacted in the short term from new deadlines adopted by CMS regarding EMR implementations, because hospitals often use temporary staff to fill in for permanent staff being trained on new technologies.

Overall, during 2013 demand for our nurse and allied staffing services was up slightly with sequential growth in the first quarter which we believe was partly due to a strong flu season resulting in higher hospital admissions and an increase in staffing assignments related to EMR technology implementations. We experienced softer demand in the second and third quarters partly due to delays in EMR technology implementations and lower hospital admissions. Towards the end of the third quarter and through our fourth quarter, demand increased as a result of new EMR projects and increased orders from our MSP customers. Contribution income margins in this business improved significantly in 2013 primarily due to lower field insurance and housing expenses. Our ratio of contract bookings as a percentage of working nurses was 102% in the fourth quarter of 2013 and is running at 104% in our first quarter of 2014. We expect that staffing related to EMR technology implementations as well as MSP programs will continue to be growth drivers in our nurse and allied staffing segment in 2014.

### **Physician Staffing**

Our physician staffing business is headquartered in Berkeley Lake, Georgia and offers multi-specialty locum tenens (temporary physician staffing) services to the healthcare industry in all 50 states. We provide physicians as independent

contractors on temporary assignments at various healthcare facilities, such as acute and non-acute care facilities, medical group practices, government facilities, and managed care organizations.

Our physician staffing business revenue and earnings are impacted by the demand for temporary physician staffing services and the supply of qualified physicians. When there are not enough physicians to fill the number of vacancies at hospitals, practice groups or other healthcare facilities, demand increases for our services. In general, we believe that in periods when physicians are looking for more flexibility, have concerns with cost and availability of malpractice insurance, or want to avoid managing a practice, supply increases. In periods where the physicians are looking for more stability, supply decreases. Demand and supply constraints may vary based on the specialty of the physician. We monitor several key volume and profitability indicators for each specialty area of this business, such as physician staffing days filled and revenue per days filled. In addition, we monitor this segment's revenue, contribution income and contribution income as a percentage of revenue.

During 2013, we experienced a decrease in demand which, we believe was in part due to, what we believe is an increase in the number of physicians willing to accept permanent opportunities. We believe physicians have been seeking employment with hospitals at higher rates in the past few years due to: the difficulty of transitioning private practices to EMR, traversing the maze of insurance company requirements, financial strains on private practices from repeated threatened pay cuts based on Medicare's sustainable growth rate formulas, and the uncertain future of healthcare associated with ACA. Becoming hospital staff provides financial certainty and the ability to focus more on practicing medicine. We believe this shift in employment provides opportunity for the locum tenens industry, because hospitals will still need to fill open positions when these staff physicians take vacation time, take leaves of absence or sabbaticals, and attend continuing education seminars. While we expect this trend to continue in the short-term, we believe the future outlook for the physician staffing industry is positive as demand for physicians is projected to increase by 2025 due to the demographics of a growing and aging population along with healthcare reform that is expected to be directionally favorable to our business. The needs will be particularly strong in the primary care specialties due to recent decreases in medical school graduates entering the primary care field. Locum tenens should benefit from these shortage trends and demands particularly with an ever increasing aging population and the anticipated increase in utilization of healthcare services. We believe our physician staffing services business is well positioned to respond to the current and future needs of its healthcare customers.

## **Other Human Capital Management Services**

### *Education and Training Services*

Our Cross Country Education™ (CCE) subsidiary, headquartered in Brentwood, Tennessee, offers "in person" one-day seminars, conferences and e-learning through various independent contractors who are experts in their field on topics pertaining to their profession. CCE is an approved provider of continuing education with more than 35 professional healthcare associations, and also works with national and state boards and associations. CCE is expanding its online presence and intends to continue to move toward a greater offering of blended learning opportunities for a professional that combines live seminar offerings with audio and e-learning products. CCE trains professionals in the fields of physical and occupational therapy, behavioral health, nursing, long-term care, coding and billing, regulatory compliance, dentistry, health information and healthcare administration. In 2013, CCE held 4,679 seminars and conferences that were attended by more than 120,000 registrants in the U.S. We extend these educational services to our field employees on favorable terms as a recruitment and retention tool.

In 2013, CCE's live seminar attendance decreased approximately 11% from the prior year due to what we believe are several factors. First, significant budget cuts to both non-Medicaid and Medicaid-based mental health services negatively impacted employment for public mental health programs. We believe this reduced demand for our programs as these professionals may have obtained to a greater degree continuing education credits via e-learning offerings. Second, the education industry is increasingly offering live webcasting and rebroadcasting of seminars. To address this shift, CCE has significantly expanded its offerings in this area while continuing to provide thousands of live seminars each year. CCE is also expanding its online presence and will continue to move toward a greater offering of blended learning opportunities for professionals that combine live seminar offerings with audio and e-learning products. CCE is also focusing greater efforts on developing strategic partnerships with provider organizations that can extend our learning programs to their licensed employees.

### *Retained Search*

Cejka has been a leading physician, executive, advanced practice and allied health search firm for more than thirty years, recruiting top healthcare talent for organizations nationwide through a team of experienced professionals, advanced use of recruitment technology and commitment to service excellence. Serving clients nationwide, Cejka completes hundreds of

search assignments annually for organizations spanning the continuum of healthcare, including physician group practices, hospitals and health systems, academic medical centers, accountable care organizations (ACOs), managed care and other healthcare organizations. We believe in 2013 that ongoing uncertainty about health care reform, Medicare reimbursement rules and the pace of economic recovery continued to limit or delay implementation of the industry's medical staff and administrative leadership recruitment plans, which extended the challenging and competitive environment for retained search services.

We believe the intensifying shortage of physicians and mid level providers, and the critical need for effective healthcare executive leadership, in particular physician executive leaders, to meet the challenges of health care reform provides an opportunity for us to grow in 2014.

## **Revenue**

Our travel and per diem nurse staffing revenue is received primarily from acute care hospitals. Revenue from allied staffing services is received from numerous sources, including providers of radiation, rehabilitation and respiratory services at hospitals, nursing homes, physician practice groups, sports medicine clinics and schools. Our physician staffing services revenue is primarily received from hospitals and group practices. Revenue from our retained search and our education and training services is received from numerous sources, including hospitals, physician group practices, insurance companies and individual healthcare professionals. Our fees are paid directly by our clients and, in certain instances, by vendor managers. As a result, we have no direct exposure to Medicare or Medicaid reimbursements.

Revenue is recognized when services are rendered. Accordingly, accounts receivable includes an accrual for employees' and independent contractors' estimated time worked but not yet invoiced. Similarly, accrued expenses include an accrual for employees' and independent contractors' time worked but not yet paid. Each of our field employees and independent contractors on travel assignment works for us under a contract. The contract period is typically 13 weeks for our nurse and allied staffing employees with a shorter duration for physician independent contractors. Our staffing employees are hourly employees whose contracts specify the hourly rate they will be paid, and any other benefits they are entitled to receive during the contract period. We typically bill clients at an hourly rate and assume all employer costs for our staffing employees, including payroll, withholding taxes, benefits, professional liability insurance and Occupational Safety and Health Administration (OSHA) requirements, as well as any travel and housing arrangements.

We record revenue on a gross basis as a principal or on a net basis as an agent depending on the arrangement, as follows:

- We have also entered into certain contracts with acute care facilities to provide comprehensive managed service programs (MSP) solutions. Under these contract arrangements, we use our nurses primarily, along with those of third party subcontractors, to fulfill customer orders. If a subcontractor is used, we invoice our customer for these services, but revenue is recorded at the time of billing, net of any related subcontractor liability. The resulting net revenue represents the administrative fee charged by us for our MSP services.
- Revenue from our physician staffing and education and training businesses is recognized on a gross basis as we believe we are the principal in the arrangements.

## **Disposition**

On February 15, 2013, we completed the sale of our clinical trial services business to ICON Clinical Research, Inc. and ICON Clinical Research UK Limited (the "Buyer") for an aggregate \$52.0 million in cash, subject to certain adjustments. At closing, the total amount paid was reduced by \$0.1 million for the amount the Targeted Net Working Capital exceeded the Estimated Net Working Capital. Subsequent to September 30, 2013, we paid an additional \$0.2 million to the Buyer to finalize the Net Working Capital adjustment, pursuant to the agreement.

The agreement included a provision for an earn-out of up to \$3.75 million related to certain performance-based milestones. The maximum earn-out amount of \$3.75 million was deposited in escrow by Buyer as security for the earn-out payment, if any. The \$3.75 million earn-out related to certain performance-based milestones, has been treated as contingent consideration and we assigned no value to this earn-out as of December 31, 2013 based on recent information available to us including a revised revenue forecast for the Arena Contract (as defined in the agreement). In addition, the FTE earn-out (as defined in the agreement) was not earned, and as a result \$1.5 million of the original escrow was released to the Buyer in the second quarter of 2013, leaving a balance of \$2.25 million as of December 31, 2013. (see Note 9 - Fair Value Measurements, to our consolidated financial statements for more information).

Of the \$52.0 million purchase price, paid at closing, \$3.75 million was also placed in escrow for a period of 18 months following the closing to provide partial security to the Buyer in the event of any breach of the representations, warranties and covenants of the Company. We recorded the \$3.75 million indemnity escrow funds as an escrow receivable, and will adjust the amount, each reporting period, based on any known information that may arise that would be reasonable and estimable.

We have provided certain transitional services to the Buyer since the sale date, which have ceased as of December 31, 2013.

The sale was a result of an extensive review of our business and the changing competitive landscape in the pharmaceutical outsourcing industry. This segment consisted of service offerings that include traditional contract staffing and functional outsourcing, as well as drug safety monitoring and regulatory services to pharmaceutical and biotechnology customers. As of December 31, 2013, our clinical trial services segment has been classified as discontinued operations for all periods presented.

## **Acquisition**

In December 2013, we acquired the operating assets of On Assignment, Inc.'s Allied Healthcare Staffing division for an aggregate purchase price of \$28.7 million, subject to certain post-closing adjustments. Excluded from the transaction were the accounts receivable, accounts payable and accrued compensation of the business being acquired. The Company used \$24.7 million in cash on hand and \$4.5 million from borrowings under its current revolver facility with Bank of America, N.A. to pay the purchase price and approximately \$0.5 million in transaction costs. Subsequent to December 31, 2013, an immaterial post-closing adjustment was made. We do not expect any further adjustment. However, the purchase price is subject to further adjustment downward contingent upon retention of certain contracts as defined in the agreement, which will be resolved by the end of the second quarter of 2014.

We believe this acquisition complements our current operations by: (1) adding new skillsets to our traditional staffing offerings, (2) expanding our local branch network, which will allow us to expand our local market presence and our MSP business, (3) diversifying our customer base into the local ambulatory care and retail market, which provides more balance between our large volume based customers and our small local customers, and (4) better positioning us to take additional market share at our MSP accounts. The allied healthcare business has 84 branch-based employees and makes placements in more than 125 specialties from 23 branch offices.

The acquisition has been accounted for in accordance with FASB ASC *Topic 805-Business Combination*, using the purchase method. The results of the acquisition's operations have been included in the consolidated statements of operations since December 2, 2013, the date of the acquisition. On Assignment's allied staffing services have been included with our nurse and allied staffing business segment. In 2013, the On Assignment allied staffing acquisition contributed \$3.4 million of revenue and \$0.3 million of contribution income to the nurse and allied staffing business segment.

## **Goodwill, Trade Names and Other Identifiable Intangible Assets**

Goodwill, trade names and other intangible assets represented 90.7% of our stockholders' equity as of December 31, 2013. Goodwill, trade names and other identifiable intangible assets from acquisitions were \$77.3 million, \$42.3 million and \$26.2 million, respectively, net of accumulated amortization, at December 31, 2013. In accordance with the *Intangibles-Goodwill and Other Topic* of the FASB ASC, goodwill and certain intangible assets with indefinite lives (such as trade names) are not subject to amortization; instead, we review these assets for impairment annually, at December 31, and whenever circumstances occur indicating impairment, with any related losses recognized in earnings.

Other identifiable intangible assets, which are subject to amortization, are being amortized using the straight-line method over their estimated useful lives ranging from 5 to 16 years. The *Impairment or Disposal of Long-Lived Asset* subsection of the *Property, Plant and Equipment Topic* of the FASB ASC, requires us to test the recoverability of long-lived assets, including identifiable intangible assets with definite lives, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In testing for potential impairment, if the carrying value of the asset group exceeds the expected undiscounted cash flows, we must then determine the amount by which the fair value of those assets exceeds the carrying value and determine the amount of impairment, if any.

See Critical Accounting Principles and Estimates and our consolidated financial statements Note 4 – Goodwill and Other Identifiable Intangible Assets, for a detailed description of the results of our impairment reviews in 2013, 2012 and 2011 that resulted in total impairment charges for continuing operations of \$6.4 million in the fourth quarter of 2013, \$18.7 million in the second quarter of 2012 and total impairment charges for discontinued operations of \$35.4 million in our third and fourth quarter of 2012.

## Results of Operations

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

	Year Ended December 31,		
	2013	2012	2011
Revenue from services	100.0 %	100.0%	100.0%
Direct operating expenses	74.1	74.8	72.8
Selling, general and administrative expenses	24.2	24.7	23.8
Bad debt expense	0.2	0.2	0.1
Depreciation and amortization	1.4	1.6	1.9
Acquisition costs	0.1	—	—
Restructuring costs	0.1	—	—
Legal settlement charge	0.2	—	—
Impairment charges	1.5	4.2	—
(Loss) income from operations	(1.8)	(5.5)	1.4
Foreign exchange (gain) loss	—	—	—
Interest expense	0.2	0.6	0.7
Loss on modification of debt	0.3	—	—
Other income, net	—	—	(0.1)
(Loss) income from continuing operations before income taxes	(2.3)	(6.1)	0.8
Income (benefit) tax expense	10.1	(1.4)	0.5
(Loss) income from continuing operations	(12.4)	(4.7)	0.3
Income (Loss) from discontinued operations, net of tax	0.5	(4.8)	0.6
Net (loss) income	(11.9)%	(9.5)%	0.9%

## Segment Information

In accordance with the *Segment Reporting* Topic of the FASB ASC, we report three business segments – nurse and allied staffing, physician staffing, and other human capital management services, described below.

**Nurse and allied staffing** - The nurse and allied staffing business segment provides travel nurse and allied staffing services and per diem nurse services primarily to acute care hospitals. Nurse and allied staffing services are marketed to public and private healthcare and for-profit and not-for-profit facilities throughout the U.S. We aggregate our Cross Country Staffing and Allied Health Group brands that we market to our customers in this business segment.

**Physician staffing** – The physician staffing business segment provides multi-specialty locum tenens services to the healthcare industry throughout the U.S.

**Other human capital management services** - The other human capital management services business segment includes the combined results of our education and training and retained search businesses that both have operations within the U.S.

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

	Year ended December 31,		
	2013	2012 (c)	2011 (c)
	(Amounts in thousands)		
<b>Revenue from services:</b>			
Nurse and allied staffing	\$ 278,973	\$ 277,754	\$ 278,793
Physician staffing	121,371	123,545	118,781
Other human capital management services	37,967	41,336	41,803
	<u>\$ 438,311</u>	<u>\$ 442,635</u>	<u>\$ 439,377</u>
<b>Contribution income (a):</b>			
Nurse and allied staffing	\$ 19,188	\$ 11,360	\$ 20,078
Physician staffing	8,617	10,652	11,320
Other human capital management services	746	1,944	3,172
	<u>28,551</u>	<u>23,956</u>	<u>34,570</u>
Unallocated corporate overhead	22,286	22,574	20,300
Depreciation	3,886	4,905	5,965
Amortization	2,294	2,263	2,394
Acquisition costs	473	—	—
Restructuring costs	484	—	—
Legal settlement charge	750	—	—
Impairment charges (b)	6,400	18,732	—
(Loss) income from operations	<u>\$ (8,022)</u>	<u>\$ (24,518)</u>	<u>\$ 5,911</u>

- (a) We define contribution income as (loss) income from operations before depreciation, amortization, acquisition costs, restructuring costs, legal settlement charges, impairment charges, and other corporate expenses not specifically identified to a reporting segment. Contribution income is a measure used by management to assess operations and is provided in accordance with the *Segment Reporting* Topic of the FASB ASC.
- (b) In 2013, we refined our methodology for allocating certain corporate overhead expenses to its nurse and allied staffing segment expenses to more accurately reflect this segment's profitability. Prior year information has been reclassified to conform to current year presentation.
- (c) During the year ended December 31, 2012, we recognized pretax impairment charges in our continuing operations of \$18.7 million. Refer to discussion in Note 4-Goodwill, Trade Names and Other Identifiable Intangible Assets.

#### **Comparison of Results for the Year Ended December 31, 2013 compared to the Year Ended December 31, 2012**

##### **Revenue from services**

Revenue from services decreased \$4.3 million, or 1.0%, to \$438.3 million for the year ended December 31, 2013, as compared to \$442.6 million for the year ended December 31, 2012. The decrease was due to lower revenue from our other human capital management services and physician staffing businesses, partially offset by an increase in revenue from our nurse and allied staffing business segment.

##### **Nurse and allied staffing**

Revenue from our nurse and allied staffing business segment increased \$1.2 million, or 0.4% to \$279.0 million for the year ended December 31, 2013, from \$277.8 million for the year ended December 31, 2012. Excluding the results of the acquisition, revenue in our nurse and allied staffing business segment decreased \$2.2 million, primarily due to lower staffing volume, partially offset by higher average bill rates.

The average number of nurse and allied staffing FTEs on contract during the year ended December 31, 2013, decreased 1.1% from the year ended December 31, 2012. Average nurse and allied staffing revenue per FTE increased approximately 1.9% in the year ended December 31, 2013 compared to the year ended December 31, 2012.

#### ***Physician staffing***

Revenue from our physician staffing business decreased \$2.2 million, or 1.8% to \$121.4 million for the year ended December 31, 2013, compared to \$123.5 million for the year ended December 31, 2012. The decrease in revenue reflects lower volume, partially offset by higher bill rates. Physician staffing days filled decreased 5.5% to 80,294 in the year ended December 31, 2013, compared to 85,001 in the year ended December 31, 2012. Revenue per day filled for the year ended December 31, 2013 was \$1,512, a 4.1% increase from the year ended December 31, 2012, reflecting higher average prices.

#### ***Other human capital management services***

Revenue from other human capital management services for the year ended December 31, 2013, decreased \$3.4 million, or 8.2%, to \$38.0 million from \$41.3 million in the year ended December 31, 2012, reflecting less seminars and lower seminar attendance in our education and training business and lower revenue from our retained search business.

#### ***Direct operating expenses***

Direct operating expenses are comprised primarily of field employee compensation and independent contractor expenses, housing expenses, travel expenses and field insurance expenses. Direct operating expenses decreased \$6.2 million, or 1.9%, to \$324.9 million for the year ended December 31, 2013, as compared to \$331.1 million for year ended December 31, 2012.

As a percentage of total revenue, direct operating expenses represented 74.1% of revenue for the year ended December 31, 2013, and 74.8% for the year ended December 31, 2012. The decrease was primarily due to lower housing costs and field insurance expenses, partially offset by higher physician provider fees and expenses as a percentage of revenue.

#### ***Selling, general and administrative expenses***

Selling, general and administrative expenses decreased \$3.3 million, or 3.0%, to \$106.1 million million for the year ended December 31, 2013, as compared to \$109.4 million for the year ended December 31, 2012. As a percentage of total revenue, selling, general and administrative expenses were 24.2% and 24.7% for the years ended December 31, 2013 and 2012, respectively. The decrease is primarily due to lower health insurance, direct mail expenses, rent expense and compensation expense, partially offset by an increase in legal expense. Selling, general and administrative expenses for the year ended December 31, 2012 included \$1.0 million of estimated state non-income taxes (\$0.3 million related to our estimates for the 2005-2011 tax years as discussed in Note 11 - Commitments and Contingencies to our consolidated financial statements) and \$0.7 million expense for an immaterial correction in calculating deferred rent which primarily accumulated from 2002 to 2010.

Included in selling, general and administrative expenses is unallocated corporate overhead of \$22.3 million for the year ended December 31, 2013, compared to \$22.6 million for the year ended December 31, 2012. Included in unallocated corporate overhead are \$2.1 million and \$2.6 million of share-based compensation expenses for the years ended December 31, 2013 and 2012, respectively. As a percentage of consolidated revenue, unallocated corporate overhead was 5.1% for the year ended December 31, 2013, and 5.1% for the year ended December 31, 2012.

#### ***Bad debt expense***

Bad debt expense as a percentage of total revenue was 0.2%, or \$1.1 million for the year ended December 31, 2013. Bad debt expense as a percentage of total revenue was 0.2%, or \$0.8 million for the year ended December 31, 2012. The calculation and methodology remain consistent.

#### ***Contribution income***

Contribution income from our nurse and allied staffing segment for the year ended December 31, 2013, increased \$7.8 million or 68.9%, to \$19.2 million from \$11.4 million in year ended December 31, 2012. As a percentage of nurse and allied staffing revenue, segment contribution income was 6.9% for the year ended December 31, 2013, and 4.1% for the year ended

December 31, 2012. This increase was primarily due to a combination of lower insurance and housing costs for our field staff, and lower selling, general and administrative expenses.

Contribution income from our physician staffing segment for the year ended December 31, 2013, decreased \$2.0 million or 19.1% to \$8.6 million compared to \$10.7 million in the year ended December 31, 2012. As a percentage of physician staffing revenue, contribution income was 7.1% for the year ended December 31, 2013 and 8.6% for the year ended December 31, 2012. The margin decline was due to higher physician provider fees as a percentage of revenue and an increase in the Company's estimated accrual for sales tax liabilities in the year ended December 31, 2013.

Contribution income from other human capital management services for the year ended December 31, 2013, decreased by \$1.2 million, or 61.6%, to \$0.7 million, from \$1.9 million in the year ended December 31, 2012. Contribution income as a percentage of other human capital management services revenue was 2.0% for the year ended December 31, 2013 and 4.7% for the year ended December 31, 2012. The decrease in contribution income margin was primarily due to negative operating leverage in our retained search business partially offset by lower direct mail costs as a percentage of revenue in our education and training business. Our retained search business has the highest fixed cost structure of all of our businesses. Due to this high fixed cost structure, when revenue declines, the business suffers a disproportionate decline in contribution margin. Conversely, when revenue increases, it should produce a disproportionately strong margin improvement.

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

Depreciation and amortization expense in the year ended December 31, 2013, totaled \$6.2 million as compared to \$7.2 million for the year ended December 31, 2012. As a percentage of revenue, depreciation and amortization expense was 1.4% for the year ended December 31, 2013 and 1.6% for the year ended December 31, 2012.

#### **Acquisition costs**

Acquisition costs during the year ended December 31, 2013 consist primarily of advisory services and administrative expenses related to our acquisition of On Assignment's Allied Healthcare Staffing division. No similar expenses were recorded during the year ended December 31, 2012.

#### **Restructuring costs**

During the year ended December 31, 2013, we went through a restructuring process to reduce operating costs, and recorded restructuring charges of \$0.5 million, pretax, primarily related to senior management severance pay. Severance costs are included as restructuring costs in the consolidated statements of operations. No similar charges were recorded during the year ended December 31, 2012.

#### **Legal settlement charge**

During the year ended December 31, 2013, we agreed to settle a wage and hour class action lawsuit in California for \$0.75 million, subject to a final binding agreement and approval by the court. The amount was accrued in the second quarter of 2013. The courts granted preliminary approval of the settlement on January 17, 2014, subject to the inclusion of language requiring a five-day cure period for deficient requests for exclusion from class members. On February 6, 2014, the parties amended the settlement agreement to include such language. A hearing for final approval of the settlement agreement is scheduled for May 16, 2014. See Note 11- Commitments and Contingencies to our consolidated financial statements.

#### **Impairment charges**

In the year ended December 31, 2013, impairment charges of \$6.4 million represent impairment of trade names of \$6.2 million related to our physician staffing segment and \$0.2 million related to our nurse and allied staffing segment. In the fourth quarter of 2013, pursuant to the *Intangibles - Goodwill and Other* Topic of the FASB ASC, we conducted an assessment of the trade names related to our MDA acquisition. Based upon the recent performance of our physician staffing business, we reduced our revenue forecast for this business segment in the fourth quarter. We determined that based on our projected revenue stream, our estimated fair value was less than the carrying amount of the trade names.

Impairment charges of \$18.7 million in the year ended December 31, 2012 represents impairment of goodwill related to the nurse and allied staffing segment due to the results of an interim impairment analysis pursuant to the *Intangibles – Goodwill and Other* Topic of the FASB ASC. We determined that the fair value of our nurse and allied staffing segment was lower than the respective carrying value. The decrease in value was due to slower than expected booking momentum and reduced

contribution income in our second quarter of 2012 which lowered the anticipated growth trend used for goodwill impairment testing. Pursuant to the second step of the interim impairment testing we were required to calculate an implied fair value of goodwill based on a hypothetical purchase price allocation. Based on these results, we determined a pre-tax goodwill impairment charge of \$18.7 million. See Critical Accounting Principles and Estimates and Note 3 – Goodwill and Other Identifiable Intangible Assets to our consolidated financial statements.

#### **Foreign exchange (gain) loss**

Foreign exchange gains of \$0.1 million were realized in both periods ended December 31, 2013, and 2012. Foreign currency gains and losses are realized upon the settlement of cash flows from transactions denominated in currencies other than U.S. dollars.

#### **Interest expense**

Interest expense totaled \$0.8 million for the year ended December 31, 2013 and \$2.3 million for the year ended December 31, 2012. Lower interest expense was due to lower average borrowings in the year ended December 31, 2013 due to the repayment of borrowings from proceeds of the sale of our clinical research trial services business in February 2013. The effective interest rate on our borrowings was 2.4% and 2.3% for the years ended December 31, 2013 and 2012, respectively. Interest expense in the year ended December 31, 2012 included debt financing costs of \$0.3 million that were not capitalized.

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

Loss on early extinguishment and modification of debt was \$1.4 million in the year ended December 31, 2013 and related to the write off of unamortized debt issuance costs related to our prior credit agreement. See Note 8- Long-term Debt, to our consolidated financial statements for more information. During the year ended December 31, 2012, loss on early extinguishment or modification of debt was \$0.1 million and related to a change in lenders' participations and modification of the then existing July 2012 Credit Agreement.

#### **Other expense (income), net**

Other expense (income), net includes interest income on our cash and cash equivalents and short and long-term cash investments, and other income and expense. During the years ended December 31, 2013, 2012 and 2011, other expense (income), net is primarily interest income from our cash investments.

#### **Income tax expense (benefit)**

Income tax expense totaled \$44.2 million for the year ended December 31, 2013, as compared to an income tax benefit of \$6.1 million for the year ended December 31, 2012. The income tax expense in the year ended December 31, 2013 included a \$48.6 million valuation allowance on the Company's deferred tax assets. See Note 12 - Income Taxes. Excluding the expense related to this valuation allowance, the effective tax rate was 43.3% in the year ended December 31, 2013, compared to 22.9% in the year ended December 31, 2012. The greater effective tax rate in the year ended December 31, 2013 was partly due to a benefit from the reversal of taxes accrued on our foreign earnings and effect of book tax differences on the tax benefit relating to our stock compensation plans. The lower effective tax rate in the year ended December 31, 2012 was partly due to an adjustment of \$2.5 million to income tax expense in the fourth quarter of 2012 related to the reversal of the Company's permanent reinvestment of foreign earnings position and the effect of losses due to impairment charges incurred in 2012. Excluding the adjustment relating to the foreign earning position, the effective tax rate was 32.2% in the year ended December 31, 2012.

#### **Income (loss) from discontinued operations, net of income taxes**

Our clinical trial services business segment was reclassified as discontinued in our fourth quarter of 2012. Income from discontinued operations, net of tax of \$2.3 million included a \$4.0 million gain (\$1.7 million net of taxes) on the sale of our clinical trial services business in the year ended December 31, 2013.

Loss from discontinued operations in the year ended December 31, 2012 includes total impairment charges of \$35.4 million (\$24.2 million, net of income taxes) related to goodwill and other intangible assets. Excluding the impairment charges, the clinical trial service business had income from operations before income taxes of \$4.5 million in the year ended December 31, 2012 compared to \$4.6 million in the year ended December 31, 2011. See Note 4 - Goodwill and Identifiable Intangible Asset and Note 3- Assets Held for Sale and Discontinued Operations.

## **Comparison of Results for the Year Ended December 31, 2012 compared to the Year Ended December 31, 2011**

### ***Revenue from services***

Revenue from services increased \$3.3 million, or 0.7%, to \$442.6 million for the year ended December 31, 2012, as compared to \$439.4 million for the year ended December 31, 2011. The increase was due to higher revenue from our physician staffing segment offset by decreases in revenue from our nurse and allied staffing and other human capital management services business segments.

#### ***Nurse and allied staffing***

Revenue from our nurse and allied staffing business segment decreased \$1.0 million, or 0.4%, to \$277.8 million for the year ended December 31, 2012, from \$278.8 million for the year ended December 31, 2011, primarily due to lower staffing volume, partially offset by slightly higher average bill rates.

The average number of nurse and allied staffing FTEs on contract during the year ended December 31, 2012, decreased 1.1% from the year ended December 31, 2011. Average nurse and allied staffing revenue per FTE increased approximately 0.3% in the year ended December 31, 2012 compared to the year ended December 31, 2011, reflecting an increase in hours provided by our healthcare professionals.

#### ***Physician staffing***

Revenue from our physician staffing business increased \$4.8 million, or 4.0% to \$123.5 million for the year ended December 31, 2012, compared to \$118.8 million for the year ended December 31, 2011. The revenue increase reflects higher bill rates. Physician staffing days filled decreased 0.5% to 85,001 in the year ended December 31, 2012, compared to 85,416 in the year ended December 31, 2011. Revenue per day filled for the year ended December 31, 2012 was \$1,453, a 4.5% increase from the year ended December 31, 2011, reflecting a favorable change in the mix of specialties.

#### ***Other human capital management services***

Revenue from other human capital management services for the year ended December 31, 2012, decreased \$0.5 million, or 1.1%, to \$41.3 million from \$41.8 million in the year ended December 31, 2011, due to a decrease in revenue from our education and training business, primarily as a result of lower average seminar attendance. Revenue from our retained search business increased reflecting an increase in demand that was more than offset by the decline in our education and training business.

#### ***Direct operating expenses***

Direct operating expenses are comprised primarily of field employee compensation and independent contractor expenses, housing expenses, travel expenses and field insurance expenses. Direct operating expenses increased \$11.1 million, or 3.5%, to \$331.1 million for the year ended December 31, 2012, as compared to \$320.0 million for year ended December 31, 2011.

As a percentage of total revenue, direct operating expenses represented 74.8% of revenue for the year ended December 31, 2012, and 72.8% for the year ended December 31, 2011. The increase was primarily due to higher field compensation and independent contractor expenses as a percentage of revenue combined with higher insurance expenses for our field staff.

#### ***Selling, general and administrative expenses***

Selling, general and administrative expenses increased \$4.9 million, or 4.7%, to \$109.4 million for the year ended December 31, 2012, as compared to \$104.5 million for the year ended December 31, 2011. As a percentage of total revenue, selling, general and administrative expenses were 24.7% and 23.8% for the years ended December 31, 2012 and 2011, respectively. The increase is primarily due to an increase in state non-income tax expenses, investments in our nurse and allied staffing selling capacity and higher unallocated corporate overhead. Selling, general and administrative expenses for the year ended December 31, 2012 included \$1.0 million of estimated state non-income taxes (\$0.3 million related to our estimates for the 2005-2011 tax years as discussed in Note 10 - Commitments and Contingencies to our consolidated financial statements) and \$0.7 million expense for an immaterial correction in calculating deferred rent which primarily accumulated from 2002 to 2010.

Included in selling, general and administrative expenses is unallocated corporate overhead of \$22.6 million for year ended December 31, 2012, compared to \$20.3 million for the year ended December 31, 2011. This increase in unallocated corporate overhead was primarily due to an increase in consulting and accounting fees. Included in unallocated corporate overhead are \$2.6 million and \$2.9 million of share-based compensation expenses for the years ended December 31, 2012 and 2011, respectively. As a percentage of consolidated revenue, unallocated corporate overhead was 5.1% for the year ended December 31, 2012, and 4.6% for the year ended December 31, 2011.

#### **Bad debt expense**

Bad debt expense as a percentage of total revenue was 0.2%, or \$0.8 million for the year ended December 31, 2012. Bad debt expense as a percentage of total revenue was 0.1%, or \$0.6 million for the year ended December 31, 2011. The calculation and methodology remain consistent.

#### **Contribution income**

Contribution income from our nurse and allied staffing segment for the year ended December 31, 2012, decreased \$6.9 million or 34.2%, to \$11.4 million from \$20.1 million in year ended December 31, 2011. As a percentage of nurse and allied staffing revenue, segment contribution income was 4.1% for the year ended December 31, 2012, and 7.2% for the year ended December 31, 2011. This decrease was due to a combination of higher field insurance expenses, a decrease in our bill pay spread due to changes in geographic mix, and higher selling, general and administrative expenses. The higher selling, general and administrative expenses were primarily due to investments we made in 2011 to our infrastructure to support anticipated revenue growth, particularly from new MSP accounts, that was slower than expected throughout the second half of 2012.

Contribution income from our physician staffing segment for the year ended December 31, 2012, decreased \$0.7 million or 5.9% to \$10.7 million compared to \$11.3 million in the year ended December 31, 2011. As a percentage of physician staffing revenue, contribution income was 8.6% for the year ended December 31, 2012 and 9.5% for the year ended December 31, 2011. The margin decline was due to higher physician provider fees and professional liability expenses, partially offset by favorable operating leverage.

Contribution income from other human capital management services for the year ended December 31, 2012, decreased by \$1.2 million, or 38.7%, to \$1.9 million, from \$3.2 million in the year ended December 31, 2011 due to a decrease in contribution income from the education and training business, partially offset by an increase in contribution income from our retained search business. Contribution income as a percentage of other human capital management services revenue was 4.7% for the year ended December 31, 2012 and 7.6% for the year ended December 31, 2011. Lower seminar attendance and higher program costs in our education and training business were partially offset by revenue and operating improvements in our retained search business.

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

Depreciation and amortization expense in the year ended December 31, 2012, totaled \$7.2 million as compared to \$8.4 million for the year ended December 31, 2011. As a percentage of revenue, depreciation and amortization expense was 1.6% for the year ended December 31, 2012 and 1.9% for the year ended December 31, 2011.

#### **Impairment charges**

Impairment charges of \$18.7 million in the year ended December 31, 2012 represents impairment of goodwill related to the nurse and allied staffing segment due to the results of an interim impairment analysis pursuant to the *Intangibles - Goodwill and Other* Topic of the FASB ASC. We determined that the fair value of our nurse and allied staffing segment was lower than the respective carrying value. The decrease in value was due to slower than expected booking momentum and reduced contribution income in our second quarter of 2012 which lowered the anticipated growth trend used for goodwill impairment testing. Pursuant to the second step of the interim impairment testing we were required to calculate an implied fair value of goodwill based on a hypothetical purchase price allocation. Based on these results, we determined a pre-tax goodwill impairment charge of \$18.7 million. See Critical Accounting Principles and Estimates and Note 3 - Goodwill and Other Identifiable Intangible Assets to our consolidated financial statements.

### **Foreign exchange (gain) loss**

Foreign exchange gains of \$0.1 million were realized in the period ended December 31, 2012, compared to \$0.3 million of losses realized in the year ended December 31, 2011. Foreign currency gains and losses are realized upon the settlement of cash flows from transactions denominated in different currencies.

### **Interest expense**

Interest expense totaled \$2.3 million for the year ended December 31, 2012 and \$2.9 million for the year ended December 31, 2011. Interest expense in the year ended December 31, 2012 included debt financing costs of \$0.3 million that were not capitalized. Lower interest expense was due to lower average borrowings in the year ended December 31, 2012. The effective interest rate on our borrowings was 2.3% for the years ended December 31, 2012 and 2011.

### **Other expense (income), net**

Other expense (income), net includes interest income on our cash and cash equivalents and short and long-term cash investments, and other income and expense. During the year ended December 31, 2012 and 2011, other expense (income), net is primarily interest income.

### **Income tax (benefit) expense**

Income tax benefit totaled \$6.1 million for the year ended December 31, 2012, as compared to an income tax expense of \$2.1 million for the year ended December 31, 2011. The effective tax rate was 22.9% in the year ended December 31, 2012, compared to 57.2% in the year ended December 31, 2011. The lower effective tax rate in the year ended December 31, 2012 was partly due to an adjustment of \$2.5 million to income tax expense in the fourth quarter of 2012 related to the reversal of the Company's permanent reinvestment of foreign earnings position and the effect of losses due to impairment charges incurred in 2012. Excluding the adjustment relating to the foreign earning position, the effective tax rate was 32.2% in the year ended December 31, 2012. The higher effective tax rate in the year ended December 31, 2011 was partly due to an adjustment of \$0.3 million to income tax expense in the fourth quarter of 2011 related to an overstatement of deferred tax assets in prior periods. Excluding this adjustment, the effective tax rate was 48.9% in the year ended December 31, 2011.

### **(Loss) income from discontinued operations, net of income taxes**

(Loss) income from discontinued operations, net of income taxes includes the results from our clinical trial services business segment which was reclassified as discontinued in our fourth quarter of 2012. The loss from discontinued operations in the year ended December 31, 2012 includes total impairment charges of \$35.4 million (\$24.2 million, net of income taxes) related to goodwill and other intangible assets. Excluding the impairment charges, the clinical trial service business had income from operations before income taxes of \$4.5 million in the year ended December 31, 2012 compared to \$4.6 million in the year ended December 31, 2011. See Note 4 - Goodwill, Trade Names and Identifiable Intangible Asset and Note 3 - Assets Held for Sale and Discontinued Operations.

### **Transactions with Related Parties**

We provide services to hospitals which are affiliated with certain Board of Director members. Revenue related to these transactions amounted to approximately \$3.9 million, \$3.8 million, and \$2.1 million in aggregate for the years ended December 31, 2013, 2012, and 2011, respectively. Accounts receivable due from these hospitals at December 31, 2013 and 2012 were approximately \$0.4 million and \$0.6 million in aggregate, respectively. Pricing for our services is consistent with our other hospital customers.

### **Liquidity and Capital Resources**

As of December 31, 2013, we had a current ratio, defined as the amount of current assets divided by current liabilities, of 1.9 to 1.0. Working capital decreased by \$27.2 million to \$39.0 million as of December 31, 2012, compared to \$66.2 million as of December 31, 2011, primarily due to the sale of its clinical trial services business segment classified as assets held for sale as of December 31, 2012. Days' sales outstanding decreased by 3 days to 51 days as of December 31, 2013, compared to 54 days at December 31, 2012 (when including the Company's discontinued operations), consistent with historical ranges.

Our operating cash flows constitute our primary source of liquidity, and historically, have been sufficient to fund our working capital, capital expenditures, internal business expansion and debt service including our commitments as described in the

Commitments table which follows. We believe that our capital resources are sufficient to meet our working capital needs for the next twelve months. We expect to meet our future needs for working capital, capital expenditures, internal business expansion and debt service from a combination of cash on hand, operating cash flows and funds available through the revolving loan portion of our current credit agreement. Our foreign cash balance of \$8.6 million is available to us, and if we repatriated the total amount, we would incur \$0.2 million of withholding tax, which has been accrued for as of December 31, 2013. We believe the absence of cash flow from discontinued operations will not impact our future liquidity and capital resources. We continue to evaluate acquisition opportunities that may require additional funding.

### **Credit Agreements**

#### *Loan Agreement*

On January 9, 2013, we terminated our commitments under the July 2012 Credit Agreement (defined below) and entered into a Loan and Security Agreement, (Loan Agreement), by and among us and certain of our domestic subsidiaries, as borrowers, and Bank of America, N.A., as agent.

The Loan Agreement provides for: a three-year senior secured asset-based revolving credit facility in the aggregate principal amount of up to \$65.0 million (as described below), which includes a subfacility for swingline loans up to an amount equal to 10% of the aggregate Revolver Commitments, and a \$20.0 million subfacility for standby letters of credit. Swingline loans and letters of credit issued under the Loan Agreement reduce available revolving credit commitments on a dollar-for-dollar basis. Subject to certain conditions, we are permitted, at any time prior to the maturity date for the revolving credit facility, to increase the total revolving credit commitments in an aggregate principal amount of up to \$20.0 million, with additional commitments from Lenders or new commitments from financial institutions, subject to certain conditions as described in the Loan Agreement. Pursuant to the Loan Agreement, the aggregate amount of advances under the Line of Credit (Borrowing Base) cannot exceed the lesser of (a) (i) \$65.0 million, or (ii) 85% of eligible billed accounts receivable as defined in the Loan Agreement; plus (b) the lesser of (i) 85% of eligible unbilled accounts receivable and (ii) \$12.0 million; minus (c) reserves as defined by the Loan Agreement, which include one week's worth of W-2 payroll and fees payable to independent contractors. We had \$11.4 million letters of credit outstanding and \$8.4 million drawn under our revolving credit, leaving \$19.7 million available as of December 31, 2013. The letters of credit relate to our workers' compensation and professional liability policies. See Note 2 - Summary of Significant Accounting Policies.

The initial proceeds from the revolving credit facility were used to finance the repayment of existing indebtedness of the Company under our prior credit agreement and the payment of fees and expenses. The repayment of the term loan portion of our debt outstanding in the first quarter of 2013 was treated as extinguishment of debt, and, as a result, we recognized a loss on extinguishment in the first quarter of 2013, related to the write-off of unamortized net debt issuance costs of approximately \$0.3 million. The repayment of the revolver portion of the our debt outstanding in the first quarter of 2013 was treated partially as extinguishment and partially as a modification. The fees related to the modified portion of approximately \$0.1 million relate to the continuation of credit provided by Bank of America, N.A. under our Loan Agreement. We wrote-off the remaining unamortized net debt issuance costs of approximately \$1.1 million in the first quarter of 2013.

The revolving credit facility will be used to provide ongoing working capital and for other general corporate purposes. As of December 31, 2013, the interest rate spreads and fees under the Loan Agreement are based on LIBOR plus 1.5% or Base Rate plus 0.50%. The LIBOR and Base Rate margins are subject to performance pricing adjustments, pursuant to a pricing matrix based on the our excess availability under the revolving credit facility, and would increase by 200 basis points if an event of default exists. We are required to pay a monthly commitment fee on the average daily unused portion of the revolving loan facility, which, as of December 31, 2013, was 0.375%.

The Loan Agreement contains customary representations, warranties, and affirmative covenants. The Loan Agreement also contains customary negative covenants; including covenants with respect to, among other things, (i) indebtedness, (ii) liens, (iii) investments, (iv) significant corporate changes, including mergers and acquisitions, (v) dispositions, (vi) dividend, distributions and other restricted payments, (vii) transactions with affiliates and (viii) restrictive agreements. In addition, if the Company's excess availability under the revolving credit facility is less than the greater of (i) 12.5% of the Loan Cap, as defined, and (ii) \$6,250,000, we are required to meet a minimum fixed charge coverage ratio of 1.0, as defined in the Loan Agreement. The Loan Agreement also contains customary events of default, such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control and the failure to observe covenants or conditions under the credit facility documents.

Our obligations under the Loan Agreement are guaranteed by our domestic subsidiaries (Subsidiary Guarantors). As collateral security for their obligations under the Loan Agreement and guarantees thereof, we and the Subsidiary Guarantors have granted to Bank of America, N.A., a security interest in substantially all of our tangible and intangible assets.

#### *July 2012 Credit Agreement*

On July 10, 2012, we entered into a senior secured credit agreement (July 2012 Credit Agreement), by and among us, as borrower, a syndicate of lenders, Wells Fargo Bank, National Association, as administrative agent, swingline lender and issuing lender, Bank of America, N.A., as syndication agent, and U.S. Bank National Association, as documentation agent. The July 2012 Credit Agreement provided for: (i) a five-year senior secured term loan facility in the aggregate principal amount of \$25.0 million, and (ii) a five-year senior secured revolving credit facility in the aggregate principal amount of up to \$50.0 million, which includes a \$10.0 million subfacility for swingline loans, and a \$20.0 million subfacility for standby letters of credit.

Upon closing of the July 2012 Credit Agreement, we borrowed \$25.0 million under the term loan and \$11.0 million from the revolving credit facility. The proceeds were used to repay the indebtedness on our prior credit agreement and for the payment of fees and expenses. During 2012, \$1.0 million of financing fees were deferred and included in debt issuance costs on the accompanying consolidated balance sheets. The deferred costs related to the revolving credit facility were being amortized on a straight-line basis, and the deferred costs related to the term loan facility were being amortized using the effective interest method, both over the life of the July 2012 Credit Agreement. In addition, \$0.3 million of third party debt financing costs relating to the July 2012 Credit Agreement were expensed as incurred as required by the *Debt Topic* of the FASB ASC, and included in interest expense on the consolidated statements of operations.

The revolving credit facility was used to provide ongoing working capital and for other general corporate purposes of the Company and its subsidiaries. Through December 31, 2012, interest on the term loan and revolving credit portion of the July 2012 Credit Agreement was based on LIBOR plus a margin of 2.50% or Base Rate (as defined by the July 2012 Credit Agreement) plus a margin of 1.50%. In addition, we were required to pay a quarterly commitment fee on our average daily unused portion of the revolving loan facility of 0.50%.

#### *Modification of July 2012 Credit Agreement*

On September 28, 2012, we entered into a First Modification Agreement with the lenders of our July 2012 Credit Agreement, which, for the third quarter ending September 30, 2012, modified the maximum consolidated total leverage ratio to 2.75 to 1.00 and modified the minimum consolidated fixed charge coverage ratio to 1.25 to 1.00. In addition, the aggregate amount of new revolving credit loans and swingline loans made under the credit agreement could not exceed \$3.0 million (above the \$10.0 million outstanding) at any time, and new Letters of Credit issued on behalf of us couldn't exceed \$1.0 million (above the \$12.4 million outstanding), during the period commencing on September 28, 2012 and ending upon the delivery of the Officer's Compliance Certificate to the administrative agent for the fiscal year ending December 31, 2012 (which would have occurred in March 2013). Further, during this modification period, we were also prohibited from making investments and purchasing, redeeming, retiring or otherwise acquiring any shares of its capital stock as otherwise permitted under the credit agreement. Due to our change in lenders' participations as a result of the July 2012 Credit Agreement and subsequent modification agreement, the Company wrote off debt issuance costs of approximately \$82,000 as loss on modification of debt on the accompanying consolidated statements of operations for the year ended December 31, 2012.

#### **Stock Repurchase Programs**

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

During the year ended December 31, 2012, we repurchased under this program, 71,653 shares of our common stock at an average price of \$5.22 per share. The cost of such purchases was approximately \$0.4 million. All of the common stock was retired. During the year ended December 31, 2011, we repurchased under this program, 427,043 shares of our common stock at an average price of \$5.23 per share. The cost of such purchases was approximately \$2.2 million. All of the common stock was retired. During year ended December 31, 2010, we did not repurchase shares.

At December 31, 2013, we had 942,443 shares of common stock left remaining to repurchase under our February 2008 authorization, subject to the limitations of the Loan Agreement. Subject to certain conditions as described in its Loan

Agreement entered into on January 9, 2013, the Company may repurchase up to an aggregate amount of \$5.0 million of its Equity Interests. See Note 8-Long-term Debt for further information.

### **Cash Flow Comparisons**

#### *Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*

Net cash provided by operating activities during the year ended December 31, 2013 was \$8.7 million compared to \$10.1 million during the year ended December 31, 2012. During the years ended December 31, 2013 and 2012, net cash provided by operating activities included \$0.4 million and \$3.8 million, respectively, of cash provided by discontinued operations. The decrease in cash flow from operations is primarily due to timing of payments and receipts in the year ended December 31, 2013. Cash flow from operations in the year ended December 31, 2013 was reduced somewhat due to the acquisition in early December of On Assignment's Allied Healthcare Staffing division, as the Company did not buy their receivables.

Investing activities provided a net of \$15.2 million in the year ended December 31, 2013 compared to \$0.2 million used in the year ended December 31, 2012. During the year ended December 31, 2013, we sold the clinical trial service business for net proceeds of \$45.7 million. In addition, we used \$28.7 million during the year ended December 31, 2013 to acquire the Allied Health business of On Assignment. We used \$1.8 million and \$2.2 million, respectively for capital expenditures during the years ended December 31, 2013 and 2012. In addition, other investing activities provided \$2.7 million in year ended December 31, 2012 related to the liquidation of our foreign long-term and short-term cash investments.

Net cash used in financing activities during the year ended December 31, 2013, was \$26.1 million, compared to \$10.6 million during the year ended December 31, 2012. We repaid total debt, net of borrowings, in the amounts of \$25.3 million and \$8.7 million during the years ended December 31, 2013 and 2012, respectively. During the years ended December 31, 2013 and 2012, we paid \$0.5 million and \$1.4 million, respectively, for debt issuance costs related our refinancing. We used \$0.3 million and \$0.2 million to repurchase shares of common stock to cover withholding liabilities related to the vesting of restricted stock in 2013 and 2012, respectively.

#### *Year Ended December 31, 2012 Compared to Year Ended December 31, 2011*

Net cash provided by operating activities during the year ended December 31, 2012 was \$10.1 million compared to \$18.3 million during the year ended December 31, 2011. Net cash flow provided by operating activities during the year ended December 31, 2012 and 2011 included \$3.8 million, and \$6.0 million, respectively, of cash provided by discontinued operations. The decrease in cash flow from operations is primarily due to lower profitability and timing of income tax payments and receipts in year ended December 31, 2012. During the year ended December 31 2011, we received \$4.8 million in income tax refunds, primarily due to the utilization of a net operating loss carryback.

Investing activities provided \$0.2 million in the year ended December 31, 2012 compared to \$4.2 million used in the year ended December 31, 2011. We used \$2.2 million and \$4.0 million, respectively for capital expenditures during the years ended December 31, 2012 and 2011. In addition, other investing activities provided \$2.7 million in year ended December 31, 2012 related to the liquidation of our foreign long-term and short-term cash investments. Other investing activities used \$0.2 million during the year ended December 31, 2011. Other investing activities reflect our investments in short and long term cash investments that are highly liquid with underlying maturities greater than 90 days, the balance of which was \$0 as of December 31, 2012.

Net cash used in financing activities during the year ended December 31, 2012, was \$10.6 million, compared to \$14.2 million during the year ended December 31, 2011. We repaid total debt, net of borrowings, in the amounts of \$8.7 million and \$11.8 million during the years ended December 31, 2012 and 2011, respectively, primarily using cash flow from operations. We used \$0.2 million to repurchase shares of common stock to cover withholding liabilities related to the vesting of restricted stock in 2012 and 2011. During the year ended December 31, 2012, we paid \$1.4 million related to debt issuance costs related to debt refinancing.

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

We did not have any off-balance sheet arrangements.

The following table reflects our contractual obligations and other commitments as of December 31, 2013:

<b>Commitments</b>	<b>Total</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Thereafter</b>
<b>(Unaudited, amounts in thousands)</b>							
Asset-based revolving credit facility (a)	\$ 8,400	\$ 8,400	\$ —	\$ —	\$ —	\$ —	\$ —
Capital lease obligations	176	83	65	28	—	—	—
Operating leases obligations (b)	19,065	4,267	3,915	3,958	3,017	1,305	2,603
	<b>\$ 27,641</b>	<b>\$ 12,750</b>	<b>\$ 3,980</b>	<b>\$ 3,986</b>	<b>\$ 3,017</b>	<b>\$ 1,305</b>	<b>\$ 2,603</b>

- (a) Under our credit facility, we are required to comply with certain financial covenants. Our inability to comply with the required covenants or other provisions could result in default under our credit facility. In the event of any such default and our inability to obtain a waiver of the default, all amounts outstanding under the credit facility could be declared immediately due and payable.
- (b) Represents future minimum lease payments associated with operating lease agreements with original terms of more than one year.

In addition to the above disclosed contractual obligations, we have accrued uncertain tax positions, pursuant to the *Income Taxes Topic* of the FASB ASC of \$5.0 million at December 31, 2013. Based on the uncertainties associated with the settlement of these items, we are unable to make reasonably reliable estimates of the period of potential settlements, if any, with the taxing authorities.

## **Critical Accounting Principles and Estimates**

We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. The preparation of our consolidated 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. We evaluate our estimates on an on-going basis, including those related to asset impairment, accruals for self-insurance, allowance for doubtful accounts, taxes and other contingencies and litigation. We state our accounting policies in the notes to the audited consolidated financial statements for the year ended December 31, 2013, contained herein. These estimates are based on information that is currently available to us and on various 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 consolidated financial statements:

- 1) Our business acquisitions typically result in the recording of goodwill and other intangible assets, and the recorded values of those assets may become impaired in the future. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our consolidated financial statements. For intangible assets purchased in a business combination, the estimated fair values of the assets received are used to establish their recorded values. In accordance with the *Intangibles – Goodwill and Other Topic* of the FASB ASC and the *Property, Plant and Equipment/Impairment of Disposal of Long-Lived Assets Topic* of the FASB ASC, we perform annual impairment analysis to assess the recoverability of the goodwill and indefinite-lived intangible assets.

We assess the impairment of goodwill of our reporting units and indefinite-lived intangible assets annually, or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. We may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, we determine that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, the quantitative impairment test is unnecessary. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying

value is compared to its fair value. The fair values of the reporting units are estimated using market and discounted cash flow approaches. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. Valuation techniques consistent with the market approach and income approach are used to measure the fair value of each reporting unit. Significant judgments are required to estimate the fair value of reporting units including estimating future cash flows, and determining appropriate discount rates, growth rates, company control premium and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

#### *Second quarter 2012 goodwill interim impairment testing results*

During the second quarter of 2012, our stock price continued to decline from December 31, 2011. In addition, slower than expected booking momentum and reduced contribution income in our nurse and allied staffing segment resulted in a downward revision to this segment's forecast. Additionally, we were closely monitoring the performance of the clinical trial services and physician staffing businesses due to a small margin between the carrying amount and fair value of those respective reporting units as of the December 31, 2011 annual impairment testing and the small margin between the carrying amount and fair value of the nurse and allied staffing reporting unit as of the March 31, 2012 interim impairment testing. These factors warranted impairment testing in the second quarter of 2012.

As a result of the June 30, 2012 interim impairment testing, we determined that the fair value of the nurse and allied staffing segment was lower than the respective carrying value. The decrease in value was due to slower than expected booking momentum and reduced contribution income in the second quarter of 2012 which lowered the anticipated growth trend used for goodwill impairment testing. Pursuant to the second step of the interim impairment testing we were required to calculate an implied fair value of goodwill based on a hypothetical purchase price allocation. Based on these results, we wrote off the remaining goodwill which resulted in a pre-tax goodwill impairment charge of \$18.7 million as of June 30, 2012.

#### *Third quarter 2012 goodwill interim impairment testing results*

During the third quarter of 2012, we continued to experience a sustained decrease in stock price compared to December 31, 2011. We continued to monitor the performance of the clinical trial services and physician staffing businesses due to the thin margin between the carrying amount and fair value as of the December 31, 2011 annual impairment testing and subsequent interim impairment tests.

Upon completion of the third quarter 2012 interim impairment testing, we determined that the estimated fair value of our reporting units, with the exception of clinical trial services (see Note 3 – Assets Held for Sale and Discontinued Operations), exceeded their respective carrying values.

#### *Fourth quarters 2013, 2012, and 2011 annual goodwill impairment testing results*

During the fourth quarters of 2013, 2012, and 2011, the Company determined that no goodwill impairment charges were warranted.

There can be no assurance that the estimates and assumptions made for purposes of the annual goodwill impairment test will prove to be accurate predictions of the future. Although management believes the assumptions and estimates made are reasonable and appropriate, different assumptions and estimates could materially impact the reported financial results.

In addition, the *Property, Plant and Equipment/Impairment or Disposal of Long-Lived Assets* Topic of the FASB ASC, requires us to test the recoverability of long-lived assets, including identifiable intangible assets with definite lives, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In testing for potential impairment, if the carrying value of the asset group exceeds the expected undiscounted cash flows, we must then determine the amount by which the fair value of those assets exceeds the carrying value and determine the amount of impairment, if any.

#### *Fourth quarter 2013 other indefinite lived intangibles*

In the fourth quarter of 2013, in conjunction with our annual testing of indefinite-lived intangible assets not subject to amortization, we recorded a pre-tax non-cash impairment charge of approximately \$6.4 million of which \$6.2 million related to the physician staffing segment and \$0.2 million related to the nurse and allied staffing segment. We reduced our long term revenue forecast in our fourth quarter for these businesses and as a result, our calculation of estimated fair value was less than the carrying amount of the trade names, resulting in an impairment charge.

As of December 31, 2013, other indefinite-lived intangible assets not subject to amortization on our consolidated balance sheets totaled \$42.3 million.

#### *Goodwill and other identifiable intangible assets related to discontinued operations*

We used a consistent income approach and market approach to evaluate the potential impairment of goodwill related to the clinical trial services staffing reporting unit. Discounted cash flows served as the primary basis for the income approach. Pricing multiples derived from publicly-traded guideline companies that are comparable served as the basis for the market approach. Pursuant to the second step of our third quarter interim impairment testing, we were required to calculate an implied fair value of goodwill based on a hypothetical purchase price allocation. As of the date of its third quarter filing, we had not finalized its second step of impairment testing due to the limited time period from the first indication of potential impairment to the date of filing and the complexities involved in estimating the fair value. We recorded a pre-tax goodwill impairment charge of approximately \$22.1 million as of September 30, 2012. This impairment analysis was finalized in the fourth quarter and did not result in any adjustment. In addition, in the fourth quarter of 2012, in conjunction with our evaluation of our assets held for sale, an additional impairment charge was recorded of approximately \$11.9 million. The Company considered the sale price from the buyer as its best indication of fair value as of December 31, 2012 (See Note 3 - Assets Held for Sale and Discontinued Operations).

#### *Risk and uncertainties*

The calculation of fair value used in these impairment assessments included a number of estimates and assumptions that required significant judgments, including projections of future income and cash flows, the identification of appropriate market multiples and the choice of an appropriate discount rate. Changes in these assumptions could materially affect the determination of fair value for each reporting unit. Specifically, further deterioration of demand for our services, further deterioration of labor market conditions, reduction of our stock price for an extended period, or other factors as described in Item 1.A. *Risk Factors*, may affect our determination of fair value of each reporting unit. This evaluation can also be triggered by various indicators of impairment which could cause the estimated discounted cash flows to be less than the carrying amount of net assets. If we are required to record an impairment charge in the future, it could have an adverse impact on our results of operations. Under the current credit agreement an impairment charge will not have an impact on our liquidity. As of December 31, 2013, we had total goodwill and intangible assets not subject to amortization of \$119.6 million.

2)

We maintain accruals for our health, workers' compensation and professional liability claims that are partially self-insured and are classified as accrued compensation and benefits on our 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 models, as well as industry experience and trends. If such models indicate that our accruals are overstated or understated, we will reduce or provide for additional accruals as appropriate. Healthcare insurance accruals have fluctuated with increases or decreases in the average number of temporary healthcare professionals on assignment as well as actual company experience and increases in national healthcare costs. As of December 31, 2013 and 2012, we had \$1.4 million and \$2.0 million accrued, respectively, for incurred but not reported health insurance claims. Corporate and field employees are covered through a partially self-insured health plan. Workers' compensation insurance accruals can fluctuate over time due to the number of employees and inflation, as well as additional exposures arising from the current policy year. As of December 31, 2013, we had \$2.8 million accrued for case reserves and for incurred but not reported workers' compensation claims, net of insurance receivables, a decrease of \$0.6 million over the amount accrued at December 31, 2012. The accrual for workers' compensation is based on an actuarial model which is prepared or reviewed by an independent actuary. As of December 31, 2013, and 2012, we had \$7.9 million and \$8.9 million accrued, respectively, for case reserves and for incurred but not reported professional liability claims, net of insurance receivables. The accrual for professional liability is based on an actuarial models which are prepared or reviewed by an independent actuary annually.

- 3) We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which results in a provision for bad debt expense. We determine the adequacy of this allowance by continually evaluating individual customer receivables, considering the customer's financial condition, credit history and current economic conditions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We write off specific accounts based on an ongoing review of collectability as well as our past experience with the customer. Historically, losses on uncollectible accounts have not exceeded our allowances. As of December 31, 2013, our allowance for doubtful accounts was \$1.7 million.
- 4) 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 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 healthcare facility clients relating to these matters. Material pending legal proceedings brought against us, if any, other than ordinary routine litigation incidental to the business are described in Legal Proceedings.
- 5) We account for income taxes in accordance with the *Income Taxes* Topic of the FASB ASC. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As of December 31, 2013, we have deferred tax assets related to certain federal, state and foreign net operating loss carryforwards of \$32.3 million. The state carryforwards will expire between 2013 and 2032. The federal carryforwards expire between 2030 and 2032. The majority of the foreign carryforwards are in a jurisdiction with no expiration.

We determine the need for a valuation allowance under *Income Taxes* topic of the FASB ASC by assessing the probability of realizing deferred tax assets, taking into consideration all available positive and negative evidence, including historical operating results, expectations of future taxable income, carryforward periods available to us for tax reporting purposes, the evaluation of various income tax planning strategies and other relevant factors. We maintain a valuation allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized based on consideration of all available evidence. Adjustments to the deferred tax valuation allowances are made to earnings in the period when such assessments are made. Significant judgment is required in making this assessment and to the extent future expectations change, we would have to assess the recoverability of our deferred tax assets at that time. Our cumulative loss position was significant negative evidence in assessing the need for a valuation allowance. As of December 31, 2013, we determined that we could not sustain a conclusion that it was more likely than not that we would realize any of our deferred tax assets resulting from recent losses, because of the cumulative loss, the difficulty of forecasting future taxable income, and other factors. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal. As of December 31, 2013 and 2012, the Company recorded valuation allowances of \$52.0 million and \$4.0 million, respectively. The December 31, 2013 valuation allowance applied to all our deferred tax assets. The December 31, 2012 valuation allowance was based only upon the uncertainty of the realization of a particular subsidiary's state portion of its deferred tax asset that arose from the goodwill impairment.

We are subject to income taxes in the United States and certain foreign jurisdictions. Significant judgment is required in determining our consolidated provision for income taxes and recording the related deferred tax assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Accruals for unrecognized tax benefits are provided for in accordance with the *Income Taxes* Topic of the FASB ASC. An unrecognized tax benefit represents the difference between the recognition of benefits related to exposure items for income tax reporting purposes and financial reporting purposes. The current portion of the unrecognized tax benefit is classified as a component of other current liabilities, and the non-current portion is included within other long-term liabilities on the consolidated balance sheets. As of December 31, 2013, total unrecognized tax benefits recorded was \$5.0 million. We have a reserve for interest and penalties on exposure items, if applicable, which is recorded as a component of the overall income tax provision. We are regularly under audit by tax authorities. Although the outcome of tax audits is always uncertain, we believe that we have appropriate support for the positions taken on our tax returns and that our annual tax provision includes amounts sufficient to pay any assessments. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

- 6) Our sales and other non-income tax filings are subject to routine audits by authorities in the jurisdictions where we conduct business, which may result in assessments of additional taxes. As a result of a state administrative ruling, we determined that additional sales and non-income taxes were probable of being assessed for certain states. The total amount accrued is based on our best estimate of our probable liability and is based on current available information and interpretation of relevant tax regulations.

In the fourth quarter of 2011, we estimated an incremental sales and non-income tax liability, included in selling, general and administrative expenses, of approximately \$0.5 million pretax. Approximately \$0.4 million of the estimated liability relates to 2008-2010 tax years. Given the nature of our business, significant subjectivity exists as to both whether sales and other non-income tax can be assessed on the activity and how the sales tax will ultimately be measured by the relevant jurisdictions. We make a determination each reporting period whether the estimates for sales and other non-income taxes in certain states should be revised.

During the year ended December 31, 2012, based on revised estimates of probable settlement, an expected state non-income tax audit assessment, and additional estimates for current year activity, we accrued an additional pretax liability related to these non-income tax matters of approximately \$1.0 million, of which \$0.3 million related to the 2005-2011 tax years. During the year ended December 31, 2013, based on revised estimates and current year activity, we accrued an additional \$0.8 million and paid \$0.3 million to settle these matters. The expense is included in selling, general and administrative expenses on our consolidated statements of operations and the liability is reflected in other current liabilities on our consolidated balance sheets. We are working with professional tax advisors and state authorities to resolve these matters.

#### **Recent Accounting Pronouncements**

In July 2013, the FASB issued Accounting Standards Update 2013-11, *Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forwards Exists* (ASU 2013-11). ASU 2013-11 requires entities to present the unrecognized tax benefits in the financial statements as a liability and not combine it with deferred tax assets to the extent a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective for annual and interim periods for fiscal years beginning on or after December 15, 2013. We do not currently net unrecognized tax benefits with deferred tax assets and therefore we do not expect this ASU to have any impact on the financial statements and disclosures.

#### **Seasonality**

The number of healthcare professionals on assignment with us is subject to moderate seasonal fluctuations which may impact our quarterly revenue and earnings. Hospital patient census and staffing needs of our hospital and healthcare facilities fluctuate which impact our number of orders for a particular period. Many of our hospital and healthcare facility clients are located in areas that experience seasonal fluctuations in population during the winter and summer months. These facilities adjust their staffing levels to accommodate the change in this seasonal demand and many of these facilities utilize temporary healthcare professionals to satisfy these seasonal staffing needs. Likewise, the number of nurse and allied professionals on assignment may fluctuate due to the seasonal preferences for destinations of our temporary nurse and allied professionals. In addition, we expect our physician staffing business to experience higher demand in the summer months as physicians take vacations. This historical seasonality of revenue and earnings may vary due to a variety of factors and the results of any one quarter are not necessarily indicative of the results to be expected for any other quarter or for any year. In addition, typically, our first quarter results are negatively impacted by the reset of payroll taxes.

#### **Inflation**

During the last several years, the rate of inflation in healthcare related services has exceeded that of the economy as a whole. Our direct costs are affected by fluctuations in housing costs and healthcare and workers' compensation insurance. During 2013, our direct costs decreased as a result of lower housing costs. Depending on the demand environment, we may be able to recoup the negative impact of such fluctuations by increasing our billing rates. We may not be able to pass on increases in our direct operating costs to our customers which may adversely affect our profitability.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

We have been exposed to interest rate risk associated with our debt instruments which have had interest based on floating rates. Our current and prior credit agreements charge us interest at a rate of, at our option, either: (i) LIBOR plus a leverage-based margin or (ii) Base Rate plus a leverage-based margin. Refer to Liquidity and Capital Resources – Credit Agreement included in Item 7. See Management’s Discussion and Analysis above for further discussion about our asset-based Loan Agreement and our prior credit agreements. A 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately by an immaterial amount in the year ended December 31, 2013 and \$0.4 million in the year ended December 31, 2012.

We are exposed to the impact of foreign currency fluctuations. Changes in foreign currency exchange rates impact translations of foreign denominated assets and liabilities into U.S. dollars and future earnings and cash flows from transactions denominated in different currencies. Approximately 2% of selling, general and administrative expenses are related to certain software development and information technology support provided by our employees in Pune, India. We have not entered into any foreign currency hedges.

Our international operations transact business in their functional currency. As a result, fluctuations in the value of foreign currencies against the U.S. dollar have an impact on reported results. Expenses denominated in foreign currencies are translated into U.S. dollars at monthly average exchange rates prevailing during the period. Consequently, as the value of the U.S. dollar changes relative to the currencies of our non-U.S. markets, our reported results vary.

Fluctuations in exchange rates also impact the U.S. dollar amount of stockholders’ equity. The assets and liabilities of our non-U.S. subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of a reporting period. The resulting translation adjustments are recorded in stockholders’ equity, as a component of accumulated other comprehensive loss, included in other stockholders’ equity on our consolidated balance sheet.

**Item 8. Financial Statements and Supplementary Data.**

See Item 15 – Exhibits, Financial Statement Schedules of Part IV of this Report.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, has identified a material weakness in our internal control over financial reporting. As a result of this material weakness, management has concluded that, as of the end of the period covered by this Annual Report on Form 10-K, our internal control over financial reporting was not effective.

**Changes in Internal Control Over Financial Reporting**

The Company acquired On Assignment’s Allied Healthcare Staffing division on December 2, 2013. Due to the timing of the acquisition and as allowed under SEC guidance, management’s assessment of and conclusion regarding the design and effectiveness of internal control over financial reporting excluded the internal control over financial reporting of the acquired business, which is relevant to the Company’s 2013 consolidated financial statements as of and for the year ended December 31, 2013.

## **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in the Internal Control-Integrated Framework (1992 framework). As permitted, our management's assessment of and conclusion on the effectiveness of our internal controls did not include the internal controls of On Assignment, Inc.'s Allied Healthcare Staffing division, because it was acquired by us during the fourth quarter of 2013. The assets of the acquisition constituted \$27.6 million and \$26.7 million of total and net assets, respectively, as of December 31, 2013 and \$3.4 million and \$0.1 million of revenue and net loss, respectively, for the year ended December 31, 2013 as a result of the closing of the acquisition on December 2, 2013. Based on our assessment and those criteria, management has identified the following material weakness in our internal control over financial reporting:

We have determined that there is a material weakness in our controls of non-routine accounting processes. This material weakness did not result in any misstatements of the Company's annual or interim consolidated financial statements but did result in two auditor initiated adjustments during the 2013 annual audit. As part of the annual testing of goodwill and other intangible assets, the Company relied only on its internal forecast to calculate hypothetical royalty rates to value its trade names and failed to corroborate a change in royalty rate with current arms-length market transactions. Absent such market evidence, the Company reverted to its historical royalty rates for which market support existed and recorded a \$6.4 million non-cash trade name impairment charge prior to its fourth quarter press release on earnings. Also during the year-end audit, the Company determined that a valuation allowance was required on its deferred tax assets but miscalculated the amount of the valuation allowance. When calculating the non-cash valuation allowance, the Company incorrectly netted deferred tax liabilities related to indefinite lived intangible assets (such as goodwill) against the deferred tax assets. This resulted in recording an incremental \$17.4 million valuation allowance after the fourth quarter press release was issued but prior to filing of this Annual Report on Form 10-K.

As a result of this material weakness, management has concluded that, as of the end of the period covered by this Annual Report on Form 10-K, our internal control over financial reporting was not effective. The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by Ernst & Young LLP, an independent registered certified public accounting firm, as stated in their attestation report included in this Annual Report on Form 10-K.

### **Remediation of the Material Weakness in Internal Control over Financial Reporting**

To remediate the material weakness, management with the oversight of our Audit Committee is going to design and implement controls around the following:

- Increasing its reliance on third party experts for the review of non-routine accounting transactions.
- Expanding the Company's complement of qualified accounting staff and implementing process improvements that permit more effective and efficient management of the accounting and financial reporting processes, including those related to non-routine transactions.

Notwithstanding the identified material weakness, management believes that the consolidated financial statements included in this Annual Report on Form 10-K fairly represent, in all material respects, our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

### **Report of Independent Registered Public Accounting Firm**

We have audited Cross Country Healthcare, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Cross Country Healthcare, Inc.'s management is responsible for

maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

As indicated in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of On Assignment, Inc.'s Allied Healthcare Staffing division, which is included in the 2013 consolidated financial statements of Cross Country Healthcare, Inc. and constituted \$27.6 million and \$26.7 million of total and net assets, respectively, as of December 31, 2013 and \$3.4 million and \$0.1 million of revenues and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of Cross Country Healthcare, Inc. also did not include an evaluation of the internal control over financial reporting of On Assignment, Inc.'s Allied Healthcare Staffing division.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in controls related to the Company's review of significant non-routine accounting matters as it relates to the fair value estimation of its indefinite-lived intangible assets and the valuation allowance on its deferred tax assets. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2013 and 2012 and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2013 financial statements, and this report does not affect our report dated March 17, 2014, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

/s/ Ernst & Young LLP  
Certified Public Accountants

Boca Raton, Florida  
March 17, 2014

**Item 9B. Other Information.**

None.

**PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

Information with respect to directors, executive officers and corporate governance is included in our Proxy Statement for the 2014 Annual Meeting of Stockholders (Proxy Statement) to be filed pursuant to Regulation 14A with the SEC and such information is incorporated herein by reference.

**Item 11. Executive Compensation.**

Information with respect to executive compensation is included in our Proxy Statement to be filed with the SEC and such information is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.**

Information with respect to beneficial ownership of our common stock is included in our Proxy Statement to be filed with the SEC and such information is incorporated herein by reference.

With respect to equity compensation plans as of December 31, 2013, see table below:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by security holders	1,546,299	\$ 8.93	789,052
Equity compensation plans not approved by security holders	None	N/A	N/A
<b>Total</b>	<b>1,546,299</b>	<b>\$ 8.93</b>	<b>789,052</b>

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information with respect to certain relationships and related transactions, and director independence is included in our Proxy Statement to be filed with the SEC and such information is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services.**

Information with respect to the fees and services of our principal accountant is included in our Proxy Statement to be filed with the SEC and such information is incorporated herein by reference.

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules.**

(a) Documents filed as part of the report.

(1) Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2013 and 2012

Consolidated Statements of Operations for the Years Ended December 31, 2013, 2012 and 2011

Consolidated Statements of Comprehensive (Loss) Income for the Years Ended December 31, 2013, 2012 and 2011

Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2013, 2012 and 2011

Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011

Notes to Consolidated Financial Statements

(2) Financial Statements Schedule

Schedule II – Valuation and Qualifying Accounts for the Years Ended December 31, 2013, 2012 and 2011

(3) Exhibits

See Exhibit Index immediately following signatures.

## SIGNATURES

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

### CROSS COUNTRY HEALTHCARE, INC.

By: /s/ William J. Grubbs

Name: William J. Grubbs

Title: Chief Executive Officer and President

Date: March 17, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons in the capacities indicated and on the dates indicated:

Signature	Title	Date
/s/ William J. Grubbs William J. Grubbs	President, Chief Executive Officer, Director (Principal Executive Officer)	March 17, 2014
/s/ Emil Hensel Emil Hensel	Chief Financial Officer (Principal Financial Officer)	March 17, 2014
/s/ Nicholas Buscemi III Nicholas Buscemi III	Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)	March 17, 2014
/s/ Thomas C. Dircks Thomas C. Dircks	Director	March 17, 2014
/s/ W. Larry Cash W. Larry Cash	Director	March 17, 2014
/s/ Richard M. Mastaler Richard M. Mastaler	Director	March 17, 2014
/s/ Gale Fitzgerald Gale Fitzgerald	Director	March 17, 2014
/s/ Joseph A. Trunfio Joseph A. Trunfio	Director	March 17, 2014

## EXHIBIT INDEX

No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant (1)
3.2	Amended and Restated By-laws of the Registrant
4.1	Form of specimen common stock certificate (1)
4.2	Amended and Restated Stockholders Agreement, dated August 23, 2001, among the Registrant, a Delaware corporation, the CEP Investors and the Investors (1)
4.3	Registration Rights Agreement, dated as of October 29, 1999, among the Registrant, a Delaware corporation, and the CEP Investors and the MSDWCP Investors (1)
4.4	Amendment to the Registration Rights Agreement, dated as of August 23, 2001, among the Registrant, a Delaware corporation, and the CEP Investors and the MSDWCP Investors (1)
4.5	Shareholders Agreement, dated as of August 23, 2001, among the Registrant, Joseph Boshart and Emil Hensel and the Financial Investors (1)
10.1	Employment Agreement, dated as of June 24, 1999, between Joseph Boshart and the Registrant (1)(6)
10.2	Employment Agreement, dated as of June 24, 1999, between Emil Hensel and the Registrant (1)(6)
10.3	Employment Agreement, dated as of March 20, 2013, between William J. Grubbs and the Registrant (6)(19)
10.4	222 Building Standard Office Lease between Clayton Investors Associates, LLC and Cejka & Company (1)
10.5	Cross Country Healthcare, Inc. 2007 Stock Incentive Plan adopted April 5, 2007 (2)(8)
10.6	Cross Country, Inc. Deferred Compensation Plan (2)(6)
10.7	Restricted Stock Agreement between Company and Joseph A. Boshart (2)(6)
10.8	Restricted Stock Agreement between Company and Emil Hensel (2)(6)
10.9	Restricted Stock Agreement between Company and Vickie Anenberg (2)(6)
10.10	Restricted Stock Agreement between Company and Jonathan Ward (2)(6)
10.11	Form of Incentive Stock Option Agreement (3)(6)
10.12	First Amendment to Lease Agreement, dated February 24, 2005, between Blevens Family Storage, L.P., and Cross Country Seminars, Inc. (4)
10.13	Lease Agreement, dated February 15, 2006, between MedStaff, Inc. and Campus Investors D Building, L.P. (5)
10.14	Lease Guaranty Agreement by and between Cross Country Healthcare, Inc. and Campus Investors D Building, L.P. dated February 17, 2006. (5)
10.15	Lease Agreement between Cornerstone Opportunity Ventures, LLC and Cejka Search, Inc., dated February 2, 2007 (7)
10.16	Lease Agreement between Self Service Mini Storage, L.P. and Cross Country Education, LLC, dated February 2, 2007 (7)
10.17	Second Amendment to Lease Agreement by and between Meridian Commercial Properties Limited Partnership and Cross Country Healthcare, Inc., dated February 17, 2007 (7)
10.18	Lease Agreement dated as of September 21, 2004, by and between TGS American Realty Limited Partnership and Medical Doctor Associates, Inc. (10)
10.19	First Amendment to Lease Agreement dated as of September 1, 2007, by and between Cornerstone Opportunity Ventures, LLC and Cejka Search, Inc. (10)
10.20	Employment Agreement, dated as of September 9, 2008, by and between Jim Ginter and StoneCo H, Inc. (6)(12)
10.21	Employment Agreement, dated as of September 9, 2008, by and between Mike Pretiger and StoneCo H, Inc. (6)(12)
10.22	Employment Agreement, dated as of September 9, 2008, by and between Anne Anderson and StoneCo H, Inc. (6)(12)

**EXHIBIT INDEX (CONTINUED)**

<b>No.</b>	<b>Description</b>
10.23	Form of Restricted Stock Agreement under Cross Country Healthcare, Inc. 2007 Stock Incentive Plan (6)(11)(12)
10.24	Form of Stock Appreciation Rights Agreement under Cross Country Healthcare, Inc. 2007 Stock Incentive Plan (6)(9)(12)
10.25	Amended and Restated Executive Severance Policy of Cross Country Healthcare, Inc. dated as of January 1, 2008 (6)(12)
10.26	Lease Agreement, dated July 1, 2010, between Goldberg Brothers Real Estate LLC and MCVT, Inc. (13)
10.27	Leave and License Agreement dated October 15, 2010 between Cross Country InfoTech, Ltd. And ShriSubhashDattatrayaAngal (14)
10.28	Lease Agreement, dated July 18, 2013, between Peachtree II and III, LLC and MDA Holdings, Inc. (21)
10.29	Amended and Restated Executive Severance Plan of Cross Country Healthcare, Inc. (15)
10.30	First Amendment to Lease Agreement, dated April 22, 2011, between Self Service Mini Storage, L.P. and Cross Country Education, LLC, dated February 2, 2007 (16)
10.31	Loan and Security Agreement, dated January 9, 2013, by and among Cross Country Healthcare, Inc. and certain of its subsidiaries, as Borrowers, the Lenders referenced therein, and Bank of America, N.A., as Agent (17)
10.32	Stock Purchase Agreement, dated February 2, 2013, by and among ICON Clinical Research, Inc. and ICON Clinical Research UK Limited, as Buyers, and Cross Country Healthcare, Inc., Local Staff, LLC and Cross Country Healthcare UK Holdco Ltd., as Sellers (18)
10.33	Lease Agreement, dated March 1, 1999 by and between Medical Doctor Associates, Inc. and ADKS Realty Corporation (10)
10.34	Asset Purchase Agreement, dated December 2, 2013, between Local Staff, LLC, as Buyer, Cross Country Healthcare, Inc., as Parent and On Assignment Staffing Services, Inc., Assignment Ready, Inc., and On Assignment, Inc., collectively as Seller. (20)
10.35	Amended and restated Stock Incentive Plan of Cross Country Healthcare, Inc. (6)(22)
10.36	Registration Statement for registration of additional common stock of Cross Country Healthcare, Inc., dated May 10, 2013 (23)
10.37	Employment Agreement, dated March 3, 2014, between William Burns and Cross Country Healthcare (6)*
10.38	Transition Agreement, dated March 3, 2014, between Emil Hensel and Cross Country Healthcare (6)*
14.1	Code of Ethics (3)
*21.1	List of subsidiaries of the Registrant
*23.1	Consent of Independent Registered Public Accounting Firm
*31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by William J. Grubbs, President and Chief Executive Officer
*31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Emil Hensel, Chief Financial Officer
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by William J. Grubbs, Chief Executive Officer
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Emil Hensel, Chief Financial Officer
**101.INS	XBRL Instance Document
**101.SCH	XBRL Taxonomy Extension Schema Document
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**101.PRE	PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* Furnished herewith

- (1) Previously filed as an exhibit to the Company's Registration Statement on Form S-1/A, Commission File No. 333-83450, and incorporated by reference herein.
- (2) Previously filed as exhibits in the Company's Form 10-K for the year ended December 31, 2002 and incorporated by reference herein.
- (3) Previously filed as exhibits in the Company's Form 10-K for the year ended December 31, 2004 and incorporated by reference herein.
- (4) Previously filed as an exhibit in the Company's Form 10-Q for the quarter ended June 30, 2005 and incorporated by reference herein.
- (5) Previously filed as exhibits in the Company's Form 10-K for the year ended December 31, 2005 and incorporated by reference herein.
- (6) Management contract or compensatory plan or arrangement.
- (7) Previously filed as exhibits in the Company's Form 10-K for the year ended December 31, 2006 and incorporated by reference herein.
- (8) Previously filed as exhibit in the Company's Form 8-K dated May 15, 2007 and incorporated by reference herein.
- (9) Previously filed as exhibit in the Company's Form 8-K dated October 15, 2007 and incorporated by reference herein.
- (10) Previously filed as an exhibit in the Company's Form 10-Q for the quarter ended September 30, 2008 and incorporated by reference herein.
- (11) Previously filed as an exhibit in the Company's S-8 dated August 15, 2007 and incorporated by reference herein.
- (12) Previously filed as exhibits in the Company's Form 10-K for the year ended December 31, 2008 and incorporated by reference herein.
- (13) Previously filed as an exhibit in the Company's Form 10-Q for the quarter ended June 30, 2010 and incorporated by reference herein.
- (14) Previously filed as an exhibit in the Company's Form 10-Q for the quarter ended September 30, 2010 and incorporated by reference herein.
- (15) Previously filed as an exhibit in the Company's Form 8-K dated May 28, 2010 and incorporated by reference herein.
- (16) Previously filed as an exhibit in the Company's Form 10-Q for the quarter ended June 30, 2011 and incorporated by reference herein.
- (17) Previously filed as an exhibit in the Company's Form 8-K dated January 11, 2013 and incorporated herein by reference.
- (18) Previously filed as an exhibit in the Company's Form 8-K dated February 5 and incorporated herein by reference.
- (19) Previously filed as an exhibit in the Company's Form 8-K dated March 22, 2013 and incorporated herein by reference.
- (20) Previously filed as an exhibit in the Company's Form 8-K dated December 3, 2013 and incorporated herein by reference.
- (21) Previously filed as an exhibit in the Company's Form 10-Q for the quarter ended June 30, 2013 and incorporated herein by reference.

(22) Previously filed in the Company's Form DEF14A on March 22, 2013 and incorporated herein by reference.

(23) Previously filed in the Company's Form S-8 on May 10, 2013 and incorporated herein by reference.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<b>Page</b>
<b>Cross Country Healthcare, Inc.</b>	
<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	<u>F- 2</u>
<a href="#"><u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u></a>	<u>F- 3</u>
<a href="#"><u>Consolidated Statements of Operations for the Years Ended December 31, 2013, 2012 and 2011</u></a>	<u>F- 4</u>
<a href="#"><u>Consolidated Statements of Comprehensive (Loss) Income for the Years Ended December 31, 2013, 2012 and 2011</u></a>	<u>F- 5</u>
<a href="#"><u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2013, 2012 and 2011</u></a>	<u>F- 6</u>
<a href="#"><u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011</u></a>	<u>F- 7</u>
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	<u>F- 8</u>
<b>Financial Statement Schedule</b>	
<a href="#"><u>Schedule II – Valuation and Qualifying Accounts for the Years Ended December 31, 2013, 2012 and 2011</u></a>	<u>II- 1</u>

Schedules not filed herewith are either not applicable, the information is not material or the information is set forth in the consolidated financial statements or notes thereto.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Cross Country Healthcare, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Cross Country Healthcare, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cross Country Healthcare, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cross Country Healthcare, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated March 17, 2014, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP  
Certified Public Accountants

Boca Raton, Florida

March 17, 2014

**CROSS COUNTRY HEALTHCARE, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,054,613	\$ 10,462,692
Accounts receivable, less allowance for doubtful accounts of \$1,650,973 in 2013 and \$1,841,136 in 2012	60,750,181	62,674,176
Deferred tax assets	—	5,983,483
Income taxes receivable	537,912	585,709
Prepaid expenses	6,162,730	5,580,473
Insurance recovery receivable	3,886,285	5,483,889
Indemnity escrow receivable	3,750,000	—
Assets held for sale	—	46,970,964
Other current assets	793,197	1,049,275
Total current assets	83,934,918	138,790,661
Property and equipment, net of accumulated depreciation of \$44,778,602 in 2013 and \$41,917,771 in 2012	6,170,499	8,234,812
Trade Names, net	42,301,331	48,701,331
Goodwill	77,265,907	62,712,109
Other identifiable intangible assets, net	26,197,905	14,491,982
Debt issuance costs, net of accumulated amortization of \$221,588 in 2013 and \$3,594,511 in 2012	463,594	1,609,954
Non-current deferred tax assets	—	22,760,052
Non-current insurance recovery receivable	10,913,527	8,210,139
Non-current security deposits	996,885	412,515
Total assets	\$ 248,244,566	\$ 305,923,555
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,272,039	\$ 10,129,605
Accrued compensation and benefits	19,148,312	21,650,233
Current portion of long-term debt and capital lease obligations	8,483,088	33,682,348
Sales tax payable	2,403,994	1,545,062
Liabilities related to assets held for sale	—	2,834,516
Deferred tax liabilities	534,827	—
Other current liabilities	4,062,875	2,744,341
Total current liabilities	44,905,135	72,586,105
Long-term debt and capital lease obligations	93,231	176,309
Non-current deferred tax liabilities	16,849,051	—
Long-term accrued claims	18,303,096	16,347,342
Long-term unrecognized tax benefits	4,012,524	4,655,720
Other long-term liabilities	3,414,949	3,035,290
Total liabilities	87,577,986	96,800,766
Commitments and contingencies		
Stockholders' equity:		
Common stock—\$0.0001 par value; 100,000,000 shares authorized; 31,085,289 and 30,902,314 shares issued and outstanding at December 31, 2013 and 2012, respectively	3,109	3,090
Additional paid-in capital	246,324,580	244,924,076
Accumulated other comprehensive loss	(970,113)	(3,082,704)
Accumulated deficit	(84,690,996)	(32,721,673)
Total stockholders' equity	160,666,580	209,122,789
Total liabilities and stockholders' equity	\$ 248,244,566	\$ 305,923,555

See accompanying notes.

**CROSS COUNTRY HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Revenue from services	\$ 438,310,716	\$ 442,635,146	\$ 439,377,460
<b>Operating expenses:</b>			
Direct operating expenses	324,850,878	331,050,041	319,988,729
Selling, general and administrative expenses	106,116,849	109,416,687	104,544,116
Bad debt expense	1,078,195	786,107	574,457
Depreciation	3,885,688	4,904,845	5,965,002
Amortization	2,294,077	2,263,556	2,393,722
Acquisition costs	473,488	—	—
Restructuring costs	483,578	—	—
Legal settlement charge	750,000	—	—
Impairment charges	6,400,000	18,732,407	—
Total operating expenses	<u>446,332,753</u>	<u>467,153,643</u>	<u>433,466,026</u>
(Loss) income from continuing operations	(8,022,037)	(24,518,497)	5,911,434
<b>Other expenses (income):</b>			
Foreign exchange gain	(132,058)	(62,231)	(263,967)
Interest expense	849,149	2,341,299	2,856,043
Loss on early extinguishment and modification of debt	1,419,010	81,503	—
Other (income) expense, net	(118,675)	15,790	(297,728)
(Loss) income from continuing operations before income taxes	<u>(10,039,463)</u>	<u>(26,894,858)</u>	<u>3,617,086</u>
Income tax expense (benefit)	44,210,548	(6,149,889)	2,069,447
(Loss) income from continuing operations	<u>(54,250,011)</u>	<u>(20,744,969)</u>	<u>1,547,639</u>
Income (loss) from discontinued operations, net of income taxes	2,280,688	(21,476,528)	2,550,210
Net (loss) income	<u>\$ (51,969,323)</u>	<u>\$ (42,221,497)</u>	<u>\$ 4,097,849</u>
<b>Basic (loss) income per common share from:</b>			
Continuing operations	\$ (1.75)	\$ (0.67)	\$ 0.05
Discontinued operations	0.07	(0.70)	0.08
Net (loss) income	<u>\$ (1.68)</u>	<u>\$ (1.37)</u>	<u>\$ 0.13</u>
<b>Diluted (loss) income per common share from:</b>			
Continuing operations	\$ (1.75)	\$ (0.67)	\$ 0.05
Discontinued operations	0.07	(0.70)	0.08
Net (loss) income	<u>\$ (1.68)</u>	<u>\$ (1.37)</u>	<u>\$ 0.13</u>
Weighted average common shares outstanding—basic	<u>31,009,218</u>	<u>30,842,723</u>	<u>31,146,165</u>
Weighted average common shares outstanding—diluted	<u>31,009,218</u>	<u>30,842,723</u>	<u>31,192,016</u>

See accompanying notes.

**CROSS COUNTRY HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net (loss) income	\$ (51,969,323)	\$ (42,221,497)	\$ 4,097,849
<b>Other comprehensive income (loss), before tax:</b>			
Foreign currency translation adjustments	(386,094)	267,809	(939,000)
Reclassification of currency translation adjustments related to sale of clinical trial services business (see Note 2 - Summary of Significant Accounting Policies)	2,336,201	—	—
Write-down of marketable securities	—	38,515	—
Net change in fair value of marketable securities	—	(915)	(55,815)
Other comprehensive income (loss), before tax	1,950,107	305,409	(994,815)
 <b>Income tax (benefit) expense related to     items of other comprehensive (loss) income</b>			
(162,484)	14,951	(22,384)	
Other comprehensive income (loss), net of tax	2,112,591	290,458	(972,431)
<b>Comprehensive (loss) income</b>	<b>\$ (49,856,732)</b>	<b>\$ (41,931,039)</b>	<b>\$ 3,125,418</b>

See accompanying notes.

**CROSS COUNTRY HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Accumulated Other Total Comprehensive Income (Loss)			(Accumulated Deficit) Retained Earnings	Stockholders' Equity
	Shares	Dollars	Additional Paid-In Capital				
Balance at December 31, 2010	31,102,682	\$ 3,110	\$ 243,004,522	\$ (2,400,731)		\$ 5,401,975	\$ 246,008,876
Repurchase of stock for tax withholdings	(31,263)	(3)	(221,593)	—	—	—	(221,596)
Vesting of restricted stock	167,647	17	(17)	—	—	—	—
Tax deficit of share-based compensation	—	—	(272,828)	—	—	—	(272,828)
Equity compensation	—	—	2,895,012	—	—	—	2,895,012
Stock repurchase and retirement	(427,043)	(43)	(2,234,542)	—	—	—	(2,234,585)
Foreign currency translation adjustment	—	—	—	(939,000)	—	—	(939,000)
Net change in fair value of marketable securities	—	—	—	(33,431)	—	—	(33,431)
Net income	—	—	—	—	4,097,849	4,097,849	4,097,849
Balance at December 31, 2011	30,812,023	3,081	243,170,554	(3,373,162)	9,499,824	249,300,297	249,300,297
Vesting of restricted stock	161,944	16	(152,446)	—	—	—	(152,430)
Tax deficit of share-based compensation	—	—	(314,314)	—	—	—	(314,314)
Equity compensation	—	—	2,594,523	—	—	—	2,594,523
Stock repurchase and retirement	(71,653)	(7)	(374,241)	—	—	—	(374,248)
Foreign currency translation adjustment	—	—	—	267,809	—	—	267,809
Net change in fair value of marketable securities	—	—	—	22,649	—	—	22,649
Net loss	—	—	—	—	(42,221,497)	—	(42,221,497)
Balance at December 31, 2012	30,902,314	3,090	244,924,076	(3,082,704)	(32,721,673)	209,122,789	209,122,789
Exercise of stock options	2,362	—	—	—	—	—	—
Vesting of restricted stock	180,613	19	(300,551)	—	—	—	(300,532)
Tax deficit of share-based compensation	—	—	(398,886)	—	—	—	(398,886)
Equity compensation	—	—	2,099,941	—	—	—	2,099,941
Foreign currency translation adjustment, net of deferred taxes	—	—	—	(223,610)	—	—	(223,610)
Reclassification of currency translation adjustments related to sale of clinical trial services business	—	—	—	2,336,201	—	—	2,336,201
Net loss	—	—	—	—	(51,969,323)	—	(51,969,323)
Balance at December 31, 2013	31,085,289	\$ 3,109	\$ 246,324,580	\$ (970,113)	\$ (84,690,996)	\$ 160,666,580	160,666,580

See accompanying notes.

**CROSS COUNTRY HEALTHCARE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2013	2012	2011
<b>Operating activities</b>			
Net (loss) income	\$ (51,969,323)	\$ (42,221,497)	\$ 4,097,849
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Bad debt expense	1,082,920	870,715	578,805
Depreciation	3,885,688	5,566,184	6,790,677
Amortization	2,294,077	3,381,743	3,493,408
Impairment charges	6,400,000	54,132,407	—
Loss on early extinguishment and modification of debt	1,419,010	81,503	—
Deferred income tax expense (benefit)	45,900,296	(18,520,360)	3,052,909
Amortization of debt issuance costs	233,256	605,558	913,509
Equity compensation	2,099,941	2,594,523	2,895,012
Gain on sale of clinical trial services business	(3,968,714)	—	—
Debt financing costs	—	279,005	—
Other noncash costs	11,890	543,296	22,832
Changes in operating assets and liabilities:			
Accounts receivable	2,036,387	(4,255,411)	(7,973,162)
Prepaid expenses and other assets	(1,847,999)	(444,351)	1,878,943
Income taxes	(138,401)	1,748,750	4,310,626
Accounts payable and accrued expenses	(319,856)	4,128,000	(1,327,040)
Other liabilities	1,539,840	1,656,065	(438,168)
Net cash provided by operating activities	<u>8,659,012</u>	<u>10,146,130</u>	<u>18,296,200</u>
<b>Investing activities</b>			
Proceeds from sale of business segment, net of cash sold and transaction costs	45,655,319	—	—
Acquisition of assets of On Assignment, Inc.	(28,700,000)	—	—
Purchases of property and equipment	(1,750,663)	(2,218,877)	(3,998,129)
Liquidation of foreign cash investments	—	2,652,335	—
Other investing activities	—	(258,832)	(197,907)
Net cash provided by (used in) investing activities	<u>15,204,656</u>	<u>174,626</u>	<u>(4,196,036)</u>
<b>Financing activities</b>			
Debt issuance costs	(505,905)	(1,377,410)	—
Repurchase of stock for tax withholdings	(300,531)	(152,430)	(221,596)
Stock repurchase and retirement	—	(374,248)	(2,234,585)
Proceeds from borrowing on term loan	—	25,000,000	—
Principal payments on term loan	(23,125,000)	(43,326,056)	(14,088,284)
Borrowings under revolving credit facility	—	26,900,000	2,500,000
Repayments on revolving credit facility	(10,000,000)	(16,900,000)	—
Borrowings under asset-based revolving credit facility	63,444,175	—	—
Repayments on asset-based revolving credit facility	(55,044,175)	—	—
Repayments of capital lease obligations and note payable	(529,884)	(352,776)	(191,755)
Net cash used in financing activities	<u>(26,061,320)</u>	<u>(10,582,920)</u>	<u>(14,236,220)</u>
Effect of exchange rate changes on cash	(210,427)	76,821	(172,573)
Change in cash and cash equivalents	(2,408,079)	(185,343)	(308,629)
Cash and cash equivalents at beginning of year	10,462,692	10,648,035	10,956,664
Cash and cash equivalents at end of year	<u>\$ 8,054,613</u>	<u>\$ 10,462,692</u>	<u>\$ 10,648,035</u>
<b>Supplemental disclosure of noncash investing and financing activities:</b>			
Equipment purchased through capital lease obligations	\$ —	\$ 302,316	\$ 312,562
Insurance premium financing	<u>\$ —</u>	<u>\$ 189,654</u>	<u>\$ —</u>
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid	\$ 621,969	\$ 1,467,233	\$ 2,134,575
Income taxes paid	<u>\$ 1,164,472</u>	<u>\$ 1,681,992</u>	<u>\$ 1,559,424</u>
Income tax refunds	<u>\$ (322,512)</u>	<u>\$ (564,430)</u>	<u>\$ (4,792,495)</u>

See accompanying notes.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

## **1. Organization and Basis of Presentation**

On July 29, 1999, Cross Country Staffing, Inc. (CCS), a Delaware corporation, was established through an acquisition of certain assets and liabilities of Cross Country Staffing, a Delaware general partnership (the Partnership). The Partnership was engaged in the business of providing travel nurse and allied health staffing services to healthcare providers primarily on a contract basis. Subsequent acquisitions and dispositions were made and, as of December 31, 2013, Cross Country Healthcare, Inc. (the Company) has become a leading provider of nurse and allied staffing services in the United States, a national provider of multi-specialty locum tenens (temporary physician staffing) services, as well as a provider of other human capital management services focused on healthcare.

During the first quarter of 2013, the Company completed the sale of its clinical trial services business segment as a result of an extensive review of its business and the changing competitive landscape in the pharmaceutical outsourcing industry. As of December 31, 2012, this segment was classified as a disposal group held for sale, and the results of its operations have been classified as discontinued operations for all periods presented. See Note 3 - Assets Held for Sale and Discontinued Operations. In the fourth quarter of 2013, the Company acquired the operating assets of On Assignment, Inc.'s Allied Healthcare Staffing division, which results have been included with the Company's nurse and allied staffing business segment. See Note 5 - Acquisitions.

The consolidated financial statements include the accounts of the Company and its wholly-owned direct and indirect subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

## **2. Summary of Significant Accounting Policies**

### **Use of Estimates**

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the valuation of accounts receivable, goodwill and intangible assets, other long-lived assets, share-based compensation, accruals for health, workers' compensation, professional liability claims, valuation of our deferred tax assets and purchase price allocation (See Note 7 - Balance Sheet Details), legal contingencies, income taxes and sales and other non-income tax liabilities. Accrued insurance claims and reserves include estimated settlements from known claims and actuarial estimates for claims incurred but not reported. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

The Company considers all investments with original maturities of three months or less to be cash and cash equivalents. The Company invests its excess cash in highly rated overnight funds and other highly rated liquid accounts. The Company is exposed to credit risk associated with these investments. The Company minimizes its credit risk relating to these positions by monitoring the financial condition of the financial institutions involved and by primarily conducting business with large, well established financial institutions and diversifying its counterparties. The Company does not currently anticipate nonperformance by any of its significant counterparties.

Interest income on cash and cash equivalents is included in other (income) expense , net, on the Company's consolidated statements of operations.

### **Accounts Receivable and Concentration of Credit Risk**

Accounts receivable potentially subject the Company to concentrations of credit risk. The Company's customers are primarily healthcare providers, and accounts receivable represent amounts due from them. The Company generally does not require collateral and mitigates its credit risk by performing credit evaluations and monitoring at-risk accounts. The allowance for doubtful accounts represents the Company's estimate of uncollectible receivables based on a review of specific accounts and the Company's historical collection experience. The Company writes off specific accounts based on an ongoing review of collectability as well as past experience with the customer. The Company's contract terms typically require payment between 15 to 60 days from the date services are provided and are considered past due based on the particular negotiated contract terms. The majority of the Company's business activity is with hospitals located throughout the United States. No single customer

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

accounted for more than 10% of the Company's accounts receivable balance as of December 31, 2013 and 2012, or revenue for the years ended December 31, 2013, 2012 and 2011.

#### **Prepaid Rent and Deposits**

The Company leases apartments for eligible field employees under short-term agreements (typically three to six months), which generally coincide with each employee's staffing contract. Costs relating to these leases are included in direct operating expenses on the accompanying consolidated statements of operations. As a condition of these agreements, the Company may place security deposits on the leased apartments. Deposits on field employees' apartments related to these short-term agreements are included in other current assets on the accompanying consolidated balance sheets.

#### **Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which generally range from three to seven years. Leasehold improvements are depreciated over the shorter of their estimated useful life or the term of the individual lease. Depreciation related to assets recorded under capital lease obligations is included in depreciation expense on the consolidated statements of operations and calculated using the straight-line method over the term of the related capital lease.

Certain software development costs have been capitalized in accordance with the provisions of the *Intangibles-Goodwill and Other/Internal-Use Software* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Such costs include charges for consulting services and costs for personnel associated with programming, coding and testing such software. Amortization of capitalized software costs begins when the software is ready for use and is included in depreciation expense in the accompanying consolidated statements of operations. Software development costs are being amortized using the straight-line method over three to five years.

#### **Business Combinations**

In accordance with ASC 805, *Topic 805-Business Combinations*, assets acquired and liabilities assumed are recorded at their fair values on the date of a business combination. Our consolidated financial statements and results of operations reflect an acquired business from the completion date of an acquisition.

#### **Goodwill, Trade Names and Other Identifiable Intangible Assets**

Goodwill represents the excess of purchase price and related costs over the fair value assigned to the net tangible and identifiable intangible assets of businesses acquired. Other identifiable intangible assets with definite lives are being amortized using the straight-line method over their estimated useful lives which range from 5 to 16 years. Goodwill and certain intangible assets with indefinite lives are not amortized. Instead, in accordance with the *Intangibles-Goodwill and Other* Topic of the FASB ASC, these assets are reviewed for impairment annually at December 31, and whenever circumstances occur indicating potential impairment, with any related losses recognized in earnings.

If, after assessing the totality of events and circumstances, the Company determines that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, the quantitative impairment test is unnecessary. The performance of the quantitative impairment test involves a two-step process. The first step in its annual impairment assessment requires the Company to determine the fair value of each of its reporting units and compare it to the reporting unit's carrying amount. The Company determines its reporting units by identifying components of its operating segments that constitute a business for which discrete financial information is available and management regularly reviews the operating results of that component. The Company has four reporting units that it reviews for impairment: 1) nurse and allied staffing, 2) physician staffing, 3) retained search and 4) education and training.

In its impairment analysis, the Company determines the fair value of its reporting units based on a combination of inputs including Level 3 inputs such as discounted cash flows which are not observable from the market, directly or indirectly, as well as inputs such as pricing multiples from publicly traded guideline companies and the market capitalization of the Company, including an estimated premium an investor would pay for a controlling interest. If the reporting unit's carrying value exceeds its fair value, the Company then determines the amount of the impairment charge, if any. The Company recognizes an impairment charge if the carrying value of the reporting unit's goodwill exceeds its implied fair value. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated. However, fair

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

values that could be realized in an actual transaction may differ from those used to evaluate the potential impairment of goodwill.

Long-lived assets and identifiable intangible assets with definite lives are evaluated for impairment in accordance with the *Property, Plant, and Equipment* Topic of the FASB ASC. In accordance with this Topic, long-lived assets and definite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset group to the future undiscounted net cash flow that is expected to be generated by those assets. If such assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amounts of the assets exceeds the fair value of the assets. See Note 4 – Goodwill, Trade Names and Other Identifiable Intangible Assets for further information.

#### **Debt Issuance Costs**

Deferred costs related to the issuance of the Company's senior secured revolving credit facility (see Note 8 – Long-term Debt) in 2013 and 2012 have been capitalized and amortized using the straight line method, over the term of the related credit agreement.

Deferred costs related to the Company's prior senior secured term loan facility were capitalized and amortized using the effective interest method.

#### **Sales & Other State Non-income Tax Liabilities**

The Company accrues sales and other state non-income tax liabilities based on the Company's best estimate of its probable liability utilizing currently available information and interpretation of relevant tax regulations. Given the nature of the Company's business, significant subjectivity exists as to both whether sales and other state non-income taxes can be assessed on its activity and how the sales tax will ultimately be measured by the relevant jurisdictions. The Company makes a determination for each reporting period whether the estimates for sales and other non-income taxes in certain states should be revised.

#### **Reserves for Claims**

The Company provides workers' compensation insurance coverage, professional liability coverage and health care benefits for eligible employees. The Company records its estimate of the ultimate cost of, and reserves for workers compensation and professional liability benefits based on actuarial models prepared or reviewed by an independent actuary using the Company's loss history as well as industry statistics. The health care insurance accrual is for estimated claims that have occurred but have not been reported and is based on the Company's historical claim submission patterns. Furthermore, in determining its reserves, the Company includes reserves for estimated claims incurred but not reported as well as unfavorable claims development (IBNR).

*Other Expenses/Insurance Costs* Topic of the FASB ASC (ASC 720), codified previously issued authoritative accounting guidance in the area of insurance contracts and related activity thereto. ASC 720 concluded that, under circumstances such as in the Company's insured professional liability and worker's compensation policies, since a right of legal offset does not exist due to the fact that there are three parties to an incurred claim, (the insured, the insurer and the claimant), the related liability to the claimant should be classified separately on a gross basis with a separate related receivable from insurer recognized as being due from insurance carriers. Accordingly, the Company's consolidated balance sheets as of December 31, 2013 and 2012 reflect the related short-term liabilities in accrued compensation and benefits and the related long-term liabilities as long-term accrued claims, and the short-term receivable portion as insurance recovery receivable and the long-term portion as non-current insurance recovery receivable. See Note 7 – Balance Sheet Details. The ultimate cost of workers' compensation, professional liability and health insurance claims will depend on actual amounts incurred to settle those claims and may differ from the amounts reserved by the Company for those claims.

Workers' compensation benefits are provided under a partially self-insured plan. The Company has letters of credit to guarantee payments of claims. At December 31, 2013 and 2012, respectively, the Company had outstanding approximately \$6,399,000 and \$6,899,000 standby letters of credit as collateral to secure the self-insured portion of this plan.

The Company has occurrence-based primary professional liability policies that provide each working professional in its nurse and allied healthcare business with coverage. In addition, the Company has an occurrence-based professional liability policy

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

for its independent contractor physicians, Certified Registered Nurse Anesthetists (CRNAs) and allied health professionals which is insured by a wholly-owned subsidiary (the Captive). Under the terms of the Captive's reinsurance policy there is a requirement to guarantee the payment of claims to its insured party's primary medical malpractice insurance carrier via a letter of credit. As of December 31, 2013 and 2012, the value of the letter of credit was \$5,000,000 and \$5,533,000, respectively.

Subject to certain limitations, the Company also has umbrella liability coverage for its working nurses and allied healthcare professionals. While this umbrella coverage does not extend to professional liability claims against its independent contractor physicians, CRNAs and allied health professionals, it does cover claims brought against all of the Company's subsidiaries for non-patient general liability.

At December 31, 2013 and 2012, the Company had outstanding workers' compensation benefit claims of 85 and 105, respectively. At December 31, 2013 and 2012, the Company had outstanding professional liability claims of 66 and 80, respectively. See Note 7 – Balance Sheet Details for further information.

**Revenue Recognition**

The Company recognizes revenue when it is earned and when all of the following criteria are met: persuasive evidence of the arrangement exists; delivery has occurred or the service has been provided and the Company has no remaining obligations; the fee is fixed or determinable; and collectability is reasonably assured. The Company includes reimbursed expenses in revenues, and the associated amounts of reimbursable expenses in cost of services.

**Temporary Staffing Revenue**

Revenue from services consists primarily of temporary staffing revenue. Revenues from temporary staffing, net of sales adjustments and discounts, are recognized when earned, based on hours worked by the Company's healthcare professionals. Accordingly, accounts receivable includes estimated revenue for employees' and independent contractors' time worked but not yet invoiced. At December 31, 2013 and 2012, such estimated accrued revenue is approximately \$11,004,000 and \$9,816,000, respectively.

**Permanent Placement**

Revenue on permanent placements is recognized when services provided are substantially completed. The Company does not, in the ordinary course of business, give refunds. If a candidate leaves a permanent placement within a relatively short period of time, it is customary for the Company to provide a replacement at no additional cost. Allowances are established as considered necessary to estimate significant losses due to placed candidates not remaining employed for the Company's guarantee period. During 2013, 2012, and 2011, such losses, if any, were nominal.

**Gross Versus Net Policies**

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

**Managed Service Programs Arrangements**

The Company has entered into certain contracts with acute care facilities to provide comprehensive managed service programs (MSP) services. Under these contract arrangements, the Company uses its healthcare professionals along with those of third-party subcontractors to fulfill customer orders. If a subcontractor is used, the customer is invoiced for their services and, a subcontractor liability is recorded in accrued expenses, but only the resulting administrative fee is recognized as revenue. The subcontractor is paid after the Company has received payment from the acute care facility. The Company determined that it acts as an agent in these arrangements based on the following factors:

- The subcontractor is the primary obligor in the arrangement and is responsible for fulfillment.
- The amount the Company earns is fixed, typically a stated percentage of the amount billed to the customer.
- The subcontractor bears the credit risk, not the Company.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

***Physician Staffing***

In the Company's physician staffing business, revenue is recorded on a gross basis as a principal versus on a net basis as an agent in the consolidated statement of operations. The Company has determined that gross reporting as a principal is the appropriate accounting treatment based upon the following factors:

- The Company maintains the direct contractual relationship with the customer.
- The Company performs part of the service by credentialing all of the providers and providing them with professional liability insurance.
- The Company establishes the price for its services.
- The Company bears the risk and rewards of the transaction including credit risk if the customer fails to pay for services performed.

***Education and Training***

Revenue from the Company's education and training services is recognized as the independent contractor-led seminars are performed. In the Company's education and training business, revenue is recorded in the consolidated statement of operations on a gross basis as a principal versus on a net basis as an agent. The Company has determined that gross reporting as a principal is the appropriate accounting treatment based upon the following factors:

- The Company bears the risk and rewards of the transaction including credit risk if the customer fails to pay for services performed.
- The Company performs part of the service by being involved with the program development and handling accreditation of the courses.
- The Company establishes the price for its service.

***Deferred Revenue***

Amounts collected in advance of the services being substantially complete are recorded as deferred revenue in other current liabilities on the consolidated balance sheets. At December 31, 2013 and 2012, the Company had \$1,293,000 and \$1,574,000, respectively recorded as deferred revenue included in other current liabilities on the accompanying consolidated balance sheets.

***Share-Based Compensation***

The Company has, from time to time, granted stock options, stock appreciation rights and restricted stock for a fixed number of common shares to employees. In accordance with the *Compensation-Stock-Compensation* Topic of the FASB ASC, companies may choose from alternative valuation models. The Company uses the Black-Scholes method of valuing its options and stock appreciation rights. The Company values its restricted stock awards by reference to the Company's stock price on the date of grant.

The Company has elected to recognize compensation expense on a straight-line basis over the requisite service period of the entire award. The Company uses historical data of options with similar characteristics to estimate pre-vesting option forfeitures, as it believes that historical behavior patterns are the best indicators of future behavior patterns. Compensation expense related to share-based payments is included in selling, general and administrative expenses in the consolidated statements of operations and totaled \$2,099,941; \$2,594,523 and \$2,895,012, during the years ended December 31, 2013, 2012 and 2011, respectively. Because the Company has a full valuation allowance on its deferred tax assets, the granting and exercise of share-based payments during the year ended December 31, 2013 had no impact on the income tax provision. For the years ended December 31, 2012 and 2011, related deferred tax benefits of approximately \$955,000 and \$1,126,000, respectively, were recorded. See Note 13 – Stockholders' Equity for further information about the Company's current share-based compensation programs.

***Advertising***

The Company's advertising expense consists primarily of direct mail marketing, online advertising, print media, and promotional material. Advertising costs are expensed as incurred and were approximately \$3,230,000; \$3,186,000 and \$3,180,000 for the years ended December 31, 2013, 2012 and 2011, respectively. Direct response advertising costs associated with the Company's education and training services are capitalized when the Company determines that there is a reasonable expectation that the cost of the incurred advertising will be recovered from the gross profit generated by the advertised event

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

and expensed when the related event takes place. At December 31, 2013 and 2012, approximately \$1,338,000 and \$958,000, respectively, of these costs are included in prepaid expenses on the consolidated balance sheets.

#### **Restructuring and Cost Reduction Plan**

During 2013, the Company went through a restructuring to reduce operating costs. For the year ended December 31, 2013, the Company incurred \$483,578 primarily related to senior management employee severance pay. These costs are included as restructuring costs in the consolidated statements of operations.

#### **Operating Leases**

The Company accounts for all operating leases on a straight-line basis over the term of the lease. In accordance with the provisions of the *Leases* Topic of the FASB ASC, any incentives or rent escalations are recorded as deferred rent and amortized with rent expense over the respective lease term.

#### **Income Taxes**

The Company accounts for income taxes under the *Income Taxes* Topic of the FASB ASC. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company recognizes in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. See Note 12 - Income Taxes for further information.

The Company records valuation allowances to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The assessment of whether or not a valuation allowance is required often requires significant judgment, including the long-range forecast of future taxable income and the evaluation of tax planning initiatives. Adjustments to the deferred tax valuation allowances are made to earnings in the period when such assessments are made. Due to the historical losses from the Company's operations, it has recorded a full valuation allowance on its deferred tax assets.

#### **Comprehensive (Loss) Income**

Total comprehensive (loss) income includes net income or loss, foreign currency translation adjustments, reclassification of foreign currency adjustments, write-down of marketable securities, and net changes in the fair value of marketable securities available for sale, net of any related deferred taxes.

Certain of the Company's foreign subsidiaries use their respective local currency as their functional currency. In accordance with the *Foreign Currency Matters* Topic of the FASB ASC, assets and liabilities of these operations are translated at the exchange rates in effect on the balance sheet date. Income statement items are translated at the average exchange rates for the period. The cumulative impact of currency fluctuations related to the balance sheet translation is included in accumulated other comprehensive loss in the accompanying consolidated balance sheets and was approximately \$1,133,000 and \$3,083,000 at December 31, 2013 and 2012, respectively.

The Company adopted FASB issued ASU 2013-2, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-2) for its consolidated financial statements in the first quarter of 2013. ASU 2013-2 adds new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI), including (1) disaggregating and separately presenting changes in AOCI balances by component and (2) presenting significant items reclassified out of AOCI either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. It does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements.

In March 2013, the FASB issued ASU 2013-5, *Foreign Currency Matters (Topic 830), Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* (a consensus of the FASB Emerging Issues Task Force (ASU 2013-5). The objective of ASU 2013-5 is to resolve the diversity in practice as to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity.

ASU 2013-5 clarifies that a cumulative translation adjustment (CTA) should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of CTA attributable to the investment would be recognized in earnings when the investment is sold. When an entity sells either a part or all of its investment in a consolidated foreign entity, CTA would be recognized in earnings only if the sale results in the parent no longer having a controlling financial interest in the foreign entity. In addition, CTA should be recognized in earnings in a business combination achieved in stages (i.e., a step acquisition). This ASU is effective for years beginning after December 15, 2013. Early adoption is permitted. The Company adopted this guidance and released into earnings \$2,336,201 of its cumulative currency translation losses related to the sale of clinical trial services business in the first quarter of 2013, which was included in the income (loss) from discontinued operations, net of income taxes on the consolidated statements of operations.

As of December 31, 2013, \$162,484 of income tax benefit related to foreign currency translation adjustments was included on the Company's consolidated statements of comprehensive (loss) income. During December 31, 2012 and 2011, income tax expense of \$14,951 and income tax benefit of \$22,384, respectively related to the Company's marketable securities.

#### **Fair Value Measurements**

The Company complies with the provisions of the *Fair Value Measurements and Disclosures* Topic of the FASB ASC, which defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. As of December 31, 2013 and 2012, the Company's only financial assets or liabilities required to be measured on a recurring basis were its deferred compensation liability and its contingent consideration receivable. See Note 9 – Fair Value Measurements for relevant disclosures.

#### **Recent Accounting Pronouncements**

In July 2013, the FASB issued Accounting Standards Update 2013-11, *Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forwards Exists* (ASU 2013-11). ASU 2013-11 requires entities to present the unrecognized tax benefits in the financial statements as a liability and not combine it with deferred tax assets to the extent a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective for annual and interim periods for fiscal years beginning on or after December 15, 2013. The Company does not currently net unrecognized tax benefits with deferred tax assets and therefore does not expect this ASU to have any impact on the financial statements and disclosures.

#### **3. Assets Held for Sale and Discontinued Operations**

The clinical trial services business segment provided clinical trial, drug safety, and regulatory professionals and services on a contract staffing and outsourced basis to companies in the pharmaceutical, biotechnology and medical device industries, as well as to contract research organizations, primarily in the United States, and also in Canada and Europe. During the fourth quarter of 2012, the Company's Board of Directors approved a plan to exit the clinical trial services business as a result of an extensive review of its business and the changing landscape in the pharmaceutical outsourcing industry. Classification of a disposal group as held for sale occurs when sufficient authority to sell the disposal group has been obtained, the disposal group is available for immediate sale, an active program to sell the disposal group has been initiated and its sale is probable within one year. Accordingly, the assets to be disposed of are presented as assets held for sale and the liabilities to be disposed of are presented as liabilities related to assets held for sale on the Company's consolidated balance sheets as of December 31, 2012.

On February 15, 2013, the Company completed the sale of its clinical trial services business to ICON Clinical Research, Inc. and ICON Clinical Research UK Limited (Buyer) for an aggregate \$52,000,000 in cash, subject to certain adjustments. At closing, the total amount paid was reduced by approximately \$100,000 for the amount the Targeted Net Working Capital exceeded the Estimated Net Working Capital. During the fourth quarter of 2013, the Company paid an additional \$200,000 to the Buyer to finalize the Net Working Capital adjustment, pursuant to the agreement which reduced the gain on the sale included in discontinued operations.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

The agreement included a provision for an earn-out of up to \$3,750,000 related to certain performance-based milestones. The maximum earn-out amount of \$3,750,000 was deposited in escrow by Buyer as security for the earn-out payment, if any. The \$3,750,000 earn-out related to certain performance-based milestones was treated as contingent consideration and the Company assigned no fair value to this earn-out as of December 31, 2013 based on recent information available to the Company. In addition, a portion of the performance-based milestones was not earned, and as a result \$1,500,000 of the original escrow was released to the Buyer in the second quarter of 2013, leaving a balance of \$2,250,000 as of December 31, 2013 (see Note 9 – Fair Value Measurements for more information).

Of the \$52,000,000 purchase price paid at closing, \$3,750,000 was also placed in escrow for a period of 18 months following the closing to provide partial security to the Buyer in the event of any breach of the representations, warranties and covenants of the Company. The Company recorded the \$3,750,000 indemnity escrow funds as an escrow receivable, and will adjust the amount, each reporting period, based on any known information that may arise that would be reasonable and estimable. As of December 31, 2013 there was no known information about any indemnity claims.

As a result of the disposal, the underlying operations and cash flows of the clinical trial services business have been eliminated from the Company's continuing operations and the Company no longer has the ability to influence the operating and/or financial policies of the disposal group. In addition, continuing cash flows from the disposed business resulting from a short-term transitional services agreement were not expected to be significant and did not constitute a material continuing financial interest in the clinical trial services business. As a result, pursuant to generally accepted accounting principles, the historical financial results of operations, except for disclosures related to cash flows, have been presented as discontinued operations for all periods presented.

The following table presents the revenues and the components of discontinued operations, net of tax:

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Revenue	\$ 7,939,150	\$ 67,626,715	\$ 64,608,763
Income (loss) from discontinued operations before gain on sale and income taxes	433,915	(30,973,520)	4,613,260
Gain on sale of discontinued operations	3,968,714	—	—
Income tax (expense) benefit	(2,121,941)	9,496,992	(2,063,050)
Income (loss) from discontinued operations, net of income taxes	<u>\$ 2,280,688</u>	<u>\$ (21,476,528)</u>	<u>\$ 2,550,210</u>

For the year ended December 31, 2012, the loss before income taxes is comprised of \$34,000,000 of goodwill impairment charges described previously, \$1,400,000 of a trade name impairment charge, and results from operations of approximately \$4,426,000.

Consistent with the approach described in Note 4 - Goodwill, Trade Names and Other Identifiable Intangible Assets, the Company used the income approach and the market approach to evaluate the potential impairment of goodwill related to the clinical trial services staffing reporting unit. Discounted cash flows served as the primary basis for the income approach. Pricing multiples derived from publicly-traded guideline companies that are comparable served as the basis for the market approach. Pursuant to the second step of the Company's third quarter interim impairment testing, the Company was required to calculate an implied fair value of goodwill based on a hypothetical purchase price allocation. The Company recorded a pre-tax goodwill impairment charge of approximately \$22,100,000 as of September 30, 2012. In addition, in the fourth quarter of 2012, in conjunction with the Company's evaluation of its assets held for sale, an additional impairment charge was recorded of approximately \$11,900,000. The Company considered the sale price from the buyer as its best indication of fair value as of December 31, 2012.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

The following table represents the major classes of assets and liabilities related to assets held for sale as of December 31, 2012.

	<b>December 31, 2012</b>
<b>Assets:</b>	
Accounts receivable, net	\$ 12,553,056
Other prepaid expenses	485,840
Other current assets	13,771
Property and Equipment, net	364,972
Goodwill	28,175,772
Other intangible assets, net	5,335,816
Other long-term assets	41,737
Total assets held for sale	\$ 46,970,964
<b>Liabilities:</b>	
Accounts payable and accrued expenses	\$ 354,453
Accrued employee compensation and benefits	1,478,638
Other current liabilities	984,978
Other non-current liabilities	16,447
Total liabilities related to assets held for sale	\$ 2,834,516

#### **4. Goodwill, Trade Names and Other Identifiable Intangible Assets**

As of December 31, 2013 and 2012, the Company had the following acquired intangible assets:

	<b>December 31, 2013</b>			<b>December 31, 2012</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Intangible assets subject to amortization:						
Databases	\$ 15,925,000	\$ 12,102,685	\$ 3,822,315	\$ 12,525,000	\$ 11,954,630	\$ 570,370
Customer relationships	37,304,000	15,125,076	22,178,924	26,904,000	13,089,055	13,814,945
Non-compete agreements	3,603,000	3,406,334	196,666	3,403,000	3,296,333	106,667
	<b>\$ 56,832,000</b>	<b>\$ 30,634,095</b>	<b>\$ 26,197,905</b>	<b>\$ 42,832,000</b>	<b>\$ 28,340,018</b>	<b>\$ 14,491,982</b>
Intangible assets not subject to amortization:						
Goodwill			\$ 77,265,907			\$ 62,712,109
Trade Names			42,301,331			48,701,331
			<b>\$ 119,567,238</b>			<b>\$ 111,413,440</b>

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

As of December 31, 2013, estimated annual amortization expense for continuing operations is as follows:

<b>Year Ending December 31:</b>							
2014					\$ 3,063,146		
2015					2,906,222		
2016					2,906,222		
2017					2,861,481		
2018					2,776,667		
Thereafter					11,684,167		
					<b>\$ 26,197,905</b>		

The changes in the carrying amount of goodwill by segment are as follows:

	<b>Nurse and Allied Staffing Segment</b>	<b>Physician Staffing Segment</b>	<b>Other Human Capital Management Services Segment</b>	<b>Total</b>
<b>Balances as of December 31, 2012</b>				
Aggregate goodwill acquired	\$ 259,732,408	\$ 43,405,047	\$ 19,307,062	\$ 322,444,517
Accumulated impairment loss (a)	(259,732,408)	—	—	(259,732,408)
Goodwill, net of impairment loss	—	43,405,047	19,307,062	62,712,109
<b>Changes to aggregate goodwill in 2013</b>				
Goodwill acquired (b)	14,553,798	—	—	14,553,798
<b>Balances as of December 31, 2013</b>				
Aggregate goodwill acquired	274,286,206	43,405,047	19,307,062	336,998,315
Accumulated impairment loss	(259,732,408)	—	—	(259,732,408)
Goodwill, net of impairment loss	\$ 14,553,798	\$ 43,405,047	\$ 19,307,062	\$ 77,265,907

- (a) A non-cash pretax impairment charge of approximately \$241,000,000 was recorded to reduce the carrying value of goodwill to its estimated fair value in the fourth quarter of 2008 for its nurse and allied staffing business segment. The majority of the goodwill impairment was attributable to the Company's initial capitalization in 1999, which was accounted for as an asset purchase (see Note 1 – Organization and Basis of Presentation), and subsequent nurse staffing acquisitions made through 2003. In addition, in the second quarter of 2012, a non-cash pretax impairment charge of approximately \$18,732,000 was recorded for the Company's nurse and allied staffing reporting unit. See impairment review disclosures that follow.
- (b) Goodwill acquired from the acquisition of On Assignment's allied health business. See Note 5 - Acquisitions.

*2013 annual impairment testing results*

The Company performed its annual impairment test as of December 31, 2013. Upon completion of the fourth quarter 2013 impairment testing, the Company determined that the estimated fair value of the Company's reporting units, exceeded their respective carrying values. Accordingly, no goodwill impairment charges were warranted for these reporting units as of December 31, 2013.

In the fourth quarter of 2013, in conjunction with the annual testing of trade names, the Company recorded a pre-tax non-cash impairment charge of approximately \$6,400,000 of which \$6,174,000 related to the physician staffing segment and \$226,000 related to the nurse and allied staffing segment. The Company reduced its long term revenue forecast for these businesses in the fourth quarter and as a result, the calculation of estimated fair value was less than the carrying amount of the trade names, resulting in an impairment charge.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

The assessment was impacted by a then recent reduction in locum tenens usage and the overall physician staffing needs of the Company's customers. Based on the impact those trends had on the long term revenue forecast, the calculation of estimated fair value using the projected revenue stream indicated the carrying amount of the trade names may not have been fully recoverable.

*2012 annual impairment testing results*

During the second quarter of 2012, the Company's stock price declined further from December 31, 2011. In addition, slower than expected booking momentum and reduced contribution income in the Company's nurse and allied staffing segment resulted in a downward revision to this segment's forecast. Additionally, the Company was closely monitoring the performance of the clinical trial services and physician staffing reporting units due to a small margin between the carrying amount and fair value of those respective reporting units as of the December 31, 2011 annual impairment testing and the small margin between the carrying amount and fair value of the nurse and allied staffing reporting unit as of the March 31, 2012 interim impairment testing. These factors warranted impairment testing in the second quarter of 2012.

The discounted cash flows for each reporting unit that served as the primary basis for the income approach were based on discrete financial forecasts developed by the Company for planning purposes and consistent with those distributed within the Company and externally. A number of significant assumptions and estimates were involved in the application of the income methodology including forecasted revenue, margins, operating cash flows, discount rate, and working capital changes. Cash flows beyond the discrete forecast period of ten years were estimated using a terminal value calculation. A terminal value growth rate of 2.5% was used for each reporting unit. The income approach valuations included reporting unit cash flow discount rates, representing each of the reporting unit's weighted average cost of capital, ranging from 11% to 18.7%.

The market approach generally applied pricing multiples derived from publicly-traded guideline companies that are comparable to the Company's respective reporting units, and other specific data points, to determine their value. The Company utilized total enterprise value/revenue multiples ranging from 0.43 to 1.00, and total enterprise value/Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) multiples ranging from 4.17 to 10.00.

The reporting units' values based on the market approach were determined assuming a 50% weighting to revenue multiples and a 50% weighting to EBITDA multiples for its physician staffing, clinical trial services and retained search reporting units; and a 100% weighting to the EBITDA multiples for the education and training reporting unit.

The total fair value of the Company's reporting units was reconciled to its June 30, 2012 market capitalization. The reasonableness of the resulting control premium was assessed based on a review of comparative market transactions and other qualitative factors that might have influenced the Company's stock price. The Company's market capitalization was also considered in assessing the reasonableness of the fair values of the reporting units. In performing the reconciliation of the Company's market capitalization to fair value, the Company considered both quantitative and qualitative factors which supported the implied control premium. The Company believes that a reasonable buyer would offer a control premium for the business that would adequately cover the difference between its market price at June 30, 2012 and its book value.

Upon completion of the second quarter 2012 interim impairment testing, the Company determined that the estimated fair value of the Company's reporting units, with the exception of nurse and allied staffing, exceeded their respective carrying values. As a result of the June 30, 2012 interim impairment testing, the Company determined that the fair value of the nurse and allied staffing reporting unit was lower than the respective carrying value. The decrease in value was due to slower than expected booking momentum and reduced contribution income in the Company's second quarter of 2012 which lowered the anticipated growth trend used for goodwill impairment testing. Pursuant to the second step of the interim impairment testing the Company was required to calculate an implied fair value of goodwill based on a hypothetical purchase price allocation. Based on these results, the Company wrote off the remaining goodwill which resulted in a pre-tax goodwill impairment charge of approximately \$18,732,000 as of June 30, 2012.

In conjunction with the 2012 annual testing of indefinite-lived intangible assets, no additional impairments of indefinite-lived intangible assets were identified.

*2011 annual impairment testing results*

Upon completion of the annual impairment assessment as of December 31, 2011 the Company determined that no impairment was indicated.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

In conjunction with the 2011 annual testing of indefinite-lived intangible assets, no additional impairments of indefinite-lived intangible assets were identified.

## **5. Acquisitions**

### *On Assignment, Inc.*

In December 2013, the Company acquired the operating assets of On Assignment, Inc.'s Allied Healthcare Staffing division for an aggregate purchase price of \$28,700,000, subject to certain post-closing adjustments. Excluded from the transaction were the accounts receivable, accounts payable and accrued compensation of the business being acquired. The Company used \$24,673,000 in cash on hand and \$4,500,000 from borrowings under its current revolver facility with Bank of America, N.A. to pay the purchase price and approximately \$473,000 in transaction costs. Subsequent to December 31, 2013, an immaterial post-closing adjustment was made. However, the purchase price is subject to potential adjustment downward contingent upon retention of certain contracts as defined in the agreement, which will be resolved by the end of the Company's second quarter of 2014. The Company does not expect any further adjustment.

Pursuant to the Asset Purchase Agreement, the Company will be working with the seller to assume 15 leases and sublet 7 leases related to its branch offices. As of the date of this filing, 4 leases have been assumed by the Company representing \$383,765 of operating lease future payments.

The Company believes the acquisition complements its current nurse and allied staffing business segment by: (1) adding new skillsets to its traditional staffing offerings, (2) expanding its local branch network, which will allow it to expand its local market presence and its MSP business, (3) diversifying its customer base into the local ambulatory care and smaller local healthcare facilities, which the Company believes will provide more balance between its large volume based customers and its local retail market.

The Allied Healthcare business has 84 branch-based employees and makes placements in more than 125 specialties from 23 branch offices.

The acquisition has been accounted for in accordance with FASB ASC *Topic 805-Business Combination*, using the purchase method. The results of the acquisition's operations have been included in the consolidated statements of operations since December 2, 2013, the date of the acquisition. On Assignment's allied staffing services have been included with the Company's nurse and allied staffing business segment. The Company's nurse and allied staffing business segment results in 2013 included \$3,407,193 of revenue and \$295,251 in contribution income (as defined in Note 16 - Segment Information) from the acquisition.

The following table summarizes the approximate fair values of the assets acquired and liabilities assumed. The Company used a third-party appraiser to determine the fair value and estimated useful lives of acquired assets and liabilities.

Other current assets	\$ 61,837
Property and equipment	160,921
Goodwill	14,553,798
Other intangible assets	14,000,000
Other assets	52,444
Total assets acquired	28,829,000
Accrued employee compensation and benefits	111,789
Total liabilities assumed	111,789
Net assets acquired	<u>\$ 28,717,211</u>

Based on the final independent third-party appraisal, the Company assigned the following values to intangible and other identifiable assets: \$10,400,000 to customer relations with an estimated useful life of 16 years, \$3,400,000 to database with an estimated useful life of 10 years, and \$200,000 to non-compete agreements with a useful life of 5 years. The remaining excess

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

of purchase price over the fair value of net assets acquired \$14,553,798 and was recorded as goodwill, which is expected to be deductible for tax purposes. Additional acquisition-related costs of approximately \$473,000 were incurred and are reflected as acquisition costs on the Company's consolidated statement of operations for the year ended December 31, 2013.

The following unaudited pro forma financial information approximates the consolidated results of operations of the Company as if the On Assignment acquisition had occurred as of January 1, 2012, after giving effect to certain adjustments, including additional interest expense on the amount the Company borrowed on the date of the transaction. These results are not necessarily indicative of future results as they do not include incremental investments in support functions, an estimate of any impact on interest expense resulting from the operating cash flow of the acquired business, among other adjustments that could be made in the future but are not factually supportable on the date of the transaction.

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
(unaudited, amounts in thousands)		
Revenue from services	\$ 476,456	\$ 482,142
Net income (loss)	\$ (50,336)	\$ (40,543)
Net income (loss) per common share - basic	\$ (1.62)	\$ (1.31)
Net income (loss) per common share - diluted	\$ (1.62)	\$ (1.31)

*MDA Holdings, Inc.*

In September 2008, the Company completed the acquisition of substantially all of the assets of privately-held MDA Holdings, Inc. and its subsidiaries and all of the outstanding stock of a subsidiary of MDA Holdings, Inc. (collectively, MDA). Part of the cash paid at closing was held in escrow to cover any post-closing liabilities (Indemnification Escrow).

During the year ended December 31, 2010, approximately \$3,541,000 was released to the seller from the Indemnification Escrow account leaving a balance of approximately \$3,566,000 at December 31, 2013 and 2012. The escrow will be released upon full satisfaction of certain tax matters and the resolution of indemnity claims. The transaction also included an earnout provision based on 2008 and 2009 performance criteria. This contingent consideration was not related to the sellers' employment. In the second quarter 2009, the Company paid approximately \$6,748,000 related to the 2008 performance. In the second quarter of 2010, the Company paid approximately \$12,826,000 related to the 2009 performance, satisfying all earnout amounts potentially due to the seller in accordance with the asset purchase agreement. Earnout payments were allocated to goodwill as additional purchase price, in accordance with the *Business Combinations* Topic of the FASB ASC.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**6. Property and Equipment**

At December 31, 2013 and 2012, property and equipment consist of the following:

	Useful Lives	<b>December 31,</b>	
		<b>2013</b>	<b>2012</b>
Computer equipment	3-5 years	\$ 12,115,305	\$ 12,373,042
Computer software	3-5 years	30,059,145	29,929,913
Office equipment	5-7 years	3,306,824	3,307,815
Furniture and fixtures	5-7 years	1,751,669	1,704,073
Leasehold improvements	(a)	3,716,158	2,837,740
		50,949,101	50,152,583
Less accumulated depreciation and amortization		(44,778,602)	(41,917,771)
		\$ 6,170,499	\$ 8,234,812

(a) See Note 2 – Summary of Significant Accounting Policies.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**7. Balance Sheet Details**

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Insurance recovery receivable:</b>		
Insurance recovery for workers' compensation	\$ 2,093,000	\$ 2,427,994
Insurance recovery for professional liability	1,793,285	3,055,895
	\$ 3,886,285	\$ 5,483,889
<b>Non-current insurance recovery receivable:</b>		
Insurance recovery for workers' compensation – long term	\$ 3,336,000	\$ 3,694,006
Insurance recovery for professional liability – long term	7,577,527	4,516,133
	\$ 10,913,527	\$ 8,210,139
<b>Accrued compensation and benefits:</b>		
Salaries and payroll taxes	\$ 6,874,644	\$ 6,931,650
Bonuses	2,199,559	1,648,979
Accrual for workers' compensation claims	3,236,428	3,800,526
Accrual for health care benefits	1,385,115	2,005,486
Accrual for professional liability insurance	4,091,405	5,847,638
Accrual for vacation	1,361,161	1,415,954
	\$ 19,148,312	\$ 21,650,233
<b>Long-term accrued claims:</b>		
Accrual for workers' compensation claims	\$ 5,076,000	\$ 5,748,506
Accrual for professional liability insurance	13,227,096	10,598,836
	\$ 18,303,096	\$ 16,347,342
<b>Other long-term liabilities:</b>		
Deferred compensation	\$ 1,638,334	\$ 1,471,091
Deferred rent	1,776,615	1,564,199
	\$ 3,414,949	\$ 3,035,290

**8. Long-Term Debt**

At December 31, 2013 and 2012, long-term debt consists of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Term loan, interest 2.72% at December 31, 2012	\$ —	\$ 23,125,000
Revolving credit facility, interest 3.27% and 2.72% at December 31, 2013 and 2012, respectively	8,400,000	10,000,000
Capital lease obligations and note payable	176,319	733,657
Total debt	8,576,319	33,858,657
Less current portion	(8,483,088)	(33,682,348)
Long-term debt	\$ 93,231	\$ 176,309

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

Long-term debt includes capital lease obligations that are subordinate to the Company's senior secured facility. As of December 31, 2013, the aggregate scheduled maturities of debt are as follows:

Through Year Ending December 31:	Revolver	Capital Leases and Note Payable
2014	\$ 8,400,000	\$ 83,088
2015	—	65,409
2016	—	27,822
2017	—	—
2018	—	—
Total	<u>\$ 8,400,000</u>	<u>\$ 176,319</u>

*Loan Agreement*

On January 9, 2013, the Company terminated its commitments under the July 2012 Credit Agreement (defined below) and entered into a Loan and Security Agreement, (Loan Agreement), by and among the Company and certain of its domestic subsidiaries, as borrowers, and Bank of America, N.A., as agent.

The Loan Agreement provides for: a three-year senior secured asset-based revolving credit facility in the aggregate principal amount of up to \$65,000,000 (as described below), which includes a subfacility for swingline loans up to an amount equal to 10% of the aggregate Revolver Commitments, and a \$20,000,000 subfacility for standby letters of credit. Swingline loans and letters of credit issued under the Loan Agreement reduce available revolving credit commitments on a dollar-for-dollar basis. Subject to certain conditions, the Company is permitted, at any time prior to the maturity date for the revolving credit facility, to increase the total revolving credit commitments in an aggregate principal amount of up to \$20,000,000, with additional commitments from Lenders or new commitments from financial institutions, subject to certain conditions as described in the Loan Agreement. Pursuant to the Loan Agreement, the aggregate amount of advances under the Line of Credit (Borrowing Base) cannot exceed the lesser of (a) (i) \$65,000,000, or (ii) 85% of eligible billed accounts receivable as defined in the Loan Agreement; plus (b) the lesser of (i) 85% of eligible unbilled accounts receivable and (ii) \$12,000,000; minus (c) reserves as defined by the Loan Agreement, which include one week's worth of W-2 payroll and fees payable to independent contractors. As of December 31, 2013, the gross availability under the Loan Agreement was approximately \$39,482,000 based on the Company's November accounts receivable. The Company had \$11,399,000 letters of credit outstanding and \$8,400,000 drawn under its revolving credit, leaving \$19,683,000 available as of December 31, 2013. The letters of credit relate to the Company's workers' compensation and professional liability policies. See Note 2 - Summary of Significant Accounting Policies.

The initial proceeds from the revolving credit facility were used to finance the repayment of existing indebtedness of the Company under its prior credit agreement and the payment of fees and expenses. The repayment of the term loan portion of the Company's debt outstanding in the first quarter of 2013 was treated as extinguishment of debt, and, as a result, the Company recognized a loss on extinguishment in the first quarter of 2013, related to the write-off of unamortized net debt issuance costs of approximately \$295,000. The repayment of the revolver portion of the Company's debt outstanding in the first quarter of 2013 was treated partially as extinguishment and partially as a modification. The fees related to the modified portion of approximately \$86,000 relate to the continuation of credit provided by Bank of America, N.A. in its Loan Agreement. The Company wrote-off the remaining unamortized net debt issuance costs of approximately \$1,124,000 in the first quarter of 2013.

The revolving credit facility is used to provide ongoing working capital and for other general corporate purposes of the Company and its subsidiaries. As of December 31, 2013, the interest rate spreads and fees under the Loan Agreement are based on LIBOR plus 1.5% or Base Rate plus 0.50%. The LIBOR and Base Rate margins are subject to performance pricing adjustments, pursuant to a pricing matrix based on the Company's excess availability under the revolving credit facility, and would increase by 200 basis points if an event of default exists. The Company is required to pay a monthly commitment fee on the average daily unused portion of the revolving loan facility, which, as of December 31, 2013, was 0.375%.

The Loan Agreement contains customary representations, warranties, and affirmative covenants. The Loan Agreement also contains customary negative covenants; including covenants with respect to, among other things, (i) indebtedness, (ii) liens, (iii) investments, (iv) significant corporate changes, including mergers and acquisitions, (v) dispositions, (vi) dividend, distributions and other restricted payments, (vii) transactions with affiliates and (viii) restrictive agreements. In addition, if the Company's

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

excess availability under the revolving credit facility is less than the greater of (i) 12.5% of the Loan Cap, as defined, and (ii) \$6,250,000, the Company is required to meet a minimum fixed charge coverage ratio of 1.0, as defined in the Loan Agreement. The Loan Agreement also contains customary events of default, such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control and the failure to observe covenants or conditions under the credit facility documents.

The Company's obligations under the Loan Agreement are guaranteed by all material domestic subsidiaries of the Company that are not co-borrowers (Subsidiary Guarantors). As collateral security for their obligations under the Loan Agreement and guarantees thereof, the Company and the Subsidiary Guarantors have granted to Bank of America, N.A., a security interest in substantially all of their tangible and intangible assets.

*July 2012 Credit Agreement*

The Company entered into a senior secured credit agreement on July 10, 2012 (July 2012 Credit Agreement), by and among the Company, as borrower, a syndicate of lenders, Wells Fargo Bank, National Association, as administrative agent, swingline lender and issuing lender, Bank of America, N.A., as syndication agent, and U.S. Bank National Association, as documentation agent. The July 2012 Credit Agreement provided for: (i) a five-year senior secured term loan facility in the aggregate principal amount of \$25,000,000, and (ii) a five-year senior secured revolving credit facility in the aggregate principal amount of up to \$50,000,000, which included a \$10,000,000 subfacility for swingline loans, and a \$20,000,000 subfacility for standby letters of credit. Swingline loans and letters of credit issued under the July 2012 Credit Agreement reduced available revolving credit commitments on a dollar-for-dollar basis. Subject to certain conditions under the Credit Agreement, the Company was permitted, at any time prior to the maturity date for the revolving credit facility, to increase its total revolving credit commitments in an aggregate principal amount of up to \$25,000,000.

Upon closing of the July 2012 Credit Agreement, the Company borrowed \$25,000,000 in term loan and \$11,000,000 from the revolving credit facility. The proceeds were used to repay the indebtedness on its prior credit agreement and for the payment of fees and expenses. During 2012, approximately \$962,000 of financing fees were deferred and included in debt issuance costs on the accompanying consolidated balance sheets. The deferred costs related to the revolving credit facility have been amortized on a straight-line basis, and the deferred costs related to the term loan facility have been amortized using the effective interest method, both over the life of the July 2012 Credit Agreement. In addition, approximately \$279,000 of third party debt financing costs relating to the July 2012 Credit Agreement were expensed as incurred and are included in interest expense on the Company's consolidated statement of operations as required by the *Debt* Topic of the FASB ASC.

The revolving credit facility was to be used to provide ongoing working capital and for other general corporate purposes of the Company and its subsidiaries. Through December 31, 2012, interest on the term loan and revolving credit portion of the July 2012 Credit Agreement was based on LIBOR plus a margin of 2.50% or Base Rate (as defined by the July 2012 Credit Agreement, as modified) plus a margin of 1.50%. In addition, the Company was required to pay a quarterly commitment fee on its average daily unused portion of the revolving loan facility of 0.50%. The interest rate spreads and fees fluctuated during the term of the July 2012 Credit Agreement based on the consolidated total leverage ratio at each calculation date, as defined.

*Modification of July 2012 Credit Agreement*

On September 28, 2012, the Company entered into a First Modification Agreement with the lenders of its July 2012 Credit Agreement, which, for the third quarter ending September 30, 2012, modified the maximum consolidated total leverage ratio to 2.75 to 1.00 and modified the minimum consolidated fixed charge coverage ratio to 1.25 to 1.00. In addition, the aggregate amount of new revolving credit loans and swingline loans made to the Company could not exceed \$3,000,000 (above the \$10,000,000 outstanding) at any time, and new Letters of Credit issued on behalf of the Company could not exceed \$1,000,000 (above the \$12,432,000 outstanding), during the period commencing on September 28, 2012 and ending upon the delivery by the Company of an Officer's Compliance Certificate to the lender's administrative agent for the fiscal year ending December 31, 2012 (which would have occurred in March 2013). Further, during the modification period, the Company was also prohibited from making investments and purchasing, redeeming, retiring or otherwise acquiring any shares of its capital stock as otherwise permitted under the credit agreement.

Due to Company's change in lenders' participations as a result of the July 2012 Credit Agreement and subsequent modification agreement, the Company wrote off debt issuance costs of approximately \$82,000 as loss on modification of debt on the accompanying consolidated statements of operations for the year ended December 31, 2012.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

*Covenants of July 2012 Credit Agreement*

As of December 31, 2012, the Company would not have complied with the financial covenants in its July Credit Agreement, specifically, its Maximum Leverage Ratio or its Minimum Fixed Charge Coverage Ratio. Generally accepted accounting principles require that long-term debt be classified as a current liability when a covenant violation that gives the lender the right to call the debt has occurred at the balance sheet date. As a result, amounts outstanding under the credit agreement are included in current liabilities in the accompanying December 31, 2012 consolidated balance sheets.

**9. Fair Value Measurements**

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

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

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

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

**Items Measured at Fair Value on a Recurring Basis:**

At December 31, 2013 and December 31, 2012, the Company's financial assets/liabilities required to be measured on a recurring basis were its deferred compensation liability included in other long-term liabilities and contingent consideration receivable related to the sale of its clinical trial services business.

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

**Contingent Consideration Receivable** —The earn out related to the Company's sale of its clinical trial services business is treated as a contingent consideration receivable for accounting purposes. The Company utilizes Level 3 inputs to value its contingent consideration receivable as significant unobservable inputs are used in the calculation of its fair value and are related to future performance of the disposed business. The fair value of the contingent consideration receivable will be adjusted to its fair value on a quarterly basis with the adjustment to the related receivable and the gain/loss on the sale of assets (included in discontinued operations). The future performance of the disposed business directly impacts the contingent consideration that could be paid to the Company, thus performance that exceeds target could result in a higher payout, and a performance under target could result in a lower payout. As of December 31, 2013, the Company assigned no value to the performance earn-out based on recent information available to the Company. See Note 3- Assets Held for Sale and Discontinued Operations for further information. The Company had no performance earn-outs as of December 31, 2012.

The table below summarizes the estimated fair values, which approximate their carrying value, of the Company's financial assets and liabilities measured on a recurring basis as of December 31, 2013 and 2012:

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**Fair Value Measurements**

	December 31, 2013		December 31, 2012	
	Quoted Prices in Active Markets for Identical Assets (Level 1)		Quoted Prices in Active Markets for Identical Assets (Level 1)	
	Total	Total	Total	Total
<b>Financial Liabilities:</b>				
Deferred compensation	\$ 1,638,334	\$ 1,638,334	\$ 1,471,091	\$ 1,471,091

**Items Measured at Fair Value on a Nonrecurring Basis:**

The Company's assets held for sale, liabilities related to assets held for sale and goodwill and other identifiable intangible assets are measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3) described in Note 3 – Assets Held For Sale and Discontinued Operations, Note 4 – Goodwill, Trade Names and Other Identifiable Intangible Assets and Note 2 – Summary of Significant Accounting Policies.

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

In the fourth quarter of 2013, in conjunction with the annual testing of indefinite-lived intangible assets not subject to amortization, the Company recorded a pre-tax non-cash impairment charge of approximately \$6,400,000 related to its MDA acquisition (see Note 4 – Goodwill, Trade Names and Other Identifiable Intangible Assets). The Company reduced its long term revenue forecast for these businesses in the fourth quarter and as a result, the calculation of estimated fair value was less than the carrying amount of the trade names, resulting in an impairment charge. The table below presents the fair value of the MDA trade names as of December 31, 2013.

At December 31, 2012, all the assets and liabilities that were held for sale are stated at fair value with the exception of other intangible assets whose carrying value was below fair value. For those assets and liabilities except for goodwill, fair value approximates their carrying amount due to their short-term nature. The following table presents the fair value of goodwill, which is the most significant component of the assets held for sale, measured on a non-recurring basis for the Company's clinical trial services reporting unit included in assets held for sale as of December 31, 2012:

	Fair Value Measurements	
	December 31, 2013	December 31, 2012
<b>(Level 3)</b>		
MDA trade names	\$ 28,836,000	n/a
Clinical trial services segment goodwill	n/a	\$ 28,175,722
n/a - Not applicable		

**Other Fair Value Disclosures:**

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

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

The Company recorded the \$3,750,000 indemnity escrow funds related to the sale of its clinical trial services business as an escrow receivable (see Note 3 - Assets Held for Sale and Discontinued Operations for more information), and will adjust the amount to the estimated fair value, each reporting period, based on any known information. As of December 31, 2013, the fair value of the escrow receivable was calculated using Level 2 inputs and reflecting a discount for the time value of money.

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

	December 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>(Level 2)</b>				
Financial Assets:				
Escrow Receivable	\$ 3,750,000	\$ 3,700,373	\$ —	\$ —
Financial Liabilities:				
Term loan and revolver credit facility	\$ —	\$ —	\$ 33,125,000	\$ 32,654,213
Asset-based revolving credit facility (a)	<u>\$ 8,400,000</u>	<u>\$ 8,400,000</u>	<u>\$ —</u>	<u>\$ —</u>

(a) Carrying value of the asset-based revolving credit facility approximates estimated fair value based on the short-term nature and the pricing at varying interest rates.

#### **Concentration of Risk:**

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

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

#### **10. Employee Benefit Plans**

The Company maintains a voluntary defined contribution 401(k) profit-sharing plan covering all eligible employees as defined in the plan documents. The plan provides for a discretionary matching contribution, which is equal to a percentage of each eligible contributing participant's elective deferral, which the Company, at its sole discretion, determines from year to year.

Contributions by the Company, net of forfeitures, under this plan amounted to \$557,000 and \$556,000 for the years ended December 31, 2013 and 2012, respectively. Due to accumulated forfeiture credits on account, the matching contributions, net of forfeitures, for the year ended December 31, 2011, were not material. Eligible employees who elect to participate in the plan are generally vested in any existing matching contribution after three years of service with the Company.

The Company offers a non-qualified deferred compensation program to certain key employees whereby they may defer a portion of annual compensation for payment upon retirement. The program is unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974. The liability for the deferred compensation is included in other long-term liabilities on the consolidated balance sheets and amounted 1,638,334 and 1,471,091 at December 31, 2013 and 2012, respectively.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

## **11. Commitments and Contingencies**

### **Commitments:**

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

In July 2013, the Company entered into an agreement to lease 41,607 square feet of space in Berkeley Lake, Georgia for its physician staffing business. The commitment is for ten years, eight months, subject to adjustment and earlier termination as provided in the lease, and totals approximately \$4,241,000, excluding operating costs. The lease also contains certain lease incentives including a tenant improvement allowance of up to \$1,456,000, of which any excess may be used for moving expenses.

Future minimum lease payments, as of December 31, 2013, associated with these agreements with terms of one year or more are as follows:

<b>Through Year Ending December 31:</b>	
2014	\$ 4,267,124
2015	3,914,971
2016	3,958,695
2017	3,016,878
2018	1,304,860
Thereafter	2,602,718
	<b>\$ 19,065,246</b>

Total operating lease expense included in selling, general and administrative expenses was approximately \$5,481,000, \$5,791,000 and \$6,159,000 for the years ending December 31, 2013, 2012 and 2011, respectively.

### **Sales & Other State Non-income Tax Liabilities**

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

During 2011, a state administrative ruling related to certain service tax matters was released which indicated that services performed in that particular state are subject to a tax not previously paid by the Company. As a result, the Company conducted an initial review of certain other states to determine if any additional exposures may exist and determined that it was probable that some of its previous tax positions would be challenged. As a result, the Company changed its assessment of certain non-income tax positions and estimated a liability related to these matters. Based on its best estimate of probable settlement, the Company accrued a pretax liability related to the non-income tax matters of approximately \$526,000 in the year ended December 31, 2011, of which approximately \$395,000 related to the 2008-2010 tax years. The Company accrued an additional pretax liability related to the non-income tax matters of approximately \$1,019,000 in the year ended December 31, 2012, of which approximately \$301,000 related to the 2005-2011 tax years. For the year ended December 31, 2013, the Company accrued an additional pretax liability related to the non-income tax matters of approximately \$841,000, of which approximately \$352,000 related to the 2007-2012 tax years, and paid approximately \$306,000 to settle with certain states. The expense is included in selling, general and administrative expenses on its consolidated statements of operations and the liability is reflected as sales tax payable as of December 31, 2013 and 2012, on its consolidated balance sheets. The Company is continuing to work with professional tax advisors and state authorities to resolve the remaining matters.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**Contingencies:**

On December 4, 2012, the Company's subsidiary, CC Staffing, Inc. (now known as Travel Staff, LLC) became the subject of a purported class action lawsuit (Alice Ogues, on behalf of herself and all others similarly situated, Plaintiffs, vs. CC Staffing, Inc., a Delaware corporation; and DOES 1-50, inclusive, Defendants) filed in the United States District Court, Northern District of California. Plaintiff alleges that traveling employees were denied meal periods and rest breaks, that they should have been paid overtime on reimbursement amounts, various other wage and hour claims, and that they are entitled to associated penalties. The parties have agreed to settle this lawsuit for \$750,000. The Company accrued a reserve of \$750,000 for this claim which is included in other current liabilities and legal settlement charge on its consolidated balance sheets and statements of operations, respectively. The United States District Court, Northern District of California granted preliminary approval of the settlement on January 17, 2014, subject to the inclusion of language requiring a five-day cure period for deficient requests for exclusion from class members. On February 6, 2014, the parties amended the settlement agreement to include such language. A hearing for final approval of the settlement agreement is scheduled for May 16, 2014.

On September 8, 2010, the Company's subsidiary, Cross Country TravCorps, Inc. became the subject of an indemnity lawsuit (New Hanover Regional Medical Center vs. Cross Country TravCorps, Inc., d/b/a Cross Country Staffing, and Christina Lynn White) filed in the New Hanover County Civil Superior Court, State of North Carolina. Plaintiff alleged that a former employee of Cross Country TravCorps was negligent in caring for a patient which resulted in the death of that patient. New Hanover Regional Medical Center settled the claim pre-suit and subsequently brought an indemnity claim against the former nurse and Cross Country TravCorps for the actions of the nurse pursuant to the Staffing Agreement between Cross Country TravCorps and the hospital. On April 19, 2013, an arbitration panel found the nurse negligently caused the death of the patient and that New Hanover Regional Medical Center had no active negligence contributing to that death. Furthermore, the arbitration panel found that the facility was entitled to recover compensatory damages from the nurse and Cross Country Staffing in the amount of approximately \$2,000,000, plus pre-judgment interest (from September 8, 2010) at 8% per year. In addition, New Hanover Regional Medical Center was entitled to recover from Cross Country prejudgment interest on the compensatory damages from March 31, 2008 through September 7, 2010 at the rate of 8% per year and approximately \$41,000 in attorneys' fees. The panel also found that, but for the negligence of the nurse, Cross Country would have no liability to New Hanover Regional Medical Center; therefore, as a matter of equity Cross Country was entitled to recover indemnity from the former nurse to the full extent Cross Country actually paid New Hanover Regional Medical Center any portion of the award (other than the prejudgment interest from March 31, 2008 through September 7, 2010 and the approximately \$41,000 in attorneys' fees). The nurse had insurance coverage for this claim with \$2,000,000 (individual)/\$4,000,000 (aggregate) limits and no deductible. In addition, the Company has excess coverage that was expected to cover the amount of loss over \$2,000,000. During the second quarter of 2013, the nurse's insurance carrier paid New Hanover Regional Medical Center \$2,000,000 and Cross Country made an indemnity payment to the facility in the amount of \$920,450. Cross Country was fully reimbursed by the nurse's insurance company indemnity payment as well as a reimbursement for additional legal expenses related to this claim of \$273,474, which was collected in October 2013.

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

**12. Income Taxes**

The components of the Company's income (loss) before income taxes are as follows:

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
United States	\$ (11,216,037)	\$ (28,599,481)	\$ 1,384,963
Foreign	1,176,574	1,704,623	2,232,123
	<b>\$ (10,039,463)</b>	<b>\$ (26,894,858)</b>	<b>\$ 3,617,086</b>

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

The components of the Company's income tax expense (benefit) are as follows:

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Continuing operations:</b>			
Current			
Federal	\$ —	\$ 411,767	\$ (29,716)
State	540,266	811,760	355,142
Foreign	415,806	1,561,492	632,415
	956,072	2,785,019	957,841
Deferred			
Federal	37,821,541	(4,048,064)	444,193
State	5,133,844	(5,251,385)	681,076
Foreign	299,091	364,541	(13,663)
Total	43,254,476	(8,934,908)	1,111,606
	\$ 44,210,548	\$ (6,149,889)	\$ 2,069,447
The total income tax provision is summarized as follows:			
Continuing operations	\$ 44,210,548	\$ (6,149,889)	\$ 2,069,447
Discontinued operations	2,121,941	(9,496,992)	2,063,050
	\$ 46,332,489	\$ (15,646,881)	\$ 4,132,497

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

Significant components of the Company's deferred tax assets and liabilities are as follows:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Current deferred tax assets (liabilities):</b>		
Accrued other and prepaid expenses	\$ 2,591,944	\$ 2,302,277
Accrued settlement charge	283,534	—
Allowance for doubtful accounts	649,790	808,466
Assets held for sale	—	2,826,663
Other	468,082	597,237
Gross deferred tax assets	3,993,350	6,534,643
Valuation allowance	(4,528,177)	(551,160)
Deferred tax assets (liabilities)	(534,827)	5,983,483
<b>Non-current deferred tax (liabilities) and assets:</b>		
Amortization	(1,313,863)	4,377,573
Depreciation	(383,895)	(1,631,495)
Identifiable intangibles	(2,237,409)	(2,409,238)
Net operating loss carryforwards	32,531,221	23,616,558
Accrued professional liability	(117,842)	293,815
Accrued workers' compensation	675,201	768,617
Tax on unrepatriated earnings	(453,298)	(1,860,656)
Share-based compensation	1,610,346	2,120,269
Other	313,898	966,361
Gross deferred tax assets	30,624,359	26,241,804
Valuation allowance	(47,473,410)	(3,481,752)
Deferred tax (liabilities) assets	(16,849,051)	22,760,052
<b>Net deferred taxes</b>	<b>\$ (17,383,878)</b>	<b>\$ 28,743,535</b>

Subsequent to the issuance of the Company's 2012 Annual Report on Form 10-K, the Company determined that its deferred tax assets (liabilities) as presented on its consolidated balance sheets were inappropriately classified. The Company has corrected the 2012 information on its consolidated balance sheets and in the preceding table. Management does not believe such correction is material to the previously issued consolidated financial statements.

The Company determines the need for a valuation allowance under *Income Taxes* topic of the FASB ASC by assessing the probability of realizing deferred tax assets, taking into consideration all available positive and negative evidence, including historical operating results, expectations of future taxable income, carryforward periods available to the Company for tax reporting purposes, the evaluation of various income tax planning strategies and other relevant factors. The Company maintains a valuation allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized based on consideration of all available evidence. Adjustments to the deferred tax valuation allowances are made to earnings in the period when such assessments are made. Significant judgment is required in making this assessment and to the extent future expectations change, the Company would have to assess the recoverability of its deferred tax assets at that time. The Company's cumulative loss position was significant negative evidence in assessing the need for a valuation allowance. As of December 31, 2013, the Company determined that it could not sustain a conclusion that it was more likely than not that it would realize any of its deferred tax assets resulting from recent losses, the difficulty of forecasting future taxable income, and other factors. The Company intends to maintain a valuation allowance until sufficient positive evidence exists to support its reversal. To be considered a source of future taxable income to support realizability of a deferred tax asset, a taxable temporary difference must reverse in a period such that it would result in the realization of the deferred tax asset. Taxable temporary differences related to indefinite-lived intangibles, such as goodwill, are by their nature not predicted to reverse and therefore not considered a source of future taxable income in accordance with ASC 740. The Company had \$17,383,878 of deferred tax liabilities relating to indefinite lived intangible assets that it was not able to offset against deferred tax assets. As of December 31, 2013 and 2012, the Company recorded valuation allowances of \$52,001,587 and \$4,032,912, respectively. The December 31, 2013 valuation allowance applied to all its deferred tax assets. The December 31, 2012 valuation allowance related to the uncertainty of the

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

realization of a particular subsidiary's state portion of its deferred tax asset that arose from the goodwill impairment and certain separate state net operating losses.

As of December 31, 2013 and 2012, respectively, the Company had approximately \$78,120,000 and \$53,844,000 of federal, state and foreign net operating loss carryforwards. The federal carryforwards expire between 2030 and 2033. The state carryforwards expire between 2013 and 2033. The majority of the foreign carryforwards are in a jurisdiction with no expiration. A valuation allowance for the net operating losses has been recorded at December 31, 2013 and 2012, to reduce the Company's deferred tax asset to an amount that is more likely than not to be realized.

The reconciliation of income tax computed at the U. S. federal statutory rate to income tax expense (benefit) is as follows:

	Year Ended December 31,		
	2013	2012	2011
Tax at U.S. statutory rate	\$ (3,513,812)	\$ (9,413,200)	\$ 1,266,166
State taxes, net of federal benefit	(190,656)	(1,226,475)	(64,608)
Non-deductible meals and entertainment	449,780	961,933	290,280
Foreign tax expense	554,314	(221,897)	(162,448)
Valuation allowances	48,556,357	(43,657)	367,068
Uncertain tax positions	(257,488)	647,720	174,045
Deferred tax rate differential	312	150,583	(107,057)
Deferred tax write-offs (a)	221,028	—	301,765
Audit settlements	160,026	—	(391,822)
Tax on unrepatriated earnings	(1,464,728)	2,004,596	—
Tax on repatriated earnings	—	519,072	—
Tax true ups and other	(304,585)	471,436	396,058
Total income tax expense (benefit)	\$ 44,210,548	\$ (6,149,889)	\$ 2,069,447

(a) During 2013 and 2011, the Company recorded deferred tax expense related to an overstatement of deferred tax assets for share-based payments related to prior periods of approximately \$221,000 and \$302,000, respectively.

The tax years of 2004, 2005, and 2008 through 2012 remain open to examination by the major taxing jurisdictions to which the Company is subject, with the exception of certain states in which the statute of limitations has been extended. In mid-July of 2013, the Company received a notice of proposed audit adjustments from the State of New York relating to the examination of its tax years ending December 31, 2006 through 2009. The settlement was for less than the amount accrued as of December 31, 2013.

As of December 31, 2011, pursuant to the subtopic of *Other Considerations or Special Areas* of the *Income Taxes Topic* in the FASB ASC, the Company did not provide for United States income taxes or foreign withholding taxes on undistributed earnings from certain non-U.S. subsidiaries (located in the United Kingdom and India that had tax rates of approximately 27% and 34%, respectively) that were expected to be permanently reinvested outside of the United States. In the fourth quarter of 2012, the Company changed its position regarding permanent reinvestment and accrued approximately \$1,371,000 of U.S. tax and \$633,000 of India tax on earnings of approximately \$9,528,000. During the fourth quarter of 2012, the company repatriated approximately \$3,268,000 of foreign earnings from its Indian subsidiary. U.S. income taxes on those repatriated earnings have been offset by its U.S. losses. The sale of the Company's clinical trial services unit located outside the US in the UK during 2013 resulted in write-offs of the investment in those subsidiaries and offset the amount of US taxes that would need to be accrued on the India earnings to zero. India withholding taxes on a dividend of India earnings are not affected by the calculation of US taxes due and continue to be accrued.

The Company's Indian subsidiary, Cross Country Infotech Private, Ltd is located in a software technology park and was entitled to 100% tax holiday until March 2011. The effect of the income tax holiday was a reduction to the income tax provision in 2011 of approximately \$178,000.

The Company recognizes in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is approximately as follows:

	<b>2013</b>	<b>2012</b>
Balance at January 1	\$ 5,204,000	\$ 4,500,000
Additions based on tax positions related to the current year	496,000	852,000
Additions based on tax positions related to prior years	681,000	152,000
Reductions based on settlements of tax positions related to the prior year	(292,000)	(30,000)
Reductions for tax positions as a result of a lapse of the applicable statute of limitations	(1,076,000)	(263,000)
Other	(27,000)	(7,000)
Balance at December 31	\$ 4,986,000	\$ 5,204,000

Short-term unrecognized tax benefits are included in other current liabilities on the consolidated balance sheets and were approximately \$973,000 and \$548,000 as of December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, the Company had unrecognized tax benefits, which would affect the effective tax rate if recognized of approximately \$4,399,000 and \$4,700,000, respectively. During 2013, the Company had gross increases of \$1,177,000 to its current year unrecognized tax benefits, related to federal and state tax issues. In addition, the Company had gross decreases of \$1,394,000 to its unrecognized tax benefits related to settlement refunds and the closure of open tax years.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. During the years ended December 31, 2013, 2012 and 2011, the Company recognized interest and penalties of \$81,000, \$124,000, and \$27,000, respectively. The Company had accrued approximately \$1,015,000 and \$886,000 for the payment of interest and penalties at December 31, 2013 and 2012, respectively.

### **13. Stockholders' Equity**

#### **Stock Repurchase Programs**

In February 2008, the Company's Board of Directors authorized its most recent stock repurchase program whereby the Company may purchase up to 1,500,000 shares of its common stock, subject to terms of the Company's Credit Agreement. The shares may be repurchased from time-to-time in the open market and the repurchase program may be discontinued at any time at the Company's discretion.

During the year ended December 31, 2012, the Company repurchased, under this program, a total of 71,653 shares at an average price of \$5.22. The cost of such purchases was \$374,248. All of the common stock was retired. During the year ended December 31, 2011, the Company repurchased, under this program, a total of 427,043 shares at an average price of \$5.23. The cost of such purchases was \$2,234,585. All of the common stock was retired.

At December 31, 2013, the Company had 942,443 shares of common stock left remaining to repurchase under its February 2008 authorization, subject to the limitations of the Company's Credit Agreement. Subject to certain conditions as described in its Loan Agreement entered into on January 9, 2013, the Company may repurchase up to an aggregate amount of \$5,000,000 of its Equity Interests. See Note 8- Long-term Debt for further information.

#### **Stock Options**

##### *2007 Stock Incentive Plan*

The Company's 2007 Stock Incentive Plan (2007 Plan) was approved by its stockholders at its Annual Meeting of Stockholders, held in May of 2007, and was amended at its Annual Meeting held in May of 2010. Key modifications in the amendment were to increase the aggregate share reserve and increase the share sub-limit for Awards that are not Appreciation Awards (as defined by the Plan). Other clarifying amendments to reflect recent developments in equity compensation practices and applicable law were also included.

The 2007 Plan provides for the issuance of stock options, stock appreciation rights, restricted stock, performance shares, and other stock-based awards, all as defined by the 2007 Plan, to eligible employees, consultants and non-employee Directors. The aggregate number of shares of common stock which may be issued or used for reference purposes under the 2007 Plan or with

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

respect to which awards may be granted may not exceed 3,500,000 shares, which may be either authorized and unissued common stock or common stock held in or acquired for the treasury of the Company; provided, however, that 1,700,000 shares of this aggregate limit may be used for awards that are not Appreciation Awards (including restricted stock, performance shares or certain other stock-based awards).

Under the 2007 Plan, the Compensation Committee of the Company's Board of Directors (the Committee), has the discretion to determine the terms of the awards at the time of the grant. Provided, however, that, in the case of stock options and stock appreciation rights (share options): 1) the exercise price per share of the award is not less than 100% (or, in the case of 10% or more stockholders, the exercise price of the incentive stock options (ISOs) granted may not be less than 110%) of the fair market value of the common stock at the time of the grant; and 2) the term of the award will be no more than 10 years after the date the option is granted (or, shall not exceed five years, in the case of a 10% or more stockholder). In the case of restricted stock, the purchase price may be zero to the extent permitted by applicable law.

The following awards were granted under the 2007 Plan to the Company's non-employee Directors and management team:

	Year Ended December 31,		
	2013	2012	2011
Stock appreciation rights	324,000	344,500	261,500
Restricted stock	340,509	337,220	216,538

The stock appreciation rights can only be settled with stock or cash, at the discretion of the Committee. The stock appreciation rights vest 25% per year over a 4 year period and expire after 7 years. The restricted stock awards vest 25% per year over a 4 year period on the anniversary date of the grant. The Company's policy is to issue new shares from its authorized but unissued balance of common stock outstanding or shares of common stock reacquired by the Company if stock appreciation rights are settled with stock.

Due to the adoption of the 2007 Plan, no further grants will be issued under the Company's 1999 Plans referred to below.

*1999 Stock Option Plan and Equity Participation Plan*

On December 16, 1999, the Company's Board of Directors approved the 1999 Stock Option Plan and Equity Participation Plan (collectively, the 1999 Plans), which was amended and restated on October 25, 2001 and provided for the issuance of ISOs and non-qualified stock options to eligible employees and non-employee directors for the purchase of up to 4,398,001 shares of common stock.

The following table summarizes the Company's activities with respect to all of its share option plans for the year ended 2013:

	Shares	Option Price	Weighted Average Exercise Price	Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Share options outstanding at beginning of year	1,922,756	\$4.16-\$22.50	\$9.67		
Granted	324,000	\$4.92-\$5.61	\$5.25		
Exercised	(14,000)	\$4.35	\$4.35		
Forfeited/expired	(686,457)	\$4.35-\$22.50	\$9.36		
Share options outstanding at end of year	1,546,299	\$4.16-\$22.50	\$8.93	3.28	\$ 3,770,958
Share options exercisable at end of year	1,006,674	\$4.16-\$22.50	\$10.79	1.99	\$ 1,329,153
Share options unvested at end of year	539,625	\$4.16-\$8.09	\$5.46	5.69	\$ 2,441,805

As of December 31, 2013, the Company had 1,546,299 share options outstanding of which 1,433,047 were vested or expected to vest at a weighted average exercise price of \$9.20, intrinsic value of \$3,270,748 and a weighted average contractual life of 3.10 years. As of December 31, 2013, the Company had approximately \$884,579 pretax of total unrecognized compensation

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

cost related to share options which may be adjusted for future changes in forfeitures. The Company expects to recognize such cost over a period of 2.54 years.

The following table represents information about stock options and stock appreciation rights granted and exercised in each year. During the years ended December 31, 2013, 2012 and 2011, the Company issued options and stock appreciation rights at market price.

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Share option grants	324,000	344,500	261,500
Weighted average grant date fair value of options granted during the period	\$ 1.77	\$ 1.65	\$ 2.63
Total intrinsic value of options exercised	\$ 12,465	\$ —	\$ —

The Company records compensation expense for stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model with the assumptions included in the table below. The Company computes expected volatility using the historical volatility of the market price of the Company's common stock. Historical data is used to estimate the expected option life and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The following assumptions were used to estimate the fair value of options granted using the Black-Scholes option-pricing model:

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Expected dividend yield	—%	—%	—%
Expected volatility	48.00%	47.00%	42.00%
Risk-free interest rate	0.79%	0.58%	1.33%
Expected life	4.2 years	4.3 years	4.3 years

#### **Restricted Stock**

Restricted stock awards granted under the Company's 2007 Plan entitle the holder to receive, at the end of a vesting period, a specified number of shares of the Company's common stock. Share-based compensation expense is measured by the market value of the Company's stock on the date of grant. The shares vest ratably over a four year period ending on the anniversary date of the grant. There is no partial vesting and any unvested portion is forfeited.

The following table summarizes restricted stock award activity for the year ended December 31, 2013:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested restricted stock awards, January 1, 2013	661,648	\$ 6.08
Granted	340,509	\$ 4.64
Vested	(238,296)	\$ 6.86
Forfeited	(211,630)	\$ 4.73
Unvested restricted stock awards, December 31, 2013	<u>552,231</u>	<u>\$ 5.37</u>

As of December 31, 2013, the Company had approximately \$2,372,238 pretax of total unrecognized compensation cost related to non-vested restricted stock awards which may be adjusted for future changes in forfeitures. The Company expects to recognize such cost over a weighted average period of 2.59 years. The fair value of shares vested was approximately \$2,378,194; \$944,976 and \$1,190,000 during the years ended December 31, 2013, 2012 and 2011, respectively.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

#### **Secondary Offerings**

In November 2004, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission for the registration of 11,403,455 shares of common stock held by three of its existing shareholders. No members of management registered shares pursuant to this registration statement. Prior to 2013, 8,172,868 shares were sold in a public offering with net proceeds from the sale going to the selling stockholders. During 2013, the remaining shares were sold by the existing shareholders and as a result, the registration statement is no longer active.

#### **14. Earnings Per Share**

In accordance with the requirements of the *Earnings Per Share* Topic of the FASB ASC, basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding (excluding unvested restricted stock) and diluted earnings per share reflects the dilutive effects of unvested stock options and restricted stock (as calculated utilizing the treasury stock method). Certain shares of common stock that are issuable upon the exercise of options and vesting of restricted stock have been excluded from the 2013, 2012 and 2011 per share calculations because their effect would have been anti-dilutive. Such shares amounted to 1,547,814; 2,033,632 and 1,962,265, during the years ended December 31, 2013, 2012 and 2011, respectively. For purposes of calculating net income (loss) per common share - diluted for the years ending December 31, 2013 and 2012, the Company excluded potentially dilutive shares of 149,453, and 47,258, respectively, as their effect would have been anti-dilutive, due to the Company's net loss from continuing operations in the respective years.

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

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
(Loss) income from continuing operations	\$ (54,250,011)	\$ (20,744,969)	\$ 1,547,639
Income (loss) from discontinued operations, net of income taxes	2,280,688	(21,476,528)	2,550,210
<b>Net (loss) income</b>	<b>\$ (51,969,323)</b>	<b>\$ (42,221,497)</b>	<b>\$ 4,097,849</b>
 Basic (loss) income per common share from:			
Continuing operations	\$ (1.75)	\$ (0.67)	\$ 0.05
Discontinued operations	0.07	(0.70)	0.08
<b>Net (loss) income</b>	<b>\$ (1.68)</b>	<b>\$ (1.37)</b>	<b>\$ 0.13</b>
 Diluted (loss) income per common share from:			
Continuing operations	\$ (1.75)	\$ (0.67)	\$ 0.05
Discontinued operations	0.07	(0.70)	0.08
<b>Net (loss) income</b>	<b>\$ (1.68)</b>	<b>\$ (1.37)</b>	<b>\$ 0.13</b>
 Weighted-average number of shares outstanding-basic	 31,009,218	 30,842,723	 31,146,165
Plus dilutive equity awards	—	—	45,851
 <b>Weighted-average number of shares outstanding-diluted</b>	 <b>31,009,218</b>	 <b>30,842,723</b>	 <b>31,192,016</b>

#### **15. Related Party Transactions**

The Company provides services to hospitals which are affiliated with certain members of the Company's Board of Directors. Management believes the pricing for the Company's services is consistent with its other hospital customers. Revenue related to these transactions amounted to approximately \$3,897,000, \$3,804,000 and \$2,097,000 in 2013, 2012 and 2011, respectively. Accounts receivable due from these hospitals at December 31, 2013 and 2012 were approximately \$424,000 and \$570,000, respectively. In the year ended December 31, 2010, the Company entered into an exclusive MSP arrangement with one of these hospital systems.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

## 16. Segment Information

In accordance with the *Segment Reporting* Topic of the FASB ASC, the Company reports three business segments – nurse and allied staffing, physician staffing, and other human capital management services, described below:

**Nurse and allied staffing** - The nurse and allied staffing segment provides traditional staffing, including temporary and permanent placement of travel nurses and allied professionals, and branch based local nurses and allied staffing. Its clients include: public and private acute-care and non-acute care hospitals, government facilities, schools, outpatient clinics, ambulatory care facilities, retailers, and many other healthcare providers throughout the U.S. The Company aggregates its Cross Country Staffing and Allied Health Group brands that it markets to its customers in this business segment.

**Physician staffing** – The physician staffing business segment provides physicians in many specialties as independent contractors on temporary assignments throughout the U.S. at various healthcare facilities, such as acute and non-acute care facilities, medical group practices, government facilities, and managed care organizations.

**Other human capital management services** - The other human capital management services business segment provides education and training programs to the healthcare industry and retained search services for physicians and healthcare executives, within the U.S.

The Company's management evaluates performance of each segment primarily based on revenue and contribution income. The Company's management does not evaluate, manage or measure performance of segments using asset information; accordingly, total asset information by segment is not prepared or disclosed. See Note 4 – Goodwill and Other Identifiable Intangible Assets for further information. The information in the following table is derived from the segments' internal financial information as used for corporate management purposes. Certain corporate expenses are not allocated to and/or among the operating segments.

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

	<b>Year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Revenue from unaffiliated customers:</b>			
Nurse and allied staffing	\$ 278,972,901	\$ 277,753,525	\$ 278,793,599
Physician staffing	121,371,017	123,545,045	118,780,800
Other human capital management services	37,966,798	41,336,576	41,803,061
	<hr/> <u>\$ 438,310,716</u>	<hr/> <u>\$ 442,635,146</u>	<hr/> <u>\$ 439,377,460</u>
<b>Contribution income (a):</b>			
Nurse and allied staffing (b)	\$ 19,188,403	\$ 11,360,870	\$ 20,077,583
Physician staffing	8,616,916	10,651,879	11,320,076
Other human capital management services	745,506	1,943,628	3,172,282
	<hr/> <u>28,550,825</u>	<hr/> <u>23,956,377</u>	<hr/> <u>34,569,941</u>
<b>Unallocated corporate overhead (b)</b>	22,286,031	22,574,066	20,299,783
Depreciation	3,885,688	4,904,845	5,965,002
Amortization	2,294,077	2,263,556	2,393,722
Acquisition costs	473,488	—	—
Restructuring costs	483,578	—	—
Legal settlement charge	750,000	—	—
Impairment charges (c)	6,400,000	18,732,407	—
(Loss) income from continuing operations	<hr/> <u>\$ (8,022,037)</u>	<hr/> <u>\$ (24,518,497)</u>	<hr/> <u>\$ 5,911,434</u>

(a) The Company defines contribution income as income from operations before depreciation, amortization, acquisition costs, restructuring costs, legal settlement charges, impairment charges and corporate expenses not specifically identified

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

to a reporting segment. Contribution income is used by management when assessing segment performance and is provided in accordance with the *Segment Reporting* Topic of the FASB ASC.

- (b) In 2013, the Company refined its methodology for allocating certain corporate overhead expenses to its nurse and allied staffing segment expenses to more accurately reflect this segment's profitability. Prior year information has been reclassified to conform to current year presentation.
- (c) During the fourth quarter of 2013, the Company recorded a trade names impairment charge of \$6,400,000. During the year ended December 31, 2012, the Company recorded pretax impairment charges in its continuing operations of \$18,732,407. Refer to discussion in Note 4-Goodwill, Trade Names and Other Identifiable Intangible Assets.

Effective January 1, 2014, the Company merged its Allied Health Group, LLC subsidiary with its Medical Doctor Associates, LLC subsidiary. The decision to merge these companies was based a number of factors including the consolidation of back office processes and other operational efficiencies. Along with this merger, the Company evaluated the Allied Health Group trade name and determined that it would be more valuable to use it for the Company's nurse and allied staffing business, and as a result, transferred the trade name effective January 1, 2014. The process to effect the merger and move the trade name did not occur until 2014 and included: merging their general ledgers, communicating to clients and providers, and changing our processes to pay our advanced practice providers.

The allied health staffing business of MDA has primarily consisted of higher level allied professional, such as physician assistants and nurse practitioners, whose job functions are becoming increasingly more similar to those of physicians than to other allied health professionals. The 2014 change in legal structure and processes, along with the current market dynamics has changed the Company's approach/ conclusion to aggregate this business with its nurse and allied staffing business segment for 2014. This subsequent change in reporting occurred after the balance sheet date but before the Company issued financial statements. The Company will be revising its segments for 2014 reporting to include this business with its physician staffing business segment.

**CROSS COUNTRY HEALTHCARE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**17. Quarterly Financial Data (Unaudited)**

	First Quarter (a)	Second Quarter	Third Quarter	Fourth Quarter (b)
<b>2013</b>				
Revenue from services	\$ 110,315,840	\$ 110,768,343	\$ 108,047,986	\$ 109,178,547
Gross profit	\$ 28,875,395	\$ 27,838,891	\$ 28,184,087	\$ 28,561,465
(Loss) income from continuing operations, net of tax	\$ (1,345,729)	\$ (1,435,829)	\$ 1,453,590	\$ (52,922,043)
Income (loss) from discontinued operations, net of tax	\$ 2,503,763	\$ (21,393)	\$ (538,916)	\$ 337,234
Net income (loss)	<u>\$ 1,158,034</u>	<u>\$ (1,457,222)</u>	<u>\$ 914,674</u>	<u>\$ (52,584,809)</u>
Basic income (loss) per common share from:				
Continuing operations	\$ (0.04)	\$ (0.05)	\$ 0.05	\$ (1.70)
Discontinuing operations	<u>0.08</u>	<u>—</u>	<u>(0.02)</u>	<u>0.01</u>
Net income (loss)	<u><u>\$ 0.04</u></u>	<u><u>\$ (0.05)</u></u>	<u><u>\$ 0.03</u></u>	<u><u>\$ (1.69)</u></u>
Diluted income (loss) per common share from:				
Continuing operations	\$ (0.04)	\$ (0.05)	\$ 0.05	\$ (1.70)
Discontinuing operations	<u>0.08</u>	<u>—</u>	<u>(0.02)</u>	<u>0.01</u>
Net income (loss)	<u><u>\$ 0.04</u></u>	<u><u>\$ (0.05)</u></u>	<u><u>\$ 0.03</u></u>	<u><u>\$ (1.69)</u></u>
	First Quarter	Second Quarter (c)	Third Quarter (c)	Fourth Quarter (c)
<b>2012</b>				
Revenue from services	\$ 109,799,496	\$ 108,847,135	\$ 112,257,707	\$ 111,730,808
Gross profit	\$ 29,049,682	\$ 27,136,129	\$ 27,455,827	\$ 27,943,467
Income (loss) from continuing operations, net of tax	\$ 361,955	\$ (18,841,283)	\$ 719,539	\$ (2,985,180)
(Loss) income from discontinued operations, net of tax	\$ (946,322)	\$ 4,337,450	\$ (18,319,626)	\$ (6,548,030)
Net loss	<u>\$ (584,367)</u>	<u>\$ (14,503,833)</u>	<u>\$ (17,600,087)</u>	<u>\$ (9,533,210)</u>
Basic (loss) income per common share from:				
Continuing operations	\$ 0.01	\$ (0.61)	\$ 0.02	\$ (0.10)
Discontinuing operations	<u>(0.03)</u>	<u>0.14</u>	<u>(0.59)</u>	<u>(0.21)</u>
Net loss	<u><u>\$ (0.02)</u></u>	<u><u>\$ (0.47)</u></u>	<u><u>\$ (0.57)</u></u>	<u><u>\$ (0.31)</u></u>
Diluted (loss) income per common share from:				
Continuing operations	\$ 0.01	\$ (0.61)	\$ 0.02	\$ (0.10)
Discontinuing operations	<u>(0.03)</u>	<u>0.14</u>	<u>(0.59)</u>	<u>(0.21)</u>
Net loss	<u><u>\$ (0.02)</u></u>	<u><u>\$ (0.47)</u></u>	<u><u>\$ (0.57)</u></u>	<u><u>\$ (0.31)</u></u>

- (a) The Company sold its clinical trial services business on February 15, 2013. The clinical trial services business has been classified as discontinued operations. The transaction resulted in a gain on sale of \$3,968,714 pretax, or \$2,055,907 after tax. See Note 3 – Assets Held for Sale and Discontinued Operations.
- (b) On December 2, 2013, the Company acquired the operating assets of On Assignment, Inc.'s Allied Healthcare Staffing division. The acquisition has been accounted for in accordance with FASB ASC Topic 805-*Business Combinations*, using the purchase method. The results of On Assignment's operations have been included in the Company's consolidated statements of operations since December 2, 2013, the date of the acquisition. See Note 5 - Acquisitions. During the fourth quarter of 2013, the Company recorded a deferred tax assets valuation allowance of approximately \$48,406,398 and a trade names impairment charge of \$6,400,000. See Note 12 - Income Taxes and Note 4 - Goodwill, Trade Names and Other Identifiable Intangible Assets.
- (c) During the second, third and fourth quarters of 2012, the Company recorded impairment charges of approximately \$18,732,000, \$23,500,000 and \$11,900,000, respectively. See Note 4 – Goodwill, Trade Names and Other Identifiable Intangible Assets and Note 3 – Assets Held for Sale and Discontinued Operations.

## CROSS COUNTRY HEALTHCARE, INC.

**VALUATION AND QUALIFYING ACCOUNTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

<b>Allowance for Doubtful Accounts</b>	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Write-offs</b>	<b>Recoveries</b>	<b>Other Changes</b>	<b>Balance at End of Period</b>
Year ended December 31, 2013	\$ 1,841,136	\$ 1,078,195	\$ (1,324,027)	\$ 55,669	\$ —	\$ 1,650,973
Year ended December 31, 2012	\$ 2,180,125	\$ 786,107	\$ (912,797)	\$ 16,076	\$ (228,375) (a)	\$ 1,841,136
Year ended December 31, 2011	\$ 3,500,968	\$ 578,805	\$ (1,903,539)	\$ 3,891	\$ —	\$ 2,180,125

**Valuation Allowance for Deferred Tax Assets**

Year ended December 31, 2013	\$ 4,032,912	\$ 48,406,398	(b) \$ (437,723)	(b) \$ —	\$ —	\$ 52,001,587
Year ended December 31, 2012	\$ 3,678,183	\$ 354,729	(c) \$ —	\$ —	\$ —	\$ 4,032,912
Year ended December 31, 2011	\$ 3,311,831	\$ 366,352	(c) \$ —	\$ —	\$ —	\$ 3,678,183

- (a) Represents the reclassification of the allowance for doubtful accounts related to Assets Held for Sale. See Note 3 – Assets Held for Sale and Discontinued Operations.
- (b) Related to deferred tax assets, Cyprus NOL's, and reversal of deferred tax assets related to the clinical trial services business.
- (c) Related to deferred tax assets on state net operating losses and a particular subsidiary's state portion of its deferred tax asset that arose from goodwill impairment.



March 3, 2014

Mr. William Burns  
14648 Beaufort Cir.  
Naples, Florida 34119

Dear Mr. Burns:

Cross Country Healthcare, 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. Employment.**

Your employment will commence on April 1, 2014 (the “Effective Date”). The period of time between the Effective Date and the termination of your employment hereunder will be referred to herein as the “Employment Term.”

**2. Compensation.**

(a) You will be compensated for all services rendered by you under this Agreement at the rate of \$400,000 per annum, payable in such manner as is consistent with the Company’s payroll practices for executive employees. Prior to each anniversary of the Effective Date, the Company’s Board of Directors (the “Board”), or Compensation Committee of the Board (the “Compensation Committee”), will review and consider in its sole discretion whether to increase the base salary payable to you hereunder. Your annual rate of base salary as determined herein from time to time, is hereinafter referred to as the “Base Salary”.

(b) (i) For each calendar year during the Employment Term, you will be eligible to receive a target annual bonus in an amount of 70% of your Base Salary for the applicable year based on the level of achievement performance goals to be established by the Compensation Committee for such year. The level of the performance goals achieved and the amount of the bonus will be determined by the Compensation Committee in its sole discretion. Any bonuses will be paid by the Company no later than March 15 of the year immediately following the applicable bonus period. You must be employed by the Company or its affiliates on the day any bonus is paid to earn any part of that bonus. Your bonus for 2014, if any, will be pro-rated, determined by multiplying the amount of such bonus which would be due for the 2014 year by a fraction, the numerator of which is 275 and the denominator of which is 365.

(ii) For each calendar year during the Employment Term (including 2014), you will also be eligible to receive a long term incentive grant targeted at value of 75% of Base Salary, in accordance with the Company’s long term incentive plan applicable to executives of the Company. Subject to the approval of the Compensation Committee and your actual commencement of employment, you will also receive the following long term incentive award pursuant to the Company’s 2007 Stock Incentive Plan and subject to the provisions of the Company’s standard equity award agreements:

(i) A grant of 20,000 Restricted Shares on April 1, 2014 which will vest as set forth in the Restricted Stock Agreement to be entered into between you and the Company.

### **3. Duties.**

(a) You will initially serve as the Chief Financial Officer of the Company, subject to the direction and control of, and reporting to, the Company's Chief Executive Officer. Your principal office will be located at the Company's principal office in Boca Raton, Florida.

(b) You will devote your full business time, energies and attention to the business and affairs of the Company and its subsidiaries, if any.

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

**4. Benefits.** You will be entitled to such benefits, if any, as are generally provided by the Company to its employees, subject to satisfying the applicable eligibility requirements. The foregoing, however, will 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 will affect this Agreement.

**5. Expenses.** The Company will reimburse you for reasonable expenses, including travel expenses, incurred by you in connection with the business of the Company upon the presentation by you of appropriate substantiation for such expenses in accordance with the Company's expense reimbursement policy. The Company will pay on your behalf or reimburse you for the relocation expenses set forth on Exhibit A attached hereto. If you are terminated for Cause or you elect to voluntarily terminate your employment with the Company without Good Reason during the 24 month period immediately following the Effective Date, you agree to promptly repay the Company for any funds paid to you or on your behalf for the relocation up to and including \$100,000. Such repayment shall be pro rata based on 24 months (e.g. separation after one year would result in a repayment of \$50,000, assuming the full \$100,000 was paid to you).

### **6. Restrictive Covenants.**

(a) **Non-Competition.** During such time as you will be employed by the Company, and for a period of two years thereafter, you will not, without the written consent of the Board, 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 which is conducted in any of the jurisdictions in which the Company's business is conducted and which is competitive with the business in which the Company is engaged; provided, however, that nothing herein will 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.

(b) **Non-Interference.** You agree that during such time as you will be employed by the Company, and for a period of two years thereafter you will not without the written consent of the Board, for your own account or for the account of any other person, interfere with the Company's relationship with any of its suppliers, customers or employees.

(c) **Reformation.** The parties hereto intend that the covenants contained in this Section 6 will 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 will 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 to the maximum extent permitted in such proceeding will, for the purpose of such proceeding, be deemed eliminated from the provisions of this Section 6. For purposes of Section 6, the term "Company" will include the Company and each subsidiary of the Company.

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

(a) **Confidentiality.** In the course of your employment by the Company hereunder, you will have access to confidential or proprietary data or information of the Company and its operations. You

will not at any time divulge or communicate to any person nor will you direct any Company employee to divulge or communicate 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 for the benefit of any other person, any of such data or information. The provisions of this Section 7(a) will 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 will mean information not generally available to the public or generally known within the relevant industry, including, without limitation, personnel information, financial information, customer lists, supplier lists, trade secrets, information regarding operations, systems, services, knowhow, computer and any other processed or collated data, computer programs, pricing, marketing and advertising data.

(b) **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, will 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, programs methods, forms, systems, services, designs, marketing ideas, products or processes (whether or not capable of being trade-marked, copyrighted or patented) conceived or developed or created by you during or in connection with your employment hereunder and which relate to the business of the Company and any subsidiaries or affiliates (“Intellectual Property”). You agree that all such Intellectual Property will be the sole property of the Company. 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 protectable rights in such Intellectual Property.

(c) **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, will be the sole property of the Company, and upon termination of your employment, or upon request of the Company during your employment, you will 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.

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 will 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.

9. **Earlier Termination.** Your employment hereunder will terminate on the following terms and conditions:

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

(b) The Company may terminate your employment upon notice 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 will be deemed to have occurred on the 120<sup>th</sup> day of your absence or lack of adequate performance.

(c) This Agreement will terminate immediately upon the Company’s sending you written notice terminating your employment hereunder for Cause. “Cause” means (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, pleading of guilty or nolo contendere to, or conviction of (x) any felony (other than third degree vehicular infractions), or (y) of any other crime or offense involving misuse or misappropriation of money or other property; (iii) your continued material breach of any obligations 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; or (iv) your gross negligence or willful misconduct with respect to your duties or gross misfeasance of office.

(d) This Agreement will terminate immediately upon (x) the Company's sending you written notice terminating your employment hereunder without Cause for any reason or for no reason, or (y) your delivery to the Company of a written notice of your resignation for Good Reason. "Good Reason" means, if without your written consent, any of the following events occurs that are not cured by the Company within 30 days of written notice specifying the occurrence such Good Reason event, which notice will be given by you to the Company within 90 days after the occurrence of the Good Reason event: (i) a material diminution in your then authority, duties or responsibilities; (ii) a material diminution in your Base Salary; (iii) a relocation of your principal business location to a location more than 50 miles outside of Boca Raton, Florida; or (iv) any material breach of this Agreement by the Company. Your resignation hereunder for Good Reason will not occur later than 180 days following the initial date on which the event you claim constitutes Good Reason occurred. Upon a termination of your employment by the Company without Cause, or your resignation for Good Reason, the Company's sole obligation to you will be to pay or provide to you the Accrued Amounts (as defined below) and, subject to Section 9(f), to pay you continued payments of the Base Salary and benefits in accordance with the Company's regular payroll practices for a period of 12 months following the date of termination (the "Severance Payment"); provided, that the first payment of the Severance Payment will be made on the 90<sup>th</sup> day after the date of termination, and will include payments that were otherwise due prior thereto. Notwithstanding the foregoing, if you are or become eligible for severance benefits under the Company's Executive Severance Plan (as in effect on the Effective Date, as thereafter amended, or any similar plan or arrangement adopted by the Company in replacement thereof, the "Severance Plan") you will cease to be eligible for the Severance Payments and the Company sole obligation will be to pay you the amounts and provide you with the benefits provided in the Severance Plan subject to the terms and conditions thereof§.

(e) Except as specifically set forth in Section 9(d) above, upon termination of your employment for any reason, the Company's obligations hereunder will cease other than to provide you with (collectively, the "Accrued Amounts"):

- (i) any unpaid Base Salary through the date of termination payable in accordance with the Company's regular payroll practices;
- (ii) reimbursement for any unreimbursed business expenses incurred through the date of termination paid promptly in accordance with Sections 5 and 17(b)(iv);
- (iii) payment for any accrued but unused vacation and sick time in accordance with Company policy, payable within thirty (30) days following the termination of the your employment; and
- (iv) all other applicable payments or benefits to which the you may be entitled under, and paid or provided in accordance with, the terms of any applicable compensation arrangement or benefit, equity or fringe benefit plan or program or grant or this Agreement.

(f) The Severance Payment will only be payable to you if within 60 days following the date of termination you execute and deliver to the Company a fully effective and irrevocable release of claims against the Company and related parties, which the Company will provide to you within 7 days following the date of termination.

10. **Representation and Warranty.** The execution, delivery and performance of this Agreement by you will not conflict with or result in a violation of any agreement to which you are a party or any law, regulation or court order applicable to you.

11. **Effectiveness; Entire Agreement; Modification.** This Agreement constitutes the full and complete understanding of the parties and will, on the Effective Date, supersede all prior agreements between the parties with respect to your employment arrangements. 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, or 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 will, 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.

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, will not operate as or be construed as a waiver of any subsequent breach.

14. **Notices.** All notices hereunder will be in writing and will 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, and if to the Company to:

Cross Country Healthcare, Inc.

6551 Park of Commerce Boulevard, N.W.

Boca Raton, FL 33487

Attention: General Counsel

15. **Assignability; Binding Effect.** This Agreement is personal to you and may not be assigned by you. This Agreement will be binding upon and inure to the benefit of you, your legal representatives, heirs and distributees, and will 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 will be construed and governed in accordance with the laws of the State of Florida, without regard to the conflicts or choice of law provisions thereof.

17. **Tax Matters.**

(a) **WITHHOLDING.** The Company may withhold from any and all amounts payable under this Agreement such federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(b) **SECTIONS 409A.**

(i) Although the Company does not guarantee the tax treatment of any payments under this Agreement, the intent of the parties is that payments and benefits under this Agreement comply with, or be exempt from, Code Section 409A and, accordingly, to the maximum extent permitted, this Agreement will be interpreted in accordance with the foregoing. In no event whatsoever will the Company be liable for any additional tax, interest or penalties that may be imposed on the Employee by Code Section 409A or any damages for failing to comply with Code Section 409A.

(ii) Notwithstanding any provision in this Agreement or elsewhere to the contrary, if on your date of termination you are deemed to be a "specified employee" within the meaning of Code Section 409A and using the identification methodology selected by the Company from time to time, or if none, the default methodology under Code Section 409A, any payments or benefits due upon a termination of your employment under any arrangement that constitutes a "deferral of compensation" within the meaning of Code Section 409A (whether under this Agreement, any other plan, program, payroll practice or any equity grant) and which do not otherwise qualify under the exemptions under Treas. Regs. Section 1.409A-1 (including without limitation, the short-term deferral exemption

and the permitted payments under Treas. Regs. Section 1.409A-1(b)(9)(iii)(A)), will be delayed and paid or provided to you in a lump sum (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay), on the earlier of (i) the date which is six months and one day after your separation from service (as such term is defined in Code Section 409A) for any reason other than death, and (ii) the date of your death, and any remaining payments and benefits will be paid or provided in accordance with the normal payment dates specified for such payment or benefit.

(iii) Notwithstanding anything in this Agreement or elsewhere to the contrary, a termination of employment will not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that constitute “non-qualified deferred compensation” within the meaning of Code Section 409A upon or following a termination of your employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms will mean “separation from service” and the date of such separation from service will be the date of termination for purposes of any such payment or benefits.

(iv) Any taxable reimbursement of costs and expenses by the Company provided for under this Agreement will be made in accordance with the Company’s applicable policy and this Agreement but in no event later than December 31 of the calendar year next following the calendar year in which the expenses to be reimbursed are incurred. With regard to any provision in this Agreement that provides for reimbursement of expenses or in-kind benefits, except as permitted by Code Section 409A, (x) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, and (y) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year will not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (y) will not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(v) Whenever a payment under this Agreement may be paid within a specified period, the actual date of payment within the specified period will be within the sole discretion of the Company.

(vi) With regard to any installment payments provided for under this Agreement, each installment thereof will be deemed a separate payment for purposes of Code Section 409A.

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

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

20. **Review of this Agreement.** You acknowledge that you have (a) carefully read this Agreement, (b) had an opportunity to consult with independent counsel with respect to this Agreement and (c) entered into this Agreement of your own free will.

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 will constitute the employment agreement between you and the Company effective and for the term as stated herein

CROSS COUNTRY HEALTHCARE, INC.

By: /s/ William J. Grubbs  
Name: William J. Grubbs  
Title: President and Chief Executive Officer

Agreed as of the date  
first above written:

/s/ William Burns  
William Burns

## EXHIBIT A

The Company will reimburse you for reasonable and customary home relocation expenses preapproved by the CEO for up to and including an aggregate of \$100,000 inclusive of services noted below (but excluding employment taxes and temporary housing):

- Two house hunting trips
- Closing costs of sale of current home
- Closing costs of new home purchase
- Household moving expenses

The Company has a national transportation services agreement in place with Suddath Relocation Systems of Fort Lauderdale/United Van Lines. Your point of contact will be Bruce Smith, 954-520-2106, bsmith@suddath.com.

In addition to the foregoing, the Company will reimburse you for temporary executive housing for 90 days, not to exceed \$3,500 per month. Temporary executive housing shall be arranged with a broker under current contract by the Company. The Company will pay invoices directly for such temporary executive housing.

## TRANSITION AGREEMENT

This Transition Agreement (this "Agreement") is being entered into this 3rd day of March, 2014, by and between Cross Country Healthcare, Inc. (the "Company") and Emil Hensel ("Executive"). Except as otherwise set forth herein, defined terms shall have the meaning set forth in the Agreement, dated June 24, 1999, between the Company and Employee (the "Original Agreement").

### RECITALS

WHEREAS, Executive has been and is employed by the Company in the capacity as Chief Financial Officer;

WHEREAS, Executive has also served as a member of the Company's Board of Directors and as an officer and director of various direct and indirect subsidiaries and controlled affiliates of the Company ("Subsidiaries");

WHEREAS, Executive desires to terminate his employment at the Company and its Subsidiaries;

WHEREAS, the parties desire to provide for the orderly separation of Executive and the effective transition of his duties and responsibilities to a newly appointed person;

NOW THEREFORE, in consideration of the premises and the covenants contained in this Agreement, the sufficiency of which is hereby acknowledged, Executive and the Company agree as follows:

### **1. RESIGNATION:**

(a) **Resignation.** Effective on and as of March 31, 2014 (the "Resignation Date"), Executive hereby resigns (i) as Chief Financial Officer of the Company; and (ii) from all other positions Executive currently holds as an officer of any of the Subsidiaries. In addition, effective on and as of March 7, 2014, Executive hereby resigns from his position as a director of the Company and the Subsidiaries.

(b) **Transition Period.** The period commencing on the Resignation Date and ending on June 3, 2014 shall be referred to herein as the "Transition Period." From April 1, 2014 through April 30, 2014 (the "Initial Period"), Executive shall continue to be employed by the Company on a full-time basis and shall diligently work at the Company's headquarters to transition his prior duties and responsibilities to a newly appointed Chief Financial Officer (CFO). From May 1, 2014 through June 3, 2014 (the "PRN Period"), Executive shall provide transition services as requested by the Company on an as needed basis to complete the transition of the CFO functions to a newly appointed CFO. During the Transition Period, Executive shall remain employed by the Company as a Special Advisor to William J. Grubbs, President and CEO of the Company, however, Executive shall not be an officer of the Company.

(c) **Compliance.** During the Transition Period, Executive shall comply in full with (i) all applicable laws, orders and regulations, (ii) the Company's Code of Ethics, Policies and Guidelines; and (iii) the employee manual in effect for the Company's employees.

(d) **Payments.** In exchange for Executive's covenants and agreements contained in this Agreement and the Release attached hereto as Exhibit "A," the Company shall pay Executive an aggregate amount equal to twelve (12) months of Executive's base salary (\$357,706.00), less all lawful deductions (the "Consideration"). The Consideration shall be paid as follows:

(i) During the Transition Period, Executive shall continue to be paid his base salary in the normal course in accordance with the Company's payroll policy, and shall continue to receive all benefits to which Executive is entitled in his current position (but not any accrued but unpaid bonus or other incentive compensation) with the Company; and Executive shall not be entitled to participate in any bonus or incentive compensation program which may be in effect at the Company;

(ii) After the conclusion of the Transition Period and Provided Executive executes and does not revoke the Release attached hereto as Exhibit "A", the Company shall pay to Executive in one (1) lump sum an amount equal to the Consideration, after all lawful deductions, less any amounts paid to Executive pursuant to subparagraph (d)(i) above during the PRN Period upon expiration of the revocation period described in the Release. For clarity purposes, the amount paid to Executive during the Initial Period shall not be deducted from the Consideration.

(e) **Termination of Employment.** Following the last day of the Transition Period, Executive shall no longer be employed by the Company.

(f) **Accrued Vacation Pay.** At the end of the Transition Period, Executive shall be compensated for all accrued but unused vacation and personal time in accordance with the Company's policy.

(g) **Legal Fees.** The Company agrees to reimburse Executive up to \$1,000.00 for legal fees to review this Agreement, subject to reasonable written documentation from a law firm evidencing such fees.

### **2. BENEFITS DUE TO RESIGNATION AND RETIREMENT:**

(a) **Benefits.** At the end of the Transition Period, Employee may elect to continue medical and dental coverage under the Company's then existing benefit plans in accordance with the continuation requirements of COBRA. Employee shall pay for the cost of such elected coverage.

(b) **Equity Grants.** At various times during Executive's employment by the Company, Executive was awarded restricted stock, options and SARs (the "Equity Grants") under the Company's Equity Incentive Plan (the "Plan"). The Company agrees that any portion of the Equity Grants previously scheduled to vest on or before June 2, 2014 shall vest. Any remaining unvested portion of Equity Grants not vested on or before June 2, 2014 shall not be accelerated and shall terminate and be of no further force or effect. Pursuant to the Plan, Equity Grants held by the Executive that have vested on or before June 2, 2014 may be exercised up to and including June 3, 2015 (one year following the end of the Transition Period).

**(c) 401(k) Plan.** Executive and the Company acknowledge and agree that Executive is a participant in the Company's 401(k) Savings Plan (the "401(k) Plan") and that Executive's benefits under the 401(k) Plan shall be determined in accordance with the provisions thereof and any election related thereto. Executive's participation in the 401(k) Plan shall end on his last day of employment. 401(k) deductions will not be deducted from, nor made by the Company with respect to, the consideration set forth in Section 1(d)(ii) above.

**(d) No Further Benefits, Payments, Etc.** Executive acknowledges and agrees that except as expressly provided herein, Executive's coverage or participation under any voluntary deferral plan, benefit plan, program, policy or arrangement sponsored or maintained by the Company shall cease and be terminated as of the end of the Transition Period. Executive further acknowledges and agrees that no payment made by the Company pursuant to this Agreement is subject to any employer matching obligation or any other employer contribution under any benefit or deferred compensation plan, whether or not any such payment is characterized as wages or other compensation.

### **3. RELEASE.**

This Agreement supercedes the Original Agreement which shall be deemed terminated in full and of no further force or effect.

### **4. ON-GOING RESTRICTIONS ON EXECUTIVE'S ACTIVITIES.**

**(a) Non-Compete.** During the term of your employment by the Company, and for a period of one year thereafter (June 3, 2015), Executive shall not, without the written consent of the Company's Board of Directors, 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 which is conducted in any jurisdictions in which the Company's business is conducted and which is competitive with the business in which the Company is engaged at the time your employment with the Company ceases; provided, however, that: (a) nothing herein shall prevent Executive from acquiring up to 3% of the securities of any company listed on a national exchange or quoted on the NASDAQ quotation system, provided his involvement with any such company is solely that of a stockholder. The parties hereto intend that the covenant contained in this Section 4 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 4 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 4.

**(b) Confidentiality.** In the course of Executive's employment by the Company, Executive has had access to confidential or proprietary data or information of the Company. Executive will not divulge or communicate to any person nor shall Executive direct any Company employee to divulge or communicate to any person (other than to a person bound by confidentiality obligations similar to those contained herein and other than as necessary in performing his duties during his employment) or use to the detriment of the Company or for the benefit of any other person, any of such data or information. The term "confidential or proprietary data or information" as used in this Agreement shall mean information not generally available to the public or generally known within the staffing industry, including, but not limited to, personnel information, financial information, customer lists, supplier lists, trade secrets, information regarding operations, systems services, knowhow, computer and any other processed or collated data, computer programs, pricing, marketing and advertising data.

**(c) Non-Interference.** Executive will not at any time during the Transition Period or thereafter, of his own account or for the account of any other person, tortuously interfere with the Company's relationship with any of its suppliers, customer or employees.

**(d) Property.** Executive agrees that any inventions, improvements or procedural or methodological innovations, programs methods, forms, systems, services, designs, marketing ideas, products or processed (whether capable of being trademarked, copyrighted or patented) conceived or developed by Executive during his employment and which relate to the business of the Company and/or any of the Subsidiaries, are and shall remain the sole property of the Company. Executive will, upon request, execute any such instruments and perform such acts as may reasonably be requested by the Company to transfer and perfect in the Company all legally protective rights in such property. In addition, Executive shall promptly deliver any and all Company related property and materials in his possession (written, electronic or otherwise) to the Company no later than the last day of the Transition Period.

**(e) Equitable Relief.** With respect to the covenants contained in this Section 4, Executive agrees that any remedy at law for any breach of such covenant(s) may be inadequate and that the Company shall be entitled to specific performance or any other mode of injunctive relief and/or equitable relief to enforce its rights hereunder or any other relief a court may award.

### **5. GENERAL PROVISIONS**

**(a) Consideration.** The parties to this Agreement acknowledge the receipt and sufficiency of the Consideration for both the Transition Period and the Release attached hereto as Exhibit "A" to this Agreement and intend this Agreement to be legally binding.

**(b) Amendments and Waivers.** Any provision of this Agreement may be amended or waived but only if the amendment or waiver is in writing and signed, in the case of an amendment, by all of the parties, or, in the case of a waiver, by the party that would have benefited from the provision waived.

**(c) Severability.** If any provision of this Agreement is found by any court of competent jurisdiction (or legally empowered agency) to be illegal, invalid or unenforceable for any reason, then (i) the provision will be amended automatically to the minimum extent necessary to cure the illegality or invalidity and permit enforcement and (ii) the remainder of this Agreement will not be affected. In particular, it is the parties' intention that Section 4 be enforced to the maximum extent permitted by law.

**(d) Governing Law.** This Agreement shall be governed and conformed in accordance with the laws of the state of Florida without regard to its conflict of laws provision. In the event Executive or the Company breaches any provision of this Agreement, Executive and the Company affirm that either may institute an action to specifically enforce any term or terms of this Agreement. Should any provision of this Agreement be declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, excluding the

general release language, such provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect. This Agreement may not be modified, altered or changed except upon express written consent of both parties wherein specific reference is made to this Agreement. This Agreement sets forth the entire agreement between the parties hereto, and fully supersedes any prior obligation of Executive and the Company under any prior agreements, including the Original Agreement.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have executed this Agreement as set forth below.

CROSS COUNTRY HEALHCARE, INC.      EXECUTIVE

By: /s/ William J. Grubbs

Name: William J. Grubbs

Title: President and CEO

By: /s/ Emil Hensel

Name: Emil Hensel

Title: Chief Financial Officer

**ANNEX A**

**RELEASE**

In exchange for the Consideration described in the Transition Agreement to which this Release is an Exhibit, (except as to the obligations set forth in the Transition Agreement, which shall survive this Release, shall not be deemed waived by this Release and shall remain binding and enforceable despite this Release), the undersigned Executive knowingly and voluntarily releases and forever discharges the Company, its parent corporation, affiliates, subsidiaries, divisions, predecessors, insurers, successors and assigns, and their current and former employees, attorneys, officers, directors and agents thereof, both individually and in their business capacities, and their employee benefit plans and programs and their administrators and fiduciaries (collectively referred to throughout the remainder of this Agreement as the "Releasees"), of and from any and all claims, known and unknown, asserted or unasserted, which Executive has or may have against the Releasees as of the date of execution of this Agreement, including, but not limited to, any alleged violation of:

- Title VII of the Civil Rights Act of 1964, as amended;

- The Civil Rights Act of 1991;
- Sections 1981 through 1988 of Title 42 of the United States Code, as amended;
- The Employee Retirement Income Security Act of 1974 (“ERISA”), as amended (except for any vested benefits under any tax qualified benefit plan);
- The Immigration Reform and Control Act, as amended;
- The Americans with Disabilities Act of 1990 (the “ADEA”), as amended;
- The Age Discrimination in Employment Act of 1967, as amended;
- The Family and Medical Leave Act of 1993, as amended;
- The Fair Labor Standards Act of 1938, as amended;
- The Worker Adjustment and Retraining Notification Act, as amended;
- The Occupational Safety and Health Act, as amended;
- The Sarbanes-Oxley Act of 2002;
- The Florida Civil Rights Act – Fla. Stat. § 760.01, et seq.;
- Florida’s Private-Sector Whistle-blower’s Act – Fla. Stat. § 448.101, et seq.;
- Florida’s Public-Sector Whistle-blower’s Act – Fla. Stat. § 112.3187, et seq.;
- Florida’s Statutory Provision Regarding Retaliation/Discrimination for Filing a Workers Compensation Claim – Fla. Stat. § 440.205;
- Florida’s Statutory Provision Regarding Wage Rate Discrimination Based on Sex – Fla. Stat. § 448.07;
- The Florida Equal Pay Act – Fla. Stat. § 725.07;
- The Florida Omnibus AIDS Act – Fla. Stat. § 760.50;
- Florida’s Statutory Provisions Regarding Employment Discrimination on the Basis of and Mandatory Screening or Testing for Sickle-Cell Trait – Fla. Stat. §§ 448.075, 448.076;
- Florida’s Wage Payment Laws, Fla. Stat. §§ 448.01, 448.08;
- Florida’s Domestic Violence Leave Act – Fla. Stat. §741.313;
- Florida’s Preservation & Protection of Right to Keep & Bear Arms in Motor Vehicles Act – Fla. Stat. §790.251;
- Florida’s Statutory Provision Regarding Termination of Employees who Testify in Judicial Proceedings – Fla. Stat. § 92.57;
- Florida’s General Labor Regulations, Fla. Stat. ch. 448;
- Any other federal, state or local civil or human rights law or any other local, state or federal law, regulation or ordinance;
- Any public policy, contract, tort, or common law; or
- Any claim for costs, fees, or other expenses including attorneys’ fees incurred in these matters.

Notwithstanding the foregoing, nothing in this Agreement is intended to interfere with Executive’s right to file a charge with the Equal Employment Opportunity Commission (“EEOC”) in connection with any claim Executive believes he may have against any Releasee. However, by executing this Agreement, Executive hereby waives the right to recover in any proceeding Executive may bring before the EEOC or any state human rights commission or in any proceeding brought by the EEOC or any state human rights commission on Employee’s behalf.

Executive acknowledges and agrees that he has been advised in writing to consult with an attorney and has had the opportunity to seek legal advice before executing this Release. Executive acknowledges and agrees that he has been afforded at least twenty-one (21) days to consider the meaning and preclusive effect of this Release and is entering into it freely and knowingly. Executive acknowledges and agrees that he may revoke this Release for a period of seven (7) calendar days from the day he executes this Release. Any revocation within this period must be submitted, in writing, to Susan Ball, General Counsel for the Company and state, “I hereby revoke my Release.” The revocation must be personally delivered or mailed and postmarked within seven (7) calendar days of execution of this Release. This Release shall not become effective or enforceable until the revocation period has expired. If the last day of the revocation period is a Saturday, Sunday, or legal holiday in Florida, then the revocation period shall not expire until the next following day which is not a Saturday, Sunday, or legal holiday.

ACCEPTED AND AGREED TO THIS  
\_\_\_\_ DAY OF JUNE, 2014

EXECUTIVE

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Emil Hensel

## LIST OF SUBSIDIARIES

Subsidiary	Place of Incorporation
Assignment America, LLC	Delaware
Cejka Search, Inc.	Delaware
Credent Verification and Licensing Services, LLC	Delaware
Cross Country Healthcare UK Holdco Limited *	United Kingdom
Cross Country Holdco (Cyprus) Limited	Cyprus
Cross Country Infotech, Pvt. Ltd.	India
Cross Country Education, Inc. *	Canada
Cross Country Education, LLC	Delaware
Cross Country Publishing, LLC	Delaware
Cross Country Staffing, Inc.	Delaware
Jamestown Indemnity, Ltd.	Cayman Islands
Local Staff, LLC	Delaware
MDA Holdings, Inc.	Delaware
Medical Doctor Associates, LLC	Delaware
Travel Staff, LLC	Delaware

- (a) On February 15, 2013, the Company, together with Local Staff, LLC and Cross Country Healthcare UK HoldCo Ltd. sold the issued and outstanding membership interests of ClinForce, LLC and the issued and outstanding shares of capital stock of Akos Limited. Both Metropolitan Research Associates, Inc. and Assent Consulting were wholly owned by ClinForce, LLC.
- (b) On December 31, 2013, CC Local, Inc. was dissolved under the laws of the State of Delaware.
- (c) On December 31, 2013, MRA Search, Inc. was merged with and into Cross Country Staffing, Inc. with Cross Country Staffing, Inc. as the surviving company.
- (d) On December 31, 2013, MCVT, Inc. was merged with and into Cross Country Staffing, Inc. with Cross Country Staffing, Inc. as the surviving company.
- (e) On December 31, 2013Allied Health Group, LLC was merged with and into Medical Doctor Associates, LLC, with Medical Doctor Associates, LLC as the surviving company.

\* Currently being liquidated or dissolved.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-74862) pertaining to Cross Country Healthcare, Inc. Amended and Restated 1999 Stock Option Plan and Cross Country Healthcare, Inc. Amended and Restated Equity Participation Plan; and
- (2) Registration Statement (Form S-8 No. 333-145484) pertaining to Cross Country Healthcare, Inc. 2007 Stock Incentive Plan;

of our reports dated March 17, 2014, with respect to the consolidated financial statements and schedule of Cross Country Healthcare, Inc., and the effectiveness of internal control over financial reporting of Cross Country Healthcare, Inc. included in this Annual Report (Form 10-K) of Cross Country Healthcare, Inc. for the year ended December 31, 2013.

/s/ ERNST & YOUNG LLP  
Certified Public Accountants

Boca Raton, Florida

March 17, 2014

**CERTIFICATION**

I, William J. Grubbs, certify that:

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

Date: March 17, 2014

/s/ William J. Grubbs

William J. Grubbs  
President and Chief Executive Officer

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**CERTIFICATION**

I, Emil Hensel, certify that:

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

Date: March 17, 2014

/s/ Emil Hensel

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Emil Hensel  
Chief Financial Officer

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

In connection with the accompanying Annual Report on Form 10-K of Cross Country Healthcare, Inc. (the Company) for the year ended December 31, 2013, (the "Periodic Report"), I, William J. Grubbs, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 17, 2014

/s/ William J. Grubbs

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William J. Grubbs  
Chief Executive Officer

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

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

In connection with the accompanying Annual Report on Form 10-K of Cross Country Healthcare, Inc. (the "Company") for the year ended December 31, 2013, (the "Periodic Report"), I, Emil Hensel, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 17, 2014

/s/ Emil Hensel

Emil Hensel  
Chief Financial Officer

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