

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2019

Or

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



CROSS COUNTRY HEALTHCARE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

0-33169
Commission
file number

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

5201 Congress Avenue, Suite 100B
Boca Raton, Florida 33487
(Address of principal executive offices)(Zip Code)
(561) 998-2232
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|--------------------------------------------|----------------|-------------------------------------------|
| Common stock, par value \$0.0001 per share | CCRN | The NASDAQ Stock Market |

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

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

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

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

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

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

The registrant had outstanding 36,890,296 shares of Common Stock, par value \$0.0001 per share, as of July 26, 2019.

INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-Q contains statements relating to our future results (including certain projections and business trends) that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the “safe harbor” created by those sections. Forward-looking statements consist of statements that are predictive in nature, depend upon or refer to future events. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, “suggests”, “appears”, “seeks”, “will”, and variations of such words and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following: our ability to attract and retain qualified nurses, physicians and other healthcare personnel, costs and availability of short-term housing for our travel healthcare professionals, demand for the healthcare services we provide, both nationally and in the regions in which we operate, the functioning of our information systems, the effect of cyber security risks and cyber incidents on our business, the effect of existing or future government regulation and federal and state legislative and enforcement initiatives on our business, our clients’ ability to pay us for our services, our ability to successfully implement our acquisition and development strategies, including our ability to successfully integrate acquired businesses and realize synergies from such acquisitions, the effect of liabilities and other claims asserted against us, the effect of competition in the markets we serve, our ability to successfully defend the Company, its subsidiaries, and its officers and directors on the merits of any lawsuit or determine its potential liability, if any, and other factors set forth in Item 1.A. “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, as filed and updated in our Quarterly Reports on Form 10-Q and other filings with the Securities and Exchange Commission.

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

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

CROSS COUNTRY HEALTHCARE, INC.

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FORM 10-Q

June 30, 2019

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | June 30, 2019 | December 31, 2018 |
|--------------------------------------------------------------------------------------------------|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 24,830 | \$ 16,019 |
| Accounts receivable, net of allowances of \$3,511 in 2019 and \$3,705 in 2018 | 150,515 | 166,128 |
| Prepaid expenses | 5,706 | 6,208 |
| Insurance recovery receivable | 4,462 | 4,186 |
| Other current assets | 1,729 | 2,364 |
| Total current assets | 187,242 | 194,905 |
| Property and equipment, net of accumulated depreciation of \$35,639 in 2019 and \$33,476 in 2018 | 12,928 | 13,628 |
| Operating lease right-of-use assets | 20,254 | — |
| Goodwill | 101,177 | 101,060 |
| Trade names, indefinite-lived | 5,900 | 20,402 |
| Other intangible assets, net | 50,810 | 55,182 |
| Non-current deferred tax assets | — | 23,750 |
| Other non-current assets | 18,657 | 18,076 |
| Total assets | \$ 396,968 | \$ 427,003 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 50,180 | \$ 43,744 |
| Accrued compensation and benefits | 34,577 | 33,332 |
| Current portion of long-term debt | — | 5,235 |
| Operating lease liabilities - current | 5,132 | — |
| Other current liabilities | 4,255 | 3,075 |
| Total current liabilities | 94,144 | 85,386 |
| Long-term debt, less current portion | 70,613 | 77,944 |
| Non-current deferred tax liabilities | 7,791 | — |
| Operating lease liabilities - non-current | 21,447 | — |
| Long-term accrued claims | 29,764 | 29,299 |
| Other long-term liabilities | 8,521 | 16,176 |
| Total liabilities | 232,280 | 208,805 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock | 4 | 4 |
| Additional paid-in capital | 303,795 | 303,048 |
| Accumulated other comprehensive loss | (2,335) | (1,462) |
| Accumulated deficit | (137,503) | (84,062) |
| Total Cross Country Healthcare, Inc. stockholders' equity | 163,961 | 217,528 |
| Noncontrolling interest in subsidiary | 727 | 670 |
| Total stockholders' equity | 164,688 | 218,198 |
| Total liabilities and stockholders' equity | \$ 396,968 | \$ 427,003 |

See accompanying notes to the condensed consolidated financial statements

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

| | Three Months Ended | | Six Months Ended | |
|---------------------------------------------------------------------------|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Revenue from services | \$ 202,757 | \$ 204,572 | \$ 397,928 | \$ 414,860 |
| Operating expenses: | | | | |
| Direct operating expenses | 151,169 | 150,883 | 298,086 | 307,418 |
| Selling, general and administrative expenses | 45,944 | 45,284 | 91,980 | 90,918 |
| Bad debt expense | 645 | 611 | 915 | 810 |
| Depreciation and amortization | 3,557 | 2,963 | 6,541 | 5,872 |
| Acquisition-related contingent consideration | 253 | 220 | 500 | 433 |
| Acquisition and integration costs | 46 | 76 | 311 | 191 |
| Restructuring costs | 137 | 193 | 1,277 | 628 |
| Legal settlement charges | 1,600 | — | 1,600 | — |
| Impairment charges | 14,502 | — | 14,502 | — |
| Total operating expenses | 217,853 | 200,230 | 415,712 | 406,270 |
| (Loss) income from operations | (15,096) | 4,342 | (17,784) | 8,590 |
| Other expenses (income): | | | | |
| Interest expense | 1,438 | 1,447 | 2,860 | 2,713 |
| Loss on early extinguishment of debt | 54 | — | 414 | — |
| Other income, net | (76) | (98) | (158) | (199) |
| (Loss) income before income taxes | (16,512) | 2,993 | (20,900) | 6,076 |
| Income tax expense | 34,758 | 1,169 | 31,746 | 2,332 |
| Consolidated net (loss) income | (51,270) | 1,824 | (52,646) | 3,744 |
| Less: Net income attributable to noncontrolling interest in subsidiary | 404 | 285 | 795 | 563 |
| Net (loss) income attributable to common shareholders | \$ (51,674) | \$ 1,539 | \$ (53,441) | \$ 3,181 |
| Net (loss) income per share attributable to common shareholders - Basic | \$ (1.44) | \$ 0.04 | \$ (1.49) | \$ 0.09 |
| Net (loss) income per share attributable to common shareholders - Diluted | \$ (1.44) | \$ 0.04 | \$ (1.49) | \$ 0.09 |
| Weighted average common shares outstanding: | | | | |
| Basic | 35,824 | 35,652 | 35,763 | 35,727 |
| Diluted | 35,824 | 35,832 | 35,763 | 35,959 |

See accompanying notes to the condensed consolidated financial statements

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

| | Three Months Ended | | Six Months Ended | |
|--------------------------------------------------------------------------------|--------------------|-----------------|--------------------|-----------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Consolidated net (loss) income | \$ (51,270) | \$ 1,824 | \$ (52,646) | \$ 3,744 |
| Other comprehensive (loss) income, before income tax: | | | | |
| Unrealized foreign currency translation gain (loss) | 1 | (63) | 73 | (90) |
| Unrealized (loss) gain on interest rate contracts | (624) | 247 | (974) | 19 |
| Reclassification adjustment to interest expense | 16 | 86 | 28 | 86 |
| | <u>(607)</u> | <u>270</u> | <u>(873)</u> | <u>15</u> |
| Taxes on other comprehensive (loss) income: | | | | |
| Income tax effect related to foreign currency translation adjustments | — | (13) | 18 | (17) |
| Income tax effect related to unrealized (loss) gain on interest rate contracts | (158) | 62 | (246) | 5 |
| Income tax expense related to reclassification adjustment to interest expense | 4 | 22 | 7 | 22 |
| Valuation allowance adjustment | 221 | — | 221 | — |
| | <u>67</u> | <u>71</u> | <u>—</u> | <u>10</u> |
| Other comprehensive (loss) income, net of tax | <u>(674)</u> | <u>199</u> | <u>(873)</u> | <u>5</u> |
| Comprehensive (loss) income | (51,944) | 2,023 | (53,519) | 3,749 |
| Less: Net income attributable to noncontrolling interest in subsidiary | 404 | 285 | 795 | 563 |
| Comprehensive (loss) income attributable to common shareholders | <u>\$ (52,348)</u> | <u>\$ 1,738</u> | <u>\$ (54,314)</u> | <u>\$ 3,186</u> |

See accompanying notes to the condensed consolidated financial statements

CROSS COUNTRY HEALTHCARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three months ended June 30, 2019 and 2018
(Unaudited, amounts in thousands)

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Loss, net | (Accumulated Deficit) Retained Earnings | Noncontrolling Interest in Subsidiary | Stockholders' Equity |
|----------------------------------------------------------|--------------|---------|----------------------------------|-------------------------------------------------|-----------------------------------------------|------------------------------------------|-------------------------|
| | Shares | Dollars | | | | | |
| Balances at March 31, 2019 | 35,806 | \$ 4 | \$ 302,802 | \$ (1,661) | \$ (85,829) | \$ 694 | \$ 216,010 |
| Exercise of share options | 5 | — | — | — | — | — | — |
| Vesting of restricted stock and performance stock awards | 49 | — | (11) | — | — | — | (11) |
| Equity compensation | — | — | 1,004 | — | — | — | 1,004 |
| Foreign currency translation adjustment, net of taxes | — | — | — | 19 | — | — | 19 |
| Net change in hedging transaction, net of taxes | — | — | — | (693) | — | — | (693) |
| Distribution to noncontrolling shareholder | — | — | — | — | — | (371) | (371) |
| Net (loss) income | — | — | — | — | (51,674) | 404 | (51,270) |
| Balances at June 30, 2019 | 35,860 | \$ 4 | \$ 303,795 | \$ (2,335) | \$ (137,503) | \$ 727 | \$ 164,688 |

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Loss, net | (Accumulated Deficit) Retained Earnings | Noncontrolling Interest in Subsidiary | Stockholders' Equity |
|----------------------------------------------------------|--------------|---------|----------------------------------|-------------------------------------------------|-----------------------------------------------|------------------------------------------|-------------------------|
| | Shares | Dollars | | | | | |
| Balances at March 31, 2018 | 35,706 | \$ 4 | \$ 302,325 | \$ (1,360) | \$ (65,469) | \$ 601 | \$ 236,101 |
| Exercise of share options | 8 | — | — | — | — | — | — |
| Vesting of restricted stock and performance stock awards | 49 | — | (71) | — | — | — | (71) |
| Equity compensation | — | — | 914 | — | — | — | 914 |
| Stock repurchase and retirement | (157) | — | (1,815) | — | — | — | (1,815) |
| Foreign currency translation adjustment, net of taxes | — | — | — | (49) | — | — | (49) |
| Net change in hedging transaction, net of taxes | — | — | — | 249 | — | — | 249 |
| Distribution to noncontrolling shareholder | — | — | — | — | — | (282) | (282) |
| Net income | — | — | — | — | 1,539 | 285 | 1,824 |
| Balances at June 30, 2018 | 35,606 | \$ 4 | \$ 301,353 | \$ (1,160) | \$ (63,930) | \$ 604 | \$ 236,871 |

See accompanying notes to the condensed consolidated financial statements

CROSS COUNTRY HEALTHCARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Six months ended June 30, 2019 and 2018
(Unaudited, amounts in thousands)

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Loss, net | (Accumulated Deficit) Retained Earnings | Noncontrolling Interest in Subsidiary | Stockholders' Equity |
|----------------------------------------------------------|--------------|---------|----------------------------------|-------------------------------------------------|-----------------------------------------------|------------------------------------------|-------------------------|
| | Shares | Dollars | | | | | |
| Balances at December 31, 2018 | 35,626 | \$ 4 | \$ 303,048 | \$ (1,462) | \$ (84,062) | \$ 670 | \$ 218,198 |
| Exercise of share options | 9 | — | — | — | — | — | — |
| Vesting of restricted stock and performance stock awards | 225 | — | (788) | — | — | — | (788) |
| Equity compensation | — | — | 1,535 | — | — | — | 1,535 |
| Foreign currency translation adjustment, net of taxes | — | — | — | 72 | — | — | 72 |
| Net change in hedging transaction, net of taxes | — | — | — | (945) | — | — | (945) |
| Distribution to noncontrolling shareholder | — | — | — | — | — | (738) | (738) |
| Net (loss) income | — | — | — | — | (53,441) | 795 | (52,646) |
| Balances at June 30, 2019 | 35,860 | \$ 4 | \$ 303,795 | \$ (2,335) | \$ (137,503) | \$ 727 | \$ 164,688 |

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Loss, net | (Accumulated Deficit) Retained Earnings | Noncontrolling Interest in Subsidiary | Stockholders' Equity |
|----------------------------------------------------------|--------------|---------|----------------------------------|-------------------------------------------------|-----------------------------------------------|------------------------------------------|-------------------------|
| | Shares | Dollars | | | | | |
| Balances at December 31, 2017 | 35,838 | \$ 4 | \$ 305,362 | \$ (1,166) | \$ (67,111) | \$ 630 | \$ 237,719 |
| Exercise of share options | 16 | — | — | — | — | — | — |
| Vesting of restricted stock and performance stock awards | 151 | — | (692) | — | — | — | (692) |
| Equity compensation | — | — | 1,383 | — | — | — | 1,383 |
| Stock repurchase and retirement | (399) | — | (4,700) | — | — | — | (4,700) |
| Foreign currency translation adjustment, net of taxes | — | — | — | (72) | — | — | (72) |
| Net change in hedging transaction, net of taxes | — | — | — | 78 | — | — | 78 |
| Distribution to noncontrolling shareholder | — | — | — | — | — | (590) | (590) |
| Net income | — | — | — | — | 3,181 | 564 | 3,745 |
| Balances at June 30, 2018 | 35,606 | \$ 4 | \$ 301,353 | \$ (1,160) | \$ (63,930) | \$ 604 | \$ 236,871 |

See accompanying notes to the condensed consolidated financial statements

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

| | Six Months Ended | |
|------------------------------------------------------------------------------------------|------------------|-----------|
| | June 30, | |
| | 2019 | 2018 |
| Cash flows from operating activities | | |
| Consolidated net (loss) income | \$ (52,646) | \$ 3,744 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,541 | 5,872 |
| Provision for allowances | 1,962 | 2,371 |
| Deferred income tax expense | 31,425 | 1,868 |
| Non-cash lease expense | 2,524 | — |
| Impairment charges | 14,502 | — |
| Equity compensation | 1,535 | 1,383 |
| Other non-cash costs | 1,167 | 651 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 13,651 | 8,808 |
| Prepaid expenses and other assets | (27) | (999) |
| Accounts payable and accrued expenses | 7,669 | (4,930) |
| Operating lease liabilities | (2,832) | — |
| Other | (329) | (829) |
| Net cash provided by operating activities | 25,142 | 17,939 |
| Cash flows from investing activities | | |
| Acquisition-related settlements | (110) | (26) |
| Purchases of property and equipment | (1,564) | (2,289) |
| Net cash used in investing activities | (1,674) | (2,315) |
| Cash flows from financing activities | | |
| Principal payments on Term Loan | (12,500) | (2,500) |
| Stock repurchase and retirement | — | (4,700) |
| Other | (2,178) | (1,366) |
| Net cash used in financing activities | (14,678) | (8,566) |
| Effect of exchange rate changes on cash | 21 | (36) |
| Change in cash and cash equivalents | 8,811 | 7,022 |
| Cash and cash equivalents at beginning of period | 16,019 | 25,537 |
| Cash and cash equivalents at end of period | \$ 24,830 | \$ 32,559 |

See accompanying notes to the condensed consolidated financial statements

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

1. ORGANIZATION AND BASIS OF PRESENTATION

Nature of Business

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

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by United States generally accepted accounting principles (U.S. GAAP) for complete financial statements. These operating results are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The December 31, 2018 condensed consolidated balance sheet included herein was derived from the December 31, 2018 audited consolidated balance sheet included in the Company's Annual Report on Form 10-K.

Certain prior year amounts have been reclassified to conform to the current year presentation on the condensed consolidated balance sheets, and as presented in Note 3 - Revenue Recognition and Note 13 - Segment Data.

Liquidity and Operations

The Company made \$12.5 million in optional debt prepayments during the first half of 2019 and, as a result, no further debt payments are required through December 31, 2020. As of June 30, 2019, the Company was in compliance with the covenants contained in its Credit Agreement, which consist of leverage, fixed charge coverage, and asset coverage ratios. Based on the terms of the Credit Agreement, the fixed charge coverage ratio does not permit the Company to reflect the impact of debt prepayments made during 2019. As of June 30, 2019, the Company believes its financial results, based upon its projections as well as the further cost actions it can take, will be sufficient to maintain compliance with the financial covenants and meet its obligations for the next twelve months. In the event actual results differ significantly from current projections, the Company believes it would be able to either amend its Credit Agreement in conjunction with making additional prepayments, repay its existing senior term loan with other sources of liquidity, or refinance its senior debt entirely.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. Significant estimates and assumptions are used for, but not limited to: (1) the valuation of accounts receivable; (2) goodwill, trade names, and other intangible assets; (3) other long-lived assets; (4) share-based compensation; (5) accruals for health, workers' compensation, and professional liability claims; (6) valuation of deferred tax assets; (7) purchase price allocation; (8) fair value of the interest rate swap agreement; (9) legal contingencies; (10) contingent considerations; (11) income taxes; and (12) sales and other non-income tax liabilities. Accrued insurance claims and reserves include estimated settlements from known claims and actuarial estimates for claims incurred but not reported. Actual results could differ from those estimates.

Restructuring Costs

The Company considers restructuring activities to be programs whereby it fundamentally changes its operations, such as closing and consolidating facilities, reducing headcount, and realigning operations in response to changing market conditions.

As a result, restructuring costs on the consolidated statements of operations include on-going benefit costs for its employees, exit costs, and other costs including write-offs related to abandoned locations.

Effective January 1, 2019, in conjunction with the adoption of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), described below, certain office locations that the Company vacated in connection with restructuring activities were included in the measurement of its beginning operating lease liabilities. Previous accruals related to these locations of \$0.3 million have been presented as a reduction to the operating lease right-of-use assets on the condensed consolidated balance sheets.

Reconciliation of the on-going benefit costs beginning and ending liability balance is presented below:

| | On-Going Benefit Costs | |
|--------------------------------|-------------------------------|-------|
| | (amounts in thousands) | |
| Balance at January 1, 2019 | \$ | 556 |
| Charged to restructuring costs | | 1,104 |
| Payments | | (373) |
| Balance at March 31, 2019 | | 1,287 |
| Charged to restructuring costs | | 137 |
| Payments | | (592) |
| Balance at June 30, 2019 | \$ | 832 |

Recently Adopted Accounting Pronouncements

As of the beginning of the second quarter of 2019, the Company early adopted ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The Company has adopted this guidance prospectively to all implementation costs incurred after the date of adoption with no material impact on its consolidated financial statements.

Effective January 1, 2019, the Company adopted ASU No. 2016-02, *Leases (Topic 842)*, which requires that, as lessee, leases, as defined by the standard, are to be recognized on the balance sheet as right-of-use assets and as lease liabilities. The Company elected not to apply the recognition requirements to short-term leases (leases with terms of twelve months or less), and to apply the transition method, which is applied prospectively, measuring and recognizing the initial right-of-use asset and liability at January 1, 2019, without revising comparative period information or disclosure. In addition, the Company elected the package of transition provisions available for expired or existing contracts, which allowed the Company to forego assessment of: (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. Consistent with current accounting, all of the Company's existing leases identified under ASC 840 will be treated as operating leases. The Company has also elected the practical expedient to not separate non-lease components from the lease components to which they relate, and instead account for each as a single lease component, for all of its underlying asset classes. Accordingly, all expenses associated with a lease contract are accounted for as lease expenses.

As of the later of January 1, 2019 or each lease's respective commencement date, the Company recorded lease liabilities equal to the present value of its remaining minimum lease payments and right-of-use assets equal to the corresponding lease liability adjusted for any prepaid or accrued lease payments and the remaining balance of lease incentives received. At the transition date, the right of use asset and total lease liabilities were \$22.0 million and \$28.6 million, respectively. The difference between the right-of-use-asset and lease liabilities is due to the derecognition of accrued lease payments of \$7.2 million, previously included in other current and non-current liabilities, and prepaid rent of \$0.6 million, previously included in prepaid expenses. See Note 10 - Leases.

3. REVENUE RECOGNITION

The Company's revenues, generated from temporary staffing services and other services, are disaggregated by segment in the following table. Sales and usage-based taxes are excluded from revenue.

Three Months ended June 30, 2019

| | Nurse And Allied Staffing | Physician Staffing | Search | Total Segments |
|-----------------------------|---------------------------------|-----------------------|-----------------|-------------------|
| | (amounts in thousands) | | | |
| Temporary Staffing Services | \$ 177,733 | \$ 16,827 | \$ — | \$ 194,560 |
| Other Services | 3,054 | 1,201 | 3,942 | 8,197 |
| Total | \$ 180,787 | \$ 18,028 | \$ 3,942 | \$ 202,757 |

Three Months ended June 30, 2018

| | Nurse And Allied Staffing | Physician Staffing | Search | Total Segments |
|-----------------------------|---------------------------------|-----------------------|-----------------|-------------------|
| | (amounts in thousands) | | | |
| Temporary Staffing Services | \$ 175,692 | \$ 19,943 | \$ — | \$ 195,635 |
| Other Services | 3,242 | 1,391 | 4,304 | 8,937 |
| Total | \$ 178,934 | \$ 21,334 | \$ 4,304 | \$ 204,572 |

Six Months ended June 30, 2019

| | Nurse And Allied Staffing | Physician Staffing | Search | Total Segments |
|-----------------------------|---------------------------------|-----------------------|-----------------|-------------------|
| | (amounts in thousands) | | | |
| Temporary Staffing Services | \$ 350,396 | \$ 31,981 | \$ — | \$ 382,377 |
| Other Services | 6,028 | 2,206 | 7,317 | 15,551 |
| Total | \$ 356,424 | \$ 34,187 | \$ 7,317 | \$ 397,928 |

Six Months ended June 30, 2018

| | Nurse And Allied Staffing | Physician Staffing | Search | Total Segments |
|-----------------------------|---------------------------------|-----------------------|-----------------|-------------------|
| | (amounts in thousands) | | | |
| Temporary Staffing Services | \$ 356,837 | \$ 40,173 | \$ — | \$ 397,010 |
| Other Services | 6,706 | 2,721 | 8,423 | 17,850 |
| Total | \$ 363,543 | \$ 42,894 | \$ 8,423 | \$ 414,860 |

Accounts receivable includes estimated revenue for the Company's employees', subcontracted employees', and independent contractors' time worked but not yet invoiced. At June 30, 2019 and December 31, 2018, the Company's estimate of amounts that had been worked but had not been billed totaled \$43.0 million and \$44.1 million, respectively, and are included in accounts receivable on the Company's condensed consolidated balance sheets.

4. ACQUISITIONS

Advantage RN

Effective July 1, 2017, the Company acquired all of the assets of Advantage RN, LLC and its subsidiaries (collectively, Advantage) for cash consideration of \$86.6 million, net of cash acquired. The total purchase price of \$88.0 million was subject to a net working capital reduction of \$0.6 million at the closing and an additional \$0.8 million was received during the third quarter of 2017 as the final adjustment for net working capital. Additionally, \$0.6 million of the purchase price was deferred as of the closing and was due to the seller within 20 months, less any Cobra and healthcare payments incurred by the Company on behalf of the seller. The Company incurred approximately \$0.5 million in COBRA expenses since the Advantage acquisition and, in February 2019, released to the seller the remaining liability of \$0.1 million.

Included in the amount paid at closing were two escrow accounts, the first was \$14.5 million which related to tax liabilities and the second was \$7.5 million which was to cover any post-close liabilities. On July 28, 2017, \$7.3 million related to the tax liabilities was released from escrow, leaving a balance of \$7.2 million. On April 3, 2019, \$4.3 million related to the tax liabilities was disbursed to pay taxes and the remaining \$2.9 million was released from escrow to the seller. In the first quarter of 2019, \$7.0 million related to the post-close liabilities was released from escrow, leaving a balance of \$0.5 million to cover pending post-close liabilities.

Mediscan

On October 30, 2015, the Company completed the acquisition of all of the membership interests of New Mediscan II, LLC, Mediscan Diagnostic Services, LLC, and Mediscan Nursing Staffing, LLC (collectively, Mediscan). In connection with the Mediscan acquisition, the Company assumed contingent purchase price liabilities for a previously acquired business that are payable annually based on specific performance criteria for the years 2016 through 2019. Payments related to the years 2016 through 2018 were limited to \$0.3 million annually and 2019 is uncapped. During each of the six months ended June 30, 2019 and 2018, the Company paid \$0.1 million related to the years 2018 and 2017. As of June 30, 2019, the fair value of the remaining obligations was estimated at \$8.1 million and is included in other current and other long-term liabilities on the condensed consolidated balance sheets. See Note 11 - Fair Value Measurements.

5. COMPREHENSIVE INCOME

Total comprehensive income (loss) includes net income or loss, foreign currency translation adjustments, and net change in derivative transactions, net of any related deferred taxes, if applicable. Certain of the Company's foreign subsidiaries use their respective local currency as their functional currency. In accordance with the *Foreign Currency Matters* Topic of the FASB ASC, assets and liabilities of these operations are translated at the exchange rates in effect on the balance sheet date. Income statement items are translated at the average exchange rates for the period. The cumulative impact of currency fluctuations related to the balance sheet translation is included in accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets and was an unrealized loss of \$1.2 million at June 30, 2019 and \$1.3 million at December 31, 2018. The cumulative impact of net changes in derivative instruments included in accumulated other comprehensive loss in the condensed consolidated balance sheets was an unrealized loss of \$1.1 million at June 30, 2019 and \$0.2 million at December 31, 2018. See Note 9 - Derivative.

The income tax impact related to components of other comprehensive (loss) income for the three and six months ended June 30, 2019 and 2018 is reflected on the condensed consolidated statements of comprehensive (loss) income. During the three and six months ended June 30, 2019, the Company established a valuation allowance on its deferred tax assets. As a result, the first quarter's tax impact recorded through other comprehensive income was reversed.

6. EARNINGS PER SHARE

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

| | Three Months Ended | | Six Months Ended | |
|---------------------------------------------------------------------------|-----------------------------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| | (amounts in thousands, except per share data) | | | |
| Numerator: | | | | |
| Net (loss) income attributable to common shareholders - Basic and Diluted | \$ (51,674) | \$ 1,539 | \$ (53,441) | \$ 3,181 |
| Denominator: | | | | |
| Weighted average common shares - Basic | 35,824 | 35,652 | 35,763 | 35,727 |
| Effective of diluted shares: | | | | |
| Share-based awards | — | 180 | — | 232 |
| Weighted average common shares - Diluted | 35,824 | 35,832 | 35,763 | 35,959 |
| Net (loss) income per share attributable to common shareholders - Basic | \$ (1.44) | \$ 0.04 | \$ (1.49) | \$ 0.09 |
| Net (loss) income per share attributable to common shareholders - Diluted | \$ (1.44) | \$ 0.04 | \$ (1.49) | \$ 0.09 |

For the three and six months ended June 30, 2019 and 2018, no tax benefits were assumed in the weighted average share calculation due to the Company's net operating loss position.

Due to the net loss for the three and six months ended June 30, 2019, 117,259 and 107,222 shares, respectively, were excluded from diluted weighted average shares.

7. GOODWILL, TRADE NAMES, AND OTHER INTANGIBLE ASSETS

The Company had the following acquired intangible assets:

| | June 30, 2019 | | | December 31, 2018 | | |
|------------------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| (amounts in thousands) | | | | | | |
| Intangible assets subject to amortization: | | | | | | |
| Databases | \$ 30,530 | \$ 10,743 | \$ 19,787 | \$ 30,530 | \$ 9,216 | \$ 21,314 |
| Customer relationships | 49,758 | 24,946 | 24,812 | 49,758 | 23,296 | 26,462 |
| Non-compete agreements | 320 | 129 | 191 | 320 | 97 | 223 |
| Trade names | 8,800 | 2,780 | 6,020 | 8,879 | 1,696 | 7,183 |
| Other intangible assets, net | <u>\$ 89,408</u> | <u>\$ 38,598</u> | <u>\$ 50,810</u> | <u>\$ 89,487</u> | <u>\$ 34,305</u> | <u>\$ 55,182</u> |
| Intangible assets not subject to amortization: | | | | | | |
| Trade names, indefinite-lived | | | 5,900 | | | 20,402 |
| | | | <u>\$ 56,710</u> | | | <u>\$ 75,584</u> |

As of June 30, 2019, estimated annual amortization expense is as follows:

| Years Ending December 31: | (amounts in thousands) |
|---------------------------|------------------------|
| 2019 | \$ 3,876 |
| 2020 | 7,056 |
| 2021 | 6,848 |
| 2022 | 6,772 |
| 2023 | 6,669 |
| Thereafter | <u>19,589</u> |
| | <u>\$ 50,810</u> |

Trade names and other intangible assets

As part of evolving its go-to-market strategy, in the second quarter of 2019, the Company began eliminating certain brands across all of its segments. The Company's rebranding efforts resulted in a \$14.5 million write-off of indefinite-lived trade names related to its Nurse and Allied Staffing business segment, which is presented as impairment charges on the condensed consolidated statements of operations. In addition, certain finite-lived trade names were accelerated, which resulted in additional amortization expense related to its Nurse and Allied Staffing and Physician Staffing business segments of \$0.1 million and \$0.5 million, respectively.

Goodwill

As of June 30, 2019, the Company performed a qualitative assessment of each of its reporting units and determined it was not more likely than not that the fair value of its reporting units dropped below their carrying value. As a result, management concluded that no impairment testing was warranted as of June 30, 2019. Although management believes that the Company's current estimates and assumptions are reasonable and supportable, there can be no assurance that the estimates and assumptions made for purposes of the impairment testing will prove to be accurate predictions of future performance.

As a result of the Company merging its permanent search recruitment brands into its Search segment, \$2.4 million of goodwill was reassigned to its Search reporting unit from Nurse and Allied Staffing. As of June 30, 2019, goodwill by reporting segment

was: \$86.5 million for Nurse and Allied Staffing, \$2.8 million for Physician Staffing, and \$11.9 million for Search, totaling \$101.2 million as of June 30, 2019. See Note 13 - Segment Data.

8. DEBT

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

| | June 30, 2019 | | December 31, 2018 | |
|----------------------------------------------------------------------------------------|------------------------|---------------------|-------------------|---------------------|
| | Principal | Debt Issuance Costs | Principal | Debt Issuance Costs |
| | (amounts in thousands) | | | |
| Term Loan, interest 5.4% and 4.8% at June 30, 2019 and December 31, 2018, respectively | \$ 71,376 | \$ (763) | \$ 83,876 | \$ (697) |
| Less current portion | — | — | (5,235) | — |
| Long-term debt | <u>\$ 71,376</u> | <u>\$ (763)</u> | <u>\$ 78,641</u> | <u>\$ (697)</u> |

Amended and Restated Senior Credit Facility

On March 29, 2019, the Company entered into a Second Amendment (Second Amendment) to its Amended and Restated Credit Agreement that, among other administrative changes, modifies the following: (1) changes the financial leverage ratio from Consolidated Total Leverage to Consolidated Net Leverage and permits a maximum Consolidated Net Leverage Ratio of 4.60:1.00 for the periods of December 31, 2018 through June 30, 2019, 4.25:1.00 for the period ending September 30, 2019, 4.00:1.00 for the period ending December 31, 2019, 3.75:1.00 for the period ending March 31, 2020, 3.50:1.00 for the period ending June 30, 2020, 3.25:1.00 for the period ending September 30, 2020, and maintains 3.00:1.00 for the periods thereafter and as adjusted pursuant to a Specified and Qualified Permitted Acquisition (as defined therein); (2) the Applicable Margin definition has been revised to: modify Level V to be greater than or equal to 3.00:1.00 but less than 3.50:1.00; adds an additional Level VI if the Consolidated Net Leverage is greater than or equal to 3.50:1.00 but less than 4.00:1.00; and adds an additional Level VII if Consolidated Net Leverage Ratio is greater than 4.00:1.00. The added Levels VI and VII result in an increase in the Applicable Margin for borrowing from their respective prior Levels by 25 basis points for each and an increase of 5 basis points to the Commitment Fee for each; (3) adds an additional financial covenant for the quarters ending March 31, 2019 through and including the quarter ending December 31, 2019, that requires the Consolidated Asset Coverage Ratio to be no less than 1.10:1.00; and (4) lowers the Aggregate Revolving Commitments from \$115 million to \$75 million through the exercise of a \$40 million Optional Reduction.

The Second Amendment has been treated as a modification and accordingly, the fees of \$0.6 million paid to the Company's lenders in connection with the amendment are included as \$0.3 million of debt issuance costs associated with the revolving credit agreement, and \$0.3 million as a reduction to the carrying amount of the term loan. The fees will be amortized to interest expense over the term of the arrangement. In addition, in the three months ended March 31, 2019, \$0.3 million of debt issuance costs was written off due to the reduction in borrowing capacity under the revolving credit facility, which is included in loss on early extinguishment on the consolidated statement of operations.

On March 29, 2019 and June 28, 2019, the Company made optional prepayments of \$7.5 million and \$5.0 million, respectively, on its Term Loan, which have been allocated to the next consecutive scheduled quarterly payments resulting in the next seven and a portion of the eighth payment being prepaid. As a result, in the three months ended June 30, 2019, an additional \$0.1 million of debt issuance costs were written off. The Company has the right at any time and from time to time to prepay any borrowing, in whole or in part, without premium or penalty, by giving written notice (or telephonic notice promptly confirmed in writing). The Company is required to prepay its Term Loan and Revolving Credit Facility under certain circumstances including from net cash proceeds from asset sales or dispositions in excess of certain thresholds, as well as from net cash proceeds from the issuance of certain debt by the Company.

As of June 30, 2019, the aggregate scheduled maturities of the term loan are as follows:

| | Term Loan | |
|------------------------------------------|------------------------|--------|
| | (amounts in thousands) | |
| Through Years Ending December 31: | | |
| 2019 | \$ | — |
| 2020 | | — |
| 2021 | | 5,386 |
| 2022 | | 65,990 |
| 2023 | | — |
| Thereafter | | — |
| Total | \$ | 71,376 |

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

As of June 30, 2019, the Amended Term Loan and Amended Revolving Credit Facility bore interest at a rate equal to One Month LIBOR plus 3.00%. The interest rate is subject to an increase of 2.00% if an event of default exists under the Amended and Restated Credit Agreement. The Company is required to pay a commitment fee on the average daily unused portion of the Amended Revolving Credit Facility, based on the Applicable Margin which is 0.45% as of June 30, 2019. During the three months ended March 31, 2018, the Company entered into an interest rate swap to reduce its exposure to fluctuations in the interest rates associated with its debt, which was effective April 2, 2018. See Note 9 - Derivative.

The Amended and Restated Credit Agreement contains customary representations, warranties, and affirmative covenants. The Amended and Restated Credit Agreement also contains customary negative covenants, subject to some exceptions, on: (i) indebtedness and preferred equity, (ii) liens, (iii) fundamental changes, (iv) investments, (v) restricted payments, and (vi) sale of assets and certain other restrictive agreements. The Amended and Restated Credit Agreement also contains customary events of default, such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control and the failure to observe the negative covenants and other covenants related to the operation of the Company's business.

In addition to the Consolidated Total Leverage ratio and the Consolidated Asset Coverage ratio mentioned previously, the Amended and Restated Credit Agreement also includes a financial covenant of a minimum Consolidated Fixed Charge Coverage ratio (as defined therein) as of the end of each fiscal quarter of 1.50:1.00. As of June 30, 2019, the Company was in compliance with the covenants contained in the Amended and Restated Credit Agreement.

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

As of June 30, 2019, the Company had \$20.6 million letters of credit outstanding, which relate to the Company's workers' compensation and professional liability insurance policies.

9. DERIVATIVE

The Company has an interest rate swap agreement that, at initiation, effectively fixed the interest rate on 50% of the amortizing balance of the Company's term debt, exclusive of the credit spread on the debt. The interest rate swap agreement requires the Company to pay a fixed rate to the respective counterparty of 2.627% per annum on an amortizing notional amount corresponding with the initial term loan payment schedule, and to receive from the respective counterparty, interest payments based on the applicable notional amounts and 1 month USD LIBOR, with no exchanges of notional amounts. As of June 30, 2019 and December 31, 2018, the interest rate swap is treated as a cash flow hedge and its fair value of a \$1.2 million liability and a \$0.2 million liability, respectively, is included in other current and other long-term liabilities on the consolidated balance

sheets. As of June 30, 2019, \$0.4 million is expected to be reclassified from other comprehensive loss to interest expense related to the interest rate swap. See Note 11 - Fair Value Measurements.

10. LEASES

The Company has lease contracts related to the rental of office space, housing for its healthcare professionals on assignments, and other equipment rentals. The Company's lease population included in the recognition of its beginning right-of-use asset and lease liabilities under the *Leases* Topic of the FASB ASC is substantially related to the rental of office space. The Company enters into lease agreements as lessee for the rental of office space for both its corporate and branch locations that may include options to extend or terminate early. Many of these real estate leases require variable payments of property taxes, insurance, and common area maintenance, in addition to base rent. The variable portion of these lease payments is not included in the right-of-use assets or lease liabilities. Rather, variable payments, other than those dependent upon an index or rate, are expensed when the obligation for those payments is incurred and are included in lease expense in selling, general and administrative expense on the condensed consolidated statement of operations. These leases do not include residual value guarantees, covenants, or other restrictions. Certain of the leases have provisions for free rent months during the lease term and/or escalating rent payments. In addition, particularly for the Company's longer-term leases for its corporate offices, it has received incentives to enter into the leases such as receiving up to a specified dollar amount to construct tenant improvements. These lease incentives resulted in deferred rent credits. Upon adoption of the *Leases* Topic of the FASB ASC, these deferred rent credits reduced the beginning operating right-of-use asset recognized and, consistent with the prior guidance will be recognized as a reduction to future rent expense over the expected remaining term of the respective leases.

The Company determines whether an arrangement constitutes a lease and records lease liabilities and right-of-use assets on its consolidated balance sheets at lease commencement. Lease liabilities are measured based on the present value of the total lease payments not yet paid discounted based on its incremental borrowing rate, as the rate implicit in the lease is not determinable. Its incremental borrowing rate is estimated based on what it would be required to pay for a collateralized borrowing equal to the total lease payments over the term of the lease. As such, the Company estimates its incremental borrowing rate based on an analysis of publicly traded debt securities of companies with credit and financial profiles similar to its own. Right-of-use assets are measured based on the corresponding lease liability adjusted for: (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs, and (iii) tenant incentives under the lease. Rent expense commences when the lessor makes the underlying asset available to us. The Company does not assume renewals or early terminations unless it is reasonably certain to exercise these options at commencement. For short-term leases, rent expense is recognized in the condensed consolidated statements of operations on a straight-line basis over the lease term.

The table below presents the lease-related assets and liabilities included on the condensed consolidated balance sheets:

| Classification on Condensed Consolidated Balance Sheets: | June 30, 2019 | |
|-----------------------------------------------------------------|------------------------|-----------|
| | (amounts in thousands) | |
| Operating lease right-of-use assets | \$ | 20,254 |
| Operating lease liabilities - current | \$ | 5,132 |
| Operating lease liabilities - non-current | \$ | 21,447 |
| Weighted-average remaining lease term | | 5.1 years |
| Weighted average discount rate (a) | | 6.25% |

(a) Upon adoption of the new lease standard, discount rates used for existing leases were established at January 1, 2019.

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating lease liabilities (which do not include short-term leases) recorded on the condensed consolidated balance sheets:

| Years Ending December 31: | (amounts in thousands) | |
|------------------------------------------------------|------------------------|---------|
| 2019 | \$ | 3,083 |
| 2020 | | 6,720 |
| 2021 | | 5,875 |
| 2022 | | 4,986 |
| 2023 | | 4,696 |
| Thereafter | | 5,869 |
| Total minimum lease payments | | 31,229 |
| Less: amount of lease payments representing interest | | (4,650) |
| Present value of future minimum lease payments | | 26,579 |
| Less: current lease obligations | | (5,132) |
| Non-current lease obligations | \$ | 21,447 |

Future minimum lease payments, as of December 31, 2018, associated with non-cancelable operating lease agreements with terms of one year or more are as follows:

| Years Ending December 31: | (amounts in thousands) | |
|----------------------------------|------------------------|--------|
| 2019 | \$ | 7,451 |
| 2020 | | 6,287 |
| 2021 | | 5,407 |
| 2022 | | 4,857 |
| 2023 | | 4,700 |
| Thereafter | | 5,893 |
| Total minimum lease payments | \$ | 34,595 |

Other Information

The table below provides information regarding supplemental cash flows:

| | Six Months Ended June 30, 2019 | |
|----------------------------------------------------------------------------------|-------------------------------------------|-------|
| | (amounts in thousands) | |
| Supplemental Cash Flow Information: | | |
| Cash paid for amounts included in the measurement of operating lease liabilities | \$ | 3,685 |
| ROU assets obtained in exchange for new operating lease liabilities | \$ | 873 |

The components of lease expense are as follows:

| | Three Months Ended June 30, 2019 | | Six Months Ended June 30, 2019 | |
|-----------------------------------------------------------------------------|---------------------------------------------|-------|-------------------------------------------|-------|
| | (amounts in thousands) | | | |
| Amounts Included in Condensed Consolidated Statements of Operations: | | | | |
| Operating lease expense | \$ | 1,698 | \$ | 3,392 |
| Short-term lease expense | \$ | 1,949 | \$ | 4,108 |
| Variable and other lease costs | \$ | 659 | \$ | 1,377 |

Operating lease expense, short-term lease expense, and variable and other lease costs are included in selling, general and administrative expenses and direct operating expenses on the Company's condensed consolidated statements of operations, depending on the nature of the leased asset.

As of June 30, 2019, the Company does not have any material operating leases which have not yet commenced.

11. FAIR VALUE MEASUREMENTS

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

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

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

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

Items Measured at Fair Value on a Recurring Basis:

The Company's financial assets/liabilities required to be measured on a recurring basis were its: (1) deferred compensation asset included in other non-current assets; (2) deferred compensation liability included in other long-term liabilities; (3) interest rate swap agreement included in other current and other long-term liabilities; and (4) contingent consideration liabilities included in other current and other long-term liabilities.

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

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

Contingent consideration liabilities—Potential earnout payments related to the acquisition of Mediscan are contingent upon meeting certain performance requirements through 2019. The long-term portion of these liabilities has been included in other long-term liabilities, and the short-term portion is included in other current liabilities on the condensed consolidated balance sheets. The Company utilized Level 3 inputs to value these contingent consideration liabilities as significant unobservable inputs were used in the calculation of their fair value. The Mediscan contingent consideration liability has been measured at fair value using a discounted cash flow model in a Monte Carlo simulation setting, utilizing significant unobservable inputs, including the expected volatility of the acquisitions' gross profits and an estimated discount rate commensurate with the risks of the expected gross profit stream. See Note 4 - Acquisitions.

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

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

Fair Value Measurements

| | June 30, 2019 | December 31, 2018 |
|--------------------------------------|----------------------|--------------------------|
| (amounts in thousands) | | |
| Financial Assets: | | |
| (Level 1) | | |
| Deferred compensation asset | \$ 623 | \$ — |
| Financial Liabilities: | | |
| (Level 1) | | |
| Deferred compensation liability | \$ 1,907 | \$ 1,725 |
| (Level 2) | | |
| Interest rate swaps | \$ 1,180 | \$ 234 |
| (Level 3) | | |
| Contingent consideration liabilities | \$ 8,089 | \$ 7,689 |

The opening balances of contingent consideration liabilities are reconciled to the closing balances for fair value measurements of these liabilities categorized within Level 3 of the fair value hierarchy are as follows:

| | Contingent Consideration Liabilities | |
|------------------------|---------------------------------------------|-------|
| (amounts in thousands) | | |
| December 31, 2018 | \$ 7,689 | 7,689 |
| Payments | | (100) |
| Accretion expense | | 247 |
| March 31, 2019 | | 7,836 |
| Accretion expense | | 253 |
| June 30, 2019 | \$ | 8,089 |

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

The Company's non-financial assets, such as goodwill, trade names, other intangible assets, and property and equipment, are measured at fair value when there is an indicator of impairment and are recorded at fair value only when an impairment charge is recognized. During an evaluation of goodwill, trade names, and other intangible assets during the fourth quarter of 2018, the carrying value of goodwill and trade names in the Physician Staffing reporting unit exceeded their fair values. As a result, the Company recorded impairment charges that incorporated fair value measurements based on Level 3 inputs. In the second quarter of 2019, the Company eliminated certain of its brands as part of a rebranding strategy. As a result, in the three and six months ended June 30, 2019, the Company incurred impairment charges related to its trade names in Nurse and Allied Staffing. See Note 7 - Goodwill, Trade Names, and Other Intangible Assets.

Other Fair Value Disclosures:

Financial instruments not measured or recorded at fair value in the accompanying condensed consolidated balance sheets consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and short and long-term debt. The estimated fair value of accounts receivable, accounts payable, and accrued expenses approximate their carrying amount due to the short-term nature of these instruments. The estimated fair value of the Company's debt was calculated using a discounted cash flow analysis and appropriate valuation methodologies using Level 2 inputs from available market information.

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

| | June 30, 2019 | | December 31, 2018 | |
|-------------------------------|------------------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Liabilities: | (amounts in thousands) | | | |
| (Level 2) | | | | |
| Term Loan, net | \$ 70,613 | \$ 70,300 | \$ 83,179 | \$ 81,800 |

Concentration of Credit Risk:

The Company has invested its excess cash in highly-rated overnight funds and other highly-rated liquid accounts. The Company is exposed to credit risk associated with these investments, as the cash balances typically exceed the current Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. The Company minimizes its credit risk relating to these positions by monitoring the financial condition of the financial institutions involved and by primarily conducting business with large, well established financial institutions and diversifying its counterparties.

The Company generally does not require collateral and mitigates its credit risk by performing credit evaluations and monitoring at-risk accounts. The allowance for doubtful accounts represents the Company's estimate of uncollectible receivables based on a review of specific accounts and the Company's historical collection experience. The Company writes off specific accounts based on an ongoing review of collectability as well as past experience with the customer. The Company's contract terms typically require payment between 15 to 60 days from the date of invoice 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.

12. STOCKHOLDERS' EQUITY

Stock Repurchase Program

During the six months ended June 30, 2019, the Company did not repurchase any shares of its Common Stock. During the six months ended June 30, 2018, the Company repurchased and retired 399,456 shares of its Common Stock for \$4.7 million, at an average market price of \$11.75 per share, under an authorized share repurchase program.

As of June 30, 2019, the Company has 510,004 shares of Common Stock under the current share repurchase program available to repurchase, subject to certain conditions in the Company's Amended and Restated Credit Agreement.

Share-Based Payments

The following table summarizes restricted stock awards and performance stock awards activity issued under the 2017 Plan for the six months ended June 30, 2019:

| | Restricted Stock Awards | | Performance Stock Awards | |
|---------------------------------------------------|-------------------------|----------------------------------------|--------------------------|----------------------------------------|
| | Number of Shares | Weighted Average Grant Date Fair Value | Number of Target Shares | Weighted Average Grant Date Fair Value |
| Unvested restricted stock awards, January 1, 2019 | 589,120 | \$ 12.00 | 365,149 | \$ 12.35 |
| Granted | 837,099 | \$ 7.06 | 192,939 | \$ 7.06 |
| Vested | (324,908) | \$ 11.64 | — | \$ — |
| Forfeited | (59,505) | \$ 9.64 | (189,619) | \$ 12.25 |
| Unvested restricted stock awards, June 30, 2019 | <u>1,041,806</u> | <u>\$ 8.54</u> | <u>368,469</u> | <u>\$ 9.64</u> |

Restricted stock awards granted under the Company's 2017 Plan entitle the holder to receive, at the end of a vesting period, a specified number of shares of the Company's common stock. Share-based compensation expense is measured by the market

value of the Company's stock on the date of grant. The shares vest ratably over a three year period ending on the anniversary date of the grant, and vesting is subject to the employee's continuing employment. There is no partial vesting and any unvested portion is forfeited. Pursuant to the 2017 Plan, the number of target shares that are issued for performance-based stock awards are determined based on the level of attainment of the targets.

During the three and six months ended June 30, 2019, \$1.0 million and \$1.5 million, respectively, was included in selling, general and administrative expenses related to share-based payments, and a net of 49,317 and 225,753 shares, respectively, of Common Stock were issued upon the vesting of restricted stock.

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

13. SEGMENT DATA

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

- *Nurse and Allied Staffing* – Nurse and Allied Staffing provides traditional staffing, recruiting, and value-added workforce solutions including: temporary and permanent placement of travel and local branch-based nurse and allied professionals, MSP services, education healthcare services, and outsourcing services. Its clients include: public and private acute-care and non-acute care hospitals, government facilities, public schools and charter schools, outpatient clinics, ambulatory care facilities, physician practice groups, retailers, and many other healthcare providers throughout the United States.
- *Physician Staffing* – Physician Staffing provides physicians in many specialties, as well as certified registered nurse anesthetists, nurse practitioners, and physician assistants as independent contractors on temporary assignments throughout the United States at various healthcare facilities, such as acute and non-acute care facilities, medical group practices, government facilities, and managed care organizations.
- *Search* – Search includes retained and contingent search services for physicians, healthcare executives, and other healthcare professionals, as well as recruitment process outsourcing.

The Company's management evaluates performance of each segment primarily based on revenue and contribution income. The Company defines contribution income as income or loss from operations before depreciation and amortization, acquisition and integration costs, acquisition-related contingent consideration, restructuring costs, legal settlement charges, impairment charges, and corporate overhead. Contribution income is a financial measure used by management when assessing segment performance and is provided in accordance with the *Segment Reporting* Topic of the FASB ASC. The Company's management does not evaluate, manage, or measure performance of segments using asset information; accordingly, total asset information by segment is not prepared or disclosed. The information in the following table is derived from the segments' internal financial information as used for corporate management purposes. Certain corporate expenses are not allocated to and/or among the operating segments.

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

| | Three Months Ended | | Six Months Ended | |
|----------------------------------------------|--------------------|-------------------|--------------------|-------------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| (amounts in thousands) | | | | |
| Revenue from services: | | | | |
| Nurse and Allied Staffing | \$ 180,787 | \$ 178,934 | \$ 356,424 | \$ 363,543 |
| Physician Staffing | 18,028 | 21,334 | 34,187 | 42,894 |
| Search | 3,942 | 4,304 | 7,317 | 8,423 |
| | <u>\$ 202,757</u> | <u>\$ 204,572</u> | <u>\$ 397,928</u> | <u>\$ 414,860</u> |
| Contribution income: | | | | |
| Nurse and Allied Staffing | \$ 16,111 | \$ 16,970 | \$ 30,407 | \$ 33,557 |
| Physician Staffing | 508 | 1,383 | 913 | 2,883 |
| Search | (181) | 251 | (604) | 736 |
| | <u>16,438</u> | <u>18,604</u> | <u>30,716</u> | <u>37,176</u> |
| Corporate overhead | 11,439 | 10,810 | 23,769 | 21,462 |
| Depreciation and amortization | 3,557 | 2,963 | 6,541 | 5,872 |
| Acquisition-related contingent consideration | 253 | 220 | 500 | 433 |
| Acquisition and integration costs | 46 | 76 | 311 | 191 |
| Restructuring costs | 137 | 193 | 1,277 | 628 |
| Legal settlement charges | 1,600 | — | 1,600 | — |
| Impairment charges | 14,502 | — | 14,502 | — |
| (Loss) income from operations | <u>\$ (15,096)</u> | <u>\$ 4,342</u> | <u>\$ (17,784)</u> | <u>\$ 8,590</u> |

In the second quarter of 2019, the Company merged its permanent search recruitment brands. As a result, for the three and six months ended June 30, 2018, \$0.4 million and \$0.9 million of revenue, respectively, and \$0.1 million contribution loss and \$0.1 million contribution income, respectively, were reclassified from Nurse and Allied Staffing to Search to conform to the current period presentation.

14. CONTINGENCIES

Legal Proceedings

From time to time, the Company is involved in various litigation, claims, investigations, and other proceedings that arise in the ordinary course of its business. These matters primarily relate to employee-related matters that include individual and collective claims, professional liability, tax, and payroll practices. The Company establishes reserves when available information indicates that a loss is probable and an amount, or range of loss can be reasonably estimated. These assessments are performed at least quarterly and are based on the information available to management at the time and involve a significant management judgment to determine the probability and estimated amount of potential losses, if any. Based on the available information considered in its reviews, the Company adjusts its loss contingency accruals and its disclosures as may be required. Actual outcomes or losses may differ materially from those estimated by the Company's current assessments including available insurance recoveries, which would impact its profitability. Adverse developments in existing litigation claims or legal proceedings involving the Company or new claims could require it 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 its financial results. In the second quarter of 2019, the Company recorded \$1.6 million in legal settlement charges related to the resolution of a medical malpractice lawsuit, as well as a 2019 California wage and hour class action settlement agreement which remains subject to court approval. The Company believes the outcome of any outstanding loss contingencies as of June 30, 2019 will not have a material adverse effect on its business, financial condition, results of operations or cash flows.

Sales and Other State Non-Income Tax Liabilities

The Company's sales and other state non-income tax filings are subject to routine audits by authorities in the jurisdictions where it conducts business in the United States which may result in assessments of additional taxes. The Company accrues sales and other non-income tax liabilities based on the Company's best estimate of its probable liability utilizing currently available information and interpretation of relevant tax regulations. Non-income tax expense is included in selling, general and administrative expenses on its condensed consolidated statements of operations and the liability is reflected in other current liabilities as of June 30, 2019 and December 31, 2018, on its condensed consolidated balance sheets.

15. INCOME TAXES

For the three and six months ended June 30, 2019, the Company calculated its effective tax rate based on year-to-date results, pursuant to the *Income Taxes* Topic of the FASB ASC, as opposed to estimating its annual effective tax rate. For the three and six months ended June 30, 2018, the Company estimated its annual effective tax rate and applied that rate to year-to-date results. The Company's effective tax rate for the three and six months ended June 30, 2019 was negative 210.5% and negative 151.9%, respectively, including the impact of discrete items. Excluding discrete items, the Company's effective tax rate for the three and six months ended June 30, 2019 was negative 14.8% and 3.8%, respectively. The effective tax rate for the three and six months ended June 30, 2019 was primarily impacted by the additional valuation allowance and impairment of indefinite-lived intangibles as well as international and state taxes.

As of June 30, 2019, management assessed the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of its existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended June 30, 2019. On the basis of this evaluation, an additional valuation allowance of \$36.0 million was recorded (\$35.8 million of which was recorded as income tax expense and \$0.2 million as a reduction of other comprehensive income) to reduce the portion of the deferred tax asset that is not more likely than not to be realized.

The Company intends to maintain a valuation allowance until sufficient positive evidence exists to support its reversal. As of June 30, 2019 and December 31, 2018, the Company had valuation allowances of \$37.2 million and \$1.2 million, respectively. The June 30, 2019 valuation allowance applied to all domestic deferred tax assets other than certain deferred tax assets expected to be realized. The December 31, 2018 valuation allowance applied to the uncertainty of the realization of certain state net operating losses.

As of June 30, 2019, the Company had approximately \$0.7 million of unrecognized tax benefits included in other long-term liabilities (\$6.2 million, net of deferred taxes, which would affect the effective tax rate if recognized). During the six months ended June 30, 2019, the Company had gross increases of \$0.7 million to its current year unrecognized tax benefits related to federal and state tax provisions.

The tax years of 2008 and 2010 through 2018 remain open to examination by certain taxing jurisdictions to which the Company is subject to tax.

16. RELATED PARTY TRANSACTIONS

The Company provides services to entities which are affiliated with certain members of the Company's Board of Directors. Management believes such services were conducted on terms equivalent to those prevailing in an arm's-length transaction. Revenue related to these transactions was less than \$0.1 million for both the three and six months ended June 30, 2019 and June 30, 2018. Accounts receivable due from these entities at June 30, 2019 and December 31, 2018 was less than \$0.1 million.

The Company has a 68% ownership interest in Cross Country Talent Acquisition Group, LLC, a joint venture between the Company and a hospital system. The Company generated revenue providing staffing services to the hospital system of \$6.3 million and \$11.9 million for the three and six months ended June 30, 2019, respectively, and \$4.7 million and \$9.1 million for the three and six months ended June 30, 2018, respectively. At June 30, 2019 and December 31, 2018, the Company had a receivable balance of \$1.8 million and \$2.8 million, respectively, and a payable balance of \$0.4 million and \$0.3 million, respectively.

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

17. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, and should be applied either prospectively or retrospectively depending on the nature of the disclosure. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date. The Company is currently in the process of evaluating this standard and expects to adopt the full provisions in its first quarter of 2020.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected based on historical experience, current conditions, and reasonable supportable forecasts. The amendments in this update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted no sooner than the first quarter of 2019. A modified retrospective approach is required for all investments, except debt securities for which an other-than-temporary impairment had been recognized prior to the effective date, which will require a prospective transition approach and should be applied either prospectively or retrospectively depending on the nature of the disclosure. The Company is currently in the process of evaluating this standard and expects to adopt the full provisions in its first quarter of 2020.

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

The purpose of the following Management's Discussion and Analysis (MD&A) is to help facilitate the understanding of significant factors influencing the quarterly operating results, financial condition and cash flows of the Company. Additionally, the MD&A also conveys our expectations of the potential impact of known trends, events or uncertainties that may impact future results. This discussion supplements the detailed information presented in the condensed consolidated financial statements and notes thereto which should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Business Overview

We provide healthcare staffing, recruiting and workforce solutions to our customers through a network of 68 office locations throughout the United States. Our services include placing clinicians on travel and per diem assignments, local short-term contracts, and permanent positions. In addition, we offer flexible workforce management solutions to our customers including: managed service programs (MSP), education healthcare, as well as recruitment process outsourcing (RPO), and other outsourcing and value-added services as described in Item 1. Business in our Annual Report on Form 10-K for the year ended December 31, 2018. In addition, we provide both retained and contingent placement services for healthcare executives, physicians, and other healthcare professionals.

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

- *Nurse and Allied Staffing* – Nurse and Allied Staffing represented approximately 89% of our total revenue in the second quarter of 2019. Nurse and Allied Staffing provides traditional staffing, recruiting, and value-added workforce solutions including: temporary and permanent placement of travel and local branch-based nurse and allied professionals, MSP services, education healthcare services, and outsourcing services.
- *Physician Staffing* – Physician Staffing represented approximately 9% of our total revenue in the second quarter of 2019. Physician Staffing provides physicians in many specialties, as well as certified registered nurse anesthetists, nurse practitioners, and physician assistants under our Medical Doctor Associates (MDA) brand as independent contractors on temporary assignments throughout the United States.

- *Search* – Search represented approximately 2% of our total revenue in the second quarter of 2019. Search includes retained and contingent search services for physicians, healthcare executives, and other healthcare professionals, as well as RPO.

Summary of Operations

For the quarter ended June 30, 2019, revenue from services decreased 1% year-over-year to \$202.8 million, driven primarily by lower volumes and partially offset by favorable mix and higher average bill rates. Profitability was impacted by higher compensation costs which drove lower bill-pay spreads, as well as lower operating leverage from the overall revenue decline. Also, in the second quarter of 2019, we recorded non-cash impairment charges of \$14.5 million in connection with our rebranding efforts, and we recorded income tax expense of \$35.8 million to establish valuation allowances on our deferred tax assets. Net loss attributable to common shareholders was \$51.7 million, or a loss of \$1.44 per share.

For the six months ended June 30, 2019, we generated cash flow from operating activities of \$25.1 million and made optional debt prepayments of \$12.5 million on our Term Loan. As of June 30, 2019, we had \$24.8 million of cash and cash equivalents and a principal balance of \$71.4 million outstanding on our Term Loan, and there were no amounts drawn on our revolving credit facility.

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

Operating Metrics

We evaluate our financial condition by tracking operating metrics and financial results specific to each of our segments. Key operating metrics include hours worked, days filled, number of FTEs, revenue per FTE, and revenue per day filled. Other operating metrics include number of open orders, candidate applications, contract bookings, length of assignment, bill and pay rates, and renewal and fill rates, number of active searches, and number of placements. These operating metrics are representative of trends that assist management in evaluating business performance. Some of the segment financial results analyzed include revenue, operating expenses, and contribution income. In addition, we monitor cash flow as well as operating and leverage ratios to help us assess our liquidity needs.

| Business Segment | Business Measurement |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Nurse and Allied Staffing | <p>FTEs represent the average number of Nurse and Allied Staffing contract personnel on a full-time equivalent basis.</p> <p>Average revenue per FTE per day is calculated by dividing the Nurse and Allied Staffing revenue per FTE by the number of days worked in the respective periods. Nurse and Allied Staffing revenue also includes revenue from the permanent placement of nurses.</p> |
| Physician Staffing | <p>Days filled is calculated by dividing the total hours invoiced during the period, including an estimate for the impact of accrued revenue, by 8 hours.</p> <p>Revenue per day filled is calculated by dividing revenue as reported by days filled for the period presented.</p> |

Results of Operations

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

| | Three Months Ended | | Six Months Ended | |
|------------------------------------------------------------------------|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Revenue from services | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Direct operating expenses | 74.6 | 73.8 | 74.9 | 74.1 |
| Selling, general and administrative expenses | 22.7 | 22.1 | 23.1 | 21.9 |
| Bad debt expense | 0.3 | 0.3 | 0.2 | 0.2 |
| Depreciation and amortization | 1.7 | 1.5 | 1.6 | 1.4 |
| Acquisition-related contingent consideration | 0.1 | 0.1 | 0.1 | 0.1 |
| Acquisition and integration costs | — | — | 0.1 | — |
| Restructuring costs | 0.1 | 0.1 | 0.3 | 0.2 |
| Legal settlement charges | 0.8 | — | 0.4 | — |
| Impairment charges | 7.1 | — | 3.7 | — |
| (Loss) income from operations | (7.4) | 2.1 | (4.4) | 2.1 |
| Interest expense | 0.7 | 0.7 | 0.7 | 0.6 |
| Loss on early extinguishment of debt | — | — | 0.1 | — |
| Other income, net | — | (0.1) | — | — |
| (Loss) income before income taxes | (8.1) | 1.5 | (5.2) | 1.5 |
| Income tax expense | 17.2 | 0.6 | 8.0 | 0.6 |
| Consolidated net (loss) income | (25.3) | 0.9 | (13.2) | 0.9 |
| Less: Net income attributable to noncontrolling interest in subsidiary | 0.2 | 0.1 | 0.2 | 0.1 |
| Net (loss) income attributable to common shareholders | (25.5)% | 0.8 % | (13.4)% | 0.8 % |

Comparison of Results for the Three Months Ended June 30, 2019 compared to the Three Months Ended June 30, 2018

| | Three Months Ended June 30, | | | |
|------------------------------------------------------------------------|-----------------------------|------------|------------------------------|-----------------------------|
| | 2019 | 2018 | Increase (Decrease) \$ | Increase (Decrease) % |
| (Amounts in thousands) | | | | |
| Revenue from services | \$ 202,757 | \$ 204,572 | \$ (1,815) | (0.9)% |
| Direct operating expenses | 151,169 | 150,883 | 286 | 0.2 % |
| Selling, general and administrative expenses | 45,944 | 45,284 | 660 | 1.5 % |
| Bad debt expense | 645 | 611 | 34 | 5.6 % |
| Depreciation and amortization | 3,557 | 2,963 | 594 | 20.0 % |
| Acquisition-related contingent consideration | 253 | 220 | 33 | 15.0 % |
| Acquisition and integration costs | 46 | 76 | (30) | (39.5)% |
| Restructuring costs | 137 | 193 | (56) | (29.0)% |
| Legal settlement charges | 1,600 | — | 1,600 | 100.0 % |
| Impairment charges | 14,502 | — | 14,502 | 100.0 % |
| (Loss) income from operations | (15,096) | 4,342 | (19,438) | (447.7)% |
| Interest expense | 1,438 | 1,447 | (9) | (0.6)% |
| Loss on early extinguishment of debt | 54 | — | 54 | 100.0 % |
| Other income, net | (76) | (98) | 22 | 22.4 % |
| (Loss) income before income taxes | (16,512) | 2,993 | (19,505) | (651.7)% |
| Income tax expense | 34,758 | 1,169 | 33,589 | NM |
| Consolidated net (loss) income | (51,270) | 1,824 | (53,094) | NM |
| Less: Net income attributable to noncontrolling interest in subsidiary | 404 | 285 | 119 | 41.8 % |
| Net (loss) income attributable to common shareholders | \$ (51,674) | \$ 1,539 | \$ (53,213) | NM |

NM - Not meaningful

Revenue from services

Revenue from services decreased 0.9%, to \$202.8 million for the three months ended June 30, 2019, as compared to \$204.6 million for the three months ended June 30, 2018, primarily due to volume declines in Physician Staffing, partially offset by higher revenue from Nurse and Allied Staffing, due to favorable bill rates resulting from an increase in premium rate business, partly offset by a decline in volume. See further discussion in Segment Results.

Direct operating expenses

Direct operating expenses are comprised primarily of field employee compensation and independent contractor expenses, housing expenses, travel expenses, and related insurance expenses. Direct operating expenses increased \$0.3 million or 0.2%, to \$151.2 million for the three months ended June 30, 2019, as compared to \$150.9 million for the three months ended June 30, 2018. As a percentage of total revenue, direct operating expenses increased to 74.6% compared to 73.8% in the prior year period primarily due to higher compensation driving a lower bill-pay spread in our staffing businesses.

Selling, general and administrative expenses

Selling, general and administrative expenses increased 1.5%, to \$45.9 million for the three months ended June 30, 2019, as compared to \$45.3 million for the three months ended June 30, 2018, due to higher health insurance costs as well as other professional and consulting fees, including costs incurred in connection with the replacement of our applicant tracking system for our travel nurse business. As a percentage of total revenue, selling, general and administrative expenses increased to 22.7% for the three months ended June 30, 2019 as compared to 22.1% for the three months ended June 30, 2018.

Depreciation and amortization expense

Depreciation and amortization expense increased to \$3.6 million for the three months ended June 30, 2019 from \$3.0 million for the three months ended June 30, 2018. The increase is due to accelerated amortization of trade names of \$0.6 million associated with our rebranding initiatives. See Note 7 - Goodwill, Trade Names, and Other Intangible Assets to our condensed consolidated financial statements.

Acquisition-related contingent consideration

Acquisition-related contingent consideration includes accretion and valuation adjustments on our contingent consideration liabilities, substantially related to the Mediscan acquisition, and totaled \$0.3 million for the three months ended June 30, 2019 as compared to \$0.2 million for the three months ended June 30, 2018. See Note 11 - Fair Value Measurements to our condensed consolidated financial statements.

Legal settlement charges

Legal settlement charges totaled \$1.6 million during the three months ended June 30, 2019 and related to the resolution of a medical malpractice lawsuit, as well as a 2019 California wage and hour class action settlement agreement. There were no similar charges for the three months ended June 30, 2018.

Impairment charges

As part of evolving our go-to-market strategy, in the second quarter of 2019, we eliminated certain brands across all of our segments as part of our rebranding initiatives. As a result, in the three months ended June 30, 2019, \$14.5 million of indefinite-lived trade names related to Nurse and Allied Staffing were written off as impairment charges. See Note 7 - Goodwill, Trade Names, and Other Intangible Assets to our condensed consolidated financial statements. There were no similar charges for the three months ended June 30, 2018.

Interest expense

Interest expense was \$1.4 million for both the three months ended June 30, 2019 and 2018. The effective interest rate on our term loan borrowings increased to 6.4% for the three month period ended June 30, 2019 compared to 5.0% for the three months ended June 30, 2018. The impact of a higher effective rate was offset by lower average borrowings.

Income tax expense

Income tax expense totaled \$34.8 million for the three months ended June 30, 2019, compared to \$1.2 million for the three months ended June 30, 2018. Income tax expense for the three months ended June 30, 2019 included \$35.8 million of additional valuation allowance recorded as a discrete item. The effective tax rate for the second quarter of 2019 was also impacted by international and state taxes as well as the impairment of indefinite-lived intangibles. The effective tax rate for the second quarter of 2018 was primarily impacted by the non-deductibility of certain per diem expenses, the officers' compensation limitation, and international and state taxes. See Note 15 - Income Taxes to our condensed consolidated financial statements.

Comparison of Results for the Six Months Ended June 30, 2019 compared to the Six Months Ended June 30, 2018

| | Six Months Ended June 30, | | | |
|------------------------------------------------------------------------|---------------------------|------------|------------------------------|-----------------------------|
| | 2019 | 2018 | Increase (Decrease) \$ | Increase (Decrease) % |
| | (Amounts in thousands) | | | |
| Revenue from services | \$ 397,928 | \$ 414,860 | \$ (16,932) | (4.1)% |
| Direct operating expenses | 298,086 | 307,418 | (9,332) | (3.0)% |
| Selling, general and administrative expenses | 91,980 | 90,918 | 1,062 | 1.2 % |
| Bad debt expense | 915 | 810 | 105 | 13.0 % |
| Depreciation and amortization | 6,541 | 5,872 | 669 | 11.4 % |
| Acquisition-related contingent consideration | 500 | 433 | 67 | 15.5 % |
| Acquisition and integration costs | 311 | 191 | 120 | 62.8 % |
| Restructuring costs | 1,277 | 628 | 649 | 103.3 % |
| Legal settlement charges | 1,600 | — | 1,600 | 100.0 % |
| Impairment charges | 14,502 | — | 14,502 | 100.0 % |
| (Loss) income from operations | (17,784) | 8,590 | (26,374) | (307.0)% |
| Interest expense | 2,860 | 2,713 | 147 | 5.4 % |
| Loss on early extinguishment of debt | 414 | — | 414 | 100.0 % |
| Other income, net | (158) | (199) | 41 | 20.6 % |
| (Loss) income before income taxes | (20,900) | 6,076 | (26,976) | (444.0)% |
| Income tax expense | 31,746 | 2,332 | 29,414 | NM |
| Consolidated net (loss) income | (52,646) | 3,744 | (56,390) | NM |
| Less: Net income attributable to noncontrolling interest in subsidiary | 795 | 563 | 232 | 41.2 % |
| Net (loss) income attributable to common shareholders | \$ (53,441) | \$ 3,181 | \$ (56,622) | NM |

NM - Not meaningful

Revenue from services

Revenue from services decreased 4.1%, to \$397.9 million for the six months ended June 30, 2019, as compared to \$414.9 million for the six months ended June 30, 2018, due to lower volume in all of our business segments. See further discussion in Segment Results.

Direct operating expenses

Direct operating expenses decreased \$9.3 million or 3.0%, to \$298.1 million for the six months ended June 30, 2019, as compared to \$307.4 million for the six months ended June 30, 2018. As a percentage of total revenue, direct operating expenses increased to 74.9% compared to 74.1% in the prior year period primarily due to higher compensation driving a lower bill-pay spread in our staffing businesses.

Selling, general and administrative expenses

Selling, general and administrative expenses increased 1.2%, to \$92.0 million for the six months ended June 30, 2019, as compared to \$90.9 million for the six months ended June 30, 2018, due to higher healthcare costs, consulting and other professional service fees, partially offset by our cost savings initiatives undertaken over the last several quarters. The main driver for the increase in consulting fees was related to costs incurred in connection with the replacement of our applicant

tracking system for our travel nurse business. As a percentage of total revenue, selling, general and administrative expenses increased to 23.1% for the six months ended June 30, 2019 as compared to 21.9% for the six months ended June 30, 2018.

Depreciation and amortization expense

Depreciation and amortization expense increased to \$6.5 million for the six months ended June 30, 2019 from \$5.9 million for the six months ended June 30, 2018. The increase is due to accelerated amortization of trade names of \$0.6 million associated with our rebranding initiatives. See Note 7 - Goodwill, Trade Names, and Other Intangible Assets to our condensed consolidated financial statements.

Acquisition-related contingent consideration

Acquisition-related contingent consideration for the six months ended June 30, 2019 was \$0.5 million and included accretion and valuation adjustments on our contingent consideration liabilities related to the Mediscan acquisition. Acquisition-related contingent consideration for the six months ended June 30, 2018 was \$0.4 million and substantially related to the Mediscan acquisition, and to a lesser extent, the USR acquisition. In the third quarter of 2018, we determined that the contingent consideration earnout for USR would not be achieved and the entire liability was reversed. See Note 11 - Fair Value Measurements to our condensed consolidated financial statements.

Acquisition and integration costs

Acquisition and integration costs was \$0.3 million for the six months ended June 30, 2019 as compared to \$0.2 million for the six months ended June 30, 2018, and related to prior acquisitions. These costs also included expenses incurred for potential transactions for the six months ended June 30, 2019.

Restructuring costs

Restructuring costs were primarily comprised of severance costs incurred in connection with our cost savings initiatives and totaled \$1.3 million and \$0.6 million during the six months ended June 30, 2019 and 2018, respectively.

Legal settlement charges

Legal settlement charges totaled \$1.6 million during the six months ended June 30, 2019 and related to the resolution of a medical malpractice lawsuit, as well as a California wage and hour class action settlement agreement. There were no similar charges for the six months ended June 30, 2018.

Impairment charges

As part of evolving our go-to-market strategy, in the second quarter of 2019, we eliminated certain brands across all of our segments as part of our rebranding initiatives. As a result, in the six months ended June 30, 2019, \$14.5 million of indefinite-lived trade names related to Nurse and Allied Staffing were written off as impairment charges. There were no similar charges for the six months ended June 30, 2018. See Note 7 - Goodwill, Trade Names, and Other Intangible Assets to our condensed consolidated financial statements.

Interest expense

Interest expense was \$2.9 million for the six months ended June 30, 2019, as compared to \$2.7 million for the six months ended June 30, 2018. The effective interest rate on our term loan borrowings increased to 6.1% for the six month period ended June 30, 2019 compared to 4.7% for the six months ended June 30, 2018. The impact of higher average interest rates was partly offset by lower average borrowings in the six months ended June 30, 2019 due to optional debt prepayments on the Term Loan. See Note 8 - Debt to our condensed consolidated financial statements.

Loss on early extinguishment of debt

Loss on early extinguishment of debt was \$0.4 million for the six months ended June 30, 2019, relating to the write-off of debt issuance costs primarily in connection with a reduction in borrowing capacity under the revolving credit facility in the first quarter of 2019, as well as optional debt prepayments of \$7.5 million and \$5.0 million made on our Term Loan in the first and second quarters of 2019, respectively.

Income tax expense

Income tax expense, including the \$35.8 million of additional valuation allowance mentioned previously, totaled \$31.7 million for the six months ended June 30, 2019, compared to \$2.3 million for the six months ended June 30, 2018. The effective tax rate for the six months ended June 30, 2019 was also impacted by international and state taxes as well as the impairment of indefinite-lived intangibles. The effective tax rate for the six months ended June 30, 2018 was primarily impacted by the non-deductibility of certain per diem expenses, the officers' compensation limitation, and international and state taxes.

Segment Results

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

| | Three Months Ended | | Six Months Ended | |
|----------------------------------------------|---------------------------|-------------------|-------------------------|-------------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| | (amounts in thousands) | | | |
| Revenue from services: | | | | |
| Nurse and Allied Staffing | \$ 180,787 | \$ 178,934 | \$ 356,424 | \$ 363,543 |
| Physician Staffing | 18,028 | 21,334 | 34,187 | 42,894 |
| Search | 3,942 | 4,304 | 7,317 | 8,423 |
| | <u>\$ 202,757</u> | <u>\$ 204,572</u> | <u>\$ 397,928</u> | <u>\$ 414,860</u> |
| Contribution income: | | | | |
| Nurse and Allied Staffing | \$ 16,111 | \$ 16,970 | \$ 30,407 | \$ 33,557 |
| Physician Staffing | 508 | 1,383 | 913 | 2,883 |
| Search | (181) | 251 | (604) | 736 |
| | <u>16,438</u> | <u>18,604</u> | <u>30,716</u> | <u>37,176</u> |
| Corporate overhead | 11,439 | 10,810 | 23,769 | 21,462 |
| Depreciation and amortization | 3,557 | 2,963 | 6,541 | 5,872 |
| Acquisition-related contingent consideration | 253 | 220 | 500 | 433 |
| Acquisition and integration costs | 46 | 76 | 311 | 191 |
| Restructuring costs | 137 | 193 | 1,277 | 628 |
| Legal settlement charges | 1,600 | — | 1,600 | — |
| Impairment charges | 14,502 | — | 14,502 | — |
| (Loss) income from operations | <u>\$ (15,096)</u> | <u>\$ 4,342</u> | <u>\$ (17,784)</u> | <u>\$ 8,590</u> |

In the second quarter of 2019, the Company merged its permanent search recruitment brands. As a result, for the three and six months ended June 30, 2018, certain revenue and contribution income amounts were reclassified from Nurse and Allied Staffing to Search to conform to the current period presentation. See Note 13 - Segment Data to our condensed consolidated financial statements.

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

| | Three Months Ended | | Change | Percent Change |
|-----------------------------------------------------------|---------------------------|----------------------|---------------|-----------------------|
| | June 30, 2019 | June 30, 2018 | | |
| <u>Nurse and Allied Staffing statistical data:</u> | | | | |
| FTEs | 7,016 | 7,143 | (127) | (1.8)% |
| Average Nurse and Allied Staffing revenue per FTE per day | \$ 283 | \$ 275 | 8 | 2.9 % |

| | | | | |
|----------------------------------------------------|----------|----------|---------|---------|
| <u>Physician Staffing statistical data:</u> | | | | |
| Days filled | 10,754 | 13,751 | (2,997) | (21.8)% |
| Revenue per day filled | \$ 1,676 | \$ 1,551 | 125 | 8.1 % |

| | Six Months Ended | | Change | Percent Change |
|--|-------------------------|----------------------|---------------|-----------------------|
| | June 30, 2019 | June 30, 2018 | | |

| | | | | |
|---------------------------------------------------------------|--------|--------|-------|--------|
| <u>Nurse and Allied Staffing statistical data: (a)</u> | | | | |
| FTEs | 7,016 | 7,305 | (289) | (4.0)% |
| Average Nurse and Allied Staffing revenue per FTE per day | \$ 281 | \$ 275 | 6 | 2.2 % |

| | | | | |
|--------------------------------------------------------|----------|----------|---------|---------|
| <u>Physician Staffing statistical data: (a)</u> | | | | |
| Days filled | 21,034 | 28,001 | (6,967) | (24.9)% |
| Revenue per day filled | \$ 1,625 | \$ 1,532 | 93 | 6.1 % |

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

Segment Comparison - Three Months Ended June 30, 2019 compared to the Three Months Ended June 30, 2018

Nurse and Allied Staffing

Revenue from Nurse and Allied Staffing increased \$1.9 million, or 1.0%, to \$180.8 million for the three months ended June 30, 2019, compared to \$178.9 million for the three months ended June 30, 2018, primarily due to higher average bill rates in travel, local, and education healthcare staffing, partially offset by lower overall volume. Our bill rates benefited from a higher mix of premium rate business in the second quarter of 2019, primarily associated with a large electronic medical records project, and to a lesser extent, a labor disruption at one of our clients.

Contribution income from Nurse and Allied Staffing decreased \$0.9 million or 5.1%, to \$16.1 million for the three months ended June 30, 2019, compared to \$17.0 million for the three months ended June 30, 2018, primarily due to a lower bill-pay spread in the three months ended June 30, 2019. As a percentage of segment revenue, contribution income margin was 8.9% for the three months ended June 30, 2019, compared to 9.5% for the three months ended June 30, 2018.

The average number of Nurse and Allied Staffing FTEs on contract during the three months ended June 30, 2019 decreased 1.8% from the three months ended June 30, 2018. The average Nurse and Allied Staffing revenue per FTE per day increased 2.9%, reflecting higher average bill rates.

Physician Staffing

Revenue from Physician Staffing decreased \$3.3 million, or 15.5%, to \$18.0 million for the three months ended June 30, 2019, compared to \$21.3 million for the three months ended June 30, 2018, primarily due to a lower number of days filled, partially offset by higher bill rates primarily due to mix.

Contribution income from Physician Staffing decreased \$0.9 million, or 63.3% to \$0.5 million for the three months ended June 30, 2019, compared to \$1.4 million for the three months ended June 30, 2018. As a percentage of segment revenue, contribution income was 2.8% for the three months ended June 30, 2019, compared to 6.5% for the three months ended June 30, 2018, driven by lower revenue, partially offset by lower selling, general and administrative expenses.

Total days filled for Physician Staffing for the three months ended June 30, 2019 were 10,754 as compared with 13,751 in the prior year. Revenue per day filled was \$1,676 as compared with \$1,551 in the prior year, due to a shift in the mix of business.

Search

Revenue from Search decreased \$0.4 million, or 8.4%, to \$3.9 million for the three months ended June 30, 2019, compared to \$4.3 million for the three months ended June 30, 2018, due to a decline in physician searches, partly offset by an increase in executive searches.

Segment contribution loss from Search for the three months ended June 30, 2019 was \$0.2 million, compared to income for the three months ended June 30, 2018 of \$0.3 million.

Corporate Overhead

Corporate overhead includes unallocated executive leadership and other centralized corporate functional support costs such as finance, IT, legal, human resources, and marketing, as well as public company expenses and corporate-wide projects (initiatives). Corporate overhead increased to \$11.4 million for the three months ended June 30, 2019, from \$10.8 million for the three months ended June 30, 2018, primarily due to higher professional fees, including consulting and legal fees, partly offset by the impact of our cost savings initiatives. The higher consulting fees are related to the project to replace our applicant tracking system for our travel nurse business. As a percentage of consolidated revenue, corporate overhead was 5.6% for the three months ended June 30, 2019 and 5.3% for the three months ended June 30, 2018.

Segment Comparison - Six Months Ended June 30, 2019 compared to the Six Months Ended June 30, 2018

Nurse and Allied Staffing

Revenue from Nurse and Allied Staffing decreased \$7.1 million, or 2.0%, to \$356.4 million for the six months ended June 30, 2019, compared to \$363.5 million for the six months ended June 30, 2018, primarily due to lower volume partly offset by higher average bill rates. Volume declines in travel nurse and local staffing were partially offset by increases in travel allied and education healthcare staffing. Our bill rates benefited from a higher mix of premium rate business in the second quarter of 2019.

Contribution income from Nurse and Allied Staffing decreased \$3.2 million or 9.4%, to \$30.4 million for the six months ended June 30, 2019, compared to \$33.6 million for the six months ended June 30, 2018, primarily due to a lower bill-pay spread in the six months ended June 30, 2019. As a percentage of segment revenue, contribution income margin was 8.5% for the six months ended June 30, 2019, compared to 9.2% for the six months ended June 30, 2018.

The average number of Nurse and Allied Staffing FTEs on contract during the six months ended June 30, 2019 decreased 4.0% from the six months ended June 30, 2018. The average Nurse and Allied Staffing revenue per FTE per day increased 2.2%, reflecting higher average bill rates.

Physician Staffing

Revenue from Physician Staffing decreased \$8.7 million, or 20.3%, to \$34.2 million for the six months ended June 30, 2019, compared to \$42.9 million for the six months ended June 30, 2018, primarily due to a lower number of days filled, partially offset by higher bill rates due to mix.

Contribution income from Physician Staffing decreased \$2.0 million, or 68.3% to \$0.9 million for the six months ended June 30, 2019, compared to \$2.9 million for the six months ended June 30, 2018. As a percentage of segment revenue, contribution income was 2.7% for the six months ended June 30, 2019, compared to 6.7% for the six months ended June 30, 2018, driven by lower revenue, partially offset by lower selling, general and administrative expenses.

Total days filled for Physician Staffing for the six months ended June 30, 2019 were 21,034 as compared with 28,001 in the prior year. Revenue per day filled was \$1,625 as compared with \$1,532 in the prior year, due to a shift in the mix of business.

Search

Revenue from Search decreased \$1.1 million, or 13.1%, to \$7.3 million for the six months ended June 30, 2019, compared to \$8.4 million for the six months ended June 30, 2018, due to a decline in physician searches, partly offset by an increase in executive searches.

Segment contribution loss from Search for the six months ended June 30, 2019 was \$0.6 million, compared to income for the six months ended June 30, 2018 of \$0.7 million.

Corporate Overhead

Corporate overhead includes unallocated executive leadership and other centralized corporate functional support costs such as finance, IT, legal, human resources, and marketing, as well as public company expenses and corporate-wide projects (initiatives). Corporate overhead increased to \$23.8 million for the six months ended June 30, 2019, from \$21.5 million for the six months ended June 30, 2018, primarily due to higher consulting and other professional service fees, partly offset by the impact of our cost savings initiatives. The higher consulting fees are related to the project to replace our applicant tracking system for our travel nurse business. As a percentage of consolidated revenue, corporate overhead was 6.0% for the six months ended June 30, 2019 and 5.2% for the six months ended June 30, 2018.

Transactions with Related Parties

See Note 16 - Related Party Transactions to our condensed consolidated financial statements.

Liquidity and Capital Resources

At June 30, 2019, we had \$24.8 million in cash and cash equivalents and \$71.4 million of principal balance on our Term Loan outstanding. Working capital decreased by \$16.4 million to \$93.1 million as of June 30, 2019, compared to \$109.5 million as of December 31, 2018. As of June 30, 2019, our days' sales outstanding (DSO), net of amounts owed to subcontractors, was 51 days representing an 11 day improvement from December 31, 2018.

Our operating cash flow constitutes our primary source of liquidity, and historically, has been sufficient to fund our working capital, capital expenditures, internal business expansion, and debt service, including our commitments as described in the Commitments table which follows. We expect to meet our future needs for working capital, capital expenditures, internal business expansion, and debt service from a combination of cash on hand, operating cash flows, and funds available through the revolving loan portion of our Amended and Restated Credit Agreement. See debt discussion which follows.

We made \$12.5 million in optional debt prepayments during the first half of 2019 and, as a result, no further debt payments are required through December 31, 2020. As of June 30, 2019, we were in compliance with the covenants contained in our Credit Agreement, which consist of leverage, fixed charge coverage, and asset coverage ratios. Based on the terms of the Credit Agreement, the fixed charge coverage ratio does not permit us to reflect the impact of debt prepayments made during 2019. As of June 30, 2019, we believe our financial results, based upon our projections as well as the further cost actions we can take, will be sufficient to maintain compliance with the financial covenants and meet our obligations for the next twelve months. In the event actual results differ significantly from current projections, we believe we would be able to either amend our Credit Agreement in conjunction with making additional prepayments, repay our existing senior term loan with other sources of liquidity, or refinance our senior debt entirely.

Net cash provided by operating activities was \$25.1 million in the six months ended June 30, 2019, compared to \$17.9 million in the six months ended June 30, 2018, primarily due to increased collections and the timing of payments.

Net cash used in investing activities was \$1.7 million in the six months ended June 30, 2019, compared to \$2.3 million in the six months ended June 30, 2018. Net cash used in both periods was for capital expenditures and acquisition-related settlements. Capital expenditures in the six months ended June 30, 2019 were primarily related to the project to replace our applicant tracking system for our travel nurse business.

Net cash used in financing activities during the six months ended June 30, 2019 was \$14.7 million, compared to \$8.6 million during the six months ended June 30, 2018. During the six months ended June 30, 2019, we used cash to make optional debt prepayments on our Term Loan of \$12.5 million, paid \$0.6 million in debt issuance costs in connection with the Second Amendment to our Amended and Restated Credit Facility, and paid \$1.6 million for other financing activities. During the six

months ended June 30, 2018, we used cash to repurchase and retire \$4.7 million in shares of Common Stock, repay \$2.5 million on our Term Loan, and pay \$1.4 million for other financing activities.

Debt

Credit Facilities

On March 29, 2019, we entered into a Second Amendment to our Amended and Restated Credit Agreement. During the first and second quarters of 2019, we made optional debt prepayments of \$7.5 million and \$5.0 million, respectively, on the term loan portion of our facility. As more fully described in Note 8 - Debt to our condensed consolidated financial statements, as of June 30, 2019, our Amended and Restated Credit Agreement, as amended, provides us with a \$146.4 million committed facility, including a term loan and a \$75.0 million revolving credit facility (Amended Revolving Credit Facility) (together with the Amended Term Loan, the Amended Credit Facilities).

As of June 30, 2019, the Applicable Margin, as defined in the Amended and Restated Credit Agreement, was 3.00% for Eurodollar Loans and LIBOR Index Rate Loans and 2.00% for Base Rate Loans. As of June 30, 2019, we had \$71.4 million principal balance on the Amended Term Loan and \$20.6 million in letters of credit outstanding.

Stockholders' Equity

See Note 12 - Stockholders' Equity to our condensed consolidated financial statements.

Commitments and Off-Balance Sheet Arrangements

As of June 30, 2019, we do not have any off-balance sheet arrangements.

The following table reflects our contractual obligations and other commitments as of June 30, 2019:

| Commitments | Total | Remainder of 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter |
|-----------------------------------|------------|----------------------|-----------|-----------|-----------|----------|------------|
| (Unaudited, amounts in thousands) | | | | | | | |
| Term Loan (a) | \$ 71,376 | \$ — | \$ — | \$ 5,386 | \$ 65,990 | \$ — | \$ — |
| Interest on debt (b) | 16,091 | 3,747 | 4,906 | 4,806 | 2,632 | — | — |
| Contingent consideration (c) | 8,712 | 180 | 2,844 | 2,844 | 2,844 | — | — |
| Operating lease obligations (d) | 31,229 | 3,083 | 6,720 | 5,875 | 4,986 | 4,696 | 5,869 |
| | \$ 127,408 | \$ 7,010 | \$ 14,470 | \$ 18,911 | \$ 76,452 | \$ 4,696 | \$ 5,869 |

- (a) Under our Amended and Restated Credit Agreement, we are required to comply with certain financial covenants. Our inability to comply with the required covenants or other provisions could result in default under our amended credit facilities. In the event of any such default and our inability to obtain a waiver of the default, all amounts outstanding under the Amended Credit Facilities could be declared immediately due and payable. As of June 30, 2019, we are in compliance with the covenants contained in the Amended and Restated Credit Agreement.
- (b) Interest on debt represents payments due through maturity for our Term Loan, calculated using the July 1, 2019 applicable LIBOR and margin rate totaling 5.4% on approximately 36% of the Term Loan balance, and a fixed interest rate of 5.6% on the other approximately 64% of the Term Loan balance, taking into account the interest rate swap. See Note 9 - Derivative to our condensed consolidated financial statements.
- (c) The contingent consideration represents the estimated payments due to the sellers related to the Mediscan acquisition, including accretion. See Note 4 - Acquisitions to our condensed consolidated financial statements. We have included the payments in the table based on our best estimates of the amounts and dates when the contingencies may be resolved.
- (d) Represents future minimum lease payments associated with operating lease agreements with original terms of more than one year.

See Note 14 - Contingencies to our condensed consolidated financial statements.

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 \$6.2 million at June 30, 2019. 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 Policies and Estimates

Our critical accounting policies and estimates remain consistent with those reported in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC, other than the adoption of ASU No. 2014-09, *Leases (Topic 842)* as discussed in Note 2 - Summary of Significant Accounting Policies and Note 10 - Leases to our condensed consolidated financial statements.

Recent Accounting Pronouncements

See Note 17 - Recent Accounting Pronouncements to our condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to the risk of fluctuation in interest rates relating to our outstanding senior secured term loan entered into on August 1, 2017 with a variable interest rate. As a result, we entered into an interest rate swap agreement which initially fixed the interest rate on 50% of the amortizing balance of our term debt, exclusive of the credit spread on the debt. We have determined that the interest rate swap qualifies as a cash flow hedge in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*. See Note 9 - Derivative to our condensed consolidated financial statements. Excluding the impact of our interest rate swap agreements, a 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately \$0.8 million and \$0.5 million for the three months ended June 30, 2019 and June 30, 2018, respectively. Considering the effect of our interest rate swap agreement in a 1% change in interest rates on our variable rate debt would have resulted in interest expense fluctuating approximately \$0.3 million for the three months ended June 30, 2019.

Other Risks

There have been no material changes to our other exposures as disclosed in our Annual Report on Form 10-K filed for the year ended December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

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

There were no changes in our internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. On January 1, 2019, we adopted ASC 842, *Leases*. We implemented internal controls and we are utilizing a new lease accounting information system to enable the preparation of financial information as part of the adoption. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard.

PART II. – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is involved in various litigation, claims, investigations, and other proceedings that arise in the ordinary course of its business. These matters primarily relate to employee-related matters that include individual and collective claims, professional liability, tax, and payroll practices. The Company establishes reserves when available information indicates that a loss is probable and an amount, or range of loss can be reasonably estimated. These assessments are performed at least quarterly and are based on the information available to management at the time and involve a significant management judgment to determine the probability and estimated amount of potential losses, if any. Based on the available information considered in its reviews, the Company adjusts its loss contingency accruals and its disclosures as may be required. Actual outcomes or losses may differ materially from those estimated by the Company's current assessments including available insurance recoveries, which would impact its profitability. Adverse developments in existing litigation claims or legal proceedings involving the Company or new claims could require it 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 its financial results. In the second quarter of 2019, the Company recorded \$1.6 million in legal settlement charges related to the resolution of a medical malpractice lawsuit, as well as a 2019 California wage and hour class action settlement agreement which remains subject to court approval. The Company believes the outcome of any outstanding loss contingencies as of June 30, 2019 will not have a material adverse effect on its business, financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

The below Risk Factor should be considered along with our Risk Factors as previously disclosed in our Form 10-K for the year ended December 31, 2018.

The interest rates under our Amended and Restated Credit Agreement and related interest rate swap may be impacted by the phase-out of the London Interbank Offered Rate (“LIBOR”).

LIBOR is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rates on loans globally. We generally use LIBOR as a reference rate to calculate interest under both our Amended and Restated Credit Agreement and our hedging agreement. In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if LIBOR will cease to exist at that time or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index, the Secured Overnight Financing Rate (“SOFR”), calculated using short-term repurchase agreements backed by Treasury securities. Whether or not SOFR, or another alternative reference rate, attains market traction as a LIBOR replacement tool remains in question. If LIBOR ceases to exist, we will need to agree upon a replacement reference rate with the banks under our Amended and Restated Credit Agreement and related hedging agreement, and amend the agreements accordingly. The new rates may not be as favorable to us as those in effect prior to any LIBOR phase-out.

ITEM 6. EXHIBITS

| <u>No.</u> | <u>Description</u> |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| *31.1 | <u>Certification pursuant to Rule 13a-14(a) and Rule 15d-14 (a) by Kevin C. Clark, President, Chief Executive Officer, Director (Principal Executive Officer)</u> |
| *31.2 | <u>Certification pursuant to Rule 13a-14(a) and Rule 15d-14 (a) by William J. Bums, EVP & Chief Financial Officer (Principal Accounting and Financial Officer)</u> |
| *32.1 | <u>Certification pursuant to 18 U.S.C. Section 1350 by Kevin C. Clark, President, Chief Executive Officer, Director (Principal Executive Officer)</u> |
| *32.2 | <u>Certification pursuant to 18 U.S.C. Section 1350 by William J. Bums, EVP & Chief Financial Officer (Principal Accounting and Financial Officer)</u> |
| **101.INS | XBRL Instance Document |
| **101.SCH | XBRL Taxonomy Extension Schema Document |
| **101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| **101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| **101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| **101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| # | Represents a management contract or compensatory plan or arrangement |
| * | Filed herewith |
| ** | Furnished herewith |

SIGNATURES

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

Date: August 1, 2019

CROSS COUNTRY HEALTHCARE, INC.

By: /s/ William J. Burns

William J. Burns
Executive Vice President, Chief Financial Officer (Principal
Accounting and Financial Officer)

Certification

I, Kevin C. Clark, certify that:

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

Date: August 1, 2019

/s/ Kevin C. Clark

Kevin C. Clark
President, Chief Executive Officer, Director
(Principal Executive Officer)

Certification

I, William J. Burns, certify that:

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

Date: August 1, 2019

/s/ William J. Burns

William J. Burns

Executive Vice President, Chief Financial Officer (Principal Accounting and Financial Officer)

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

In connection with the accompanying Quarterly Report on Form 10-Q of Cross Country Healthcare, Inc. (the Company) for the quarterly period ended June 30, 2019, (the "Periodic Report"), I, Kevin C. Clark, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 1, 2019

/s/ Kevin C. Clark

Kevin C. Clark
President, Chief Executive Officer, Director
(Principal Executive Officer)

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

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

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

In connection with the accompanying Quarterly Report on Form 10-Q of Cross Country Healthcare, Inc. (the "Company") for the quarterly period ended June 30, 2019, (the "Periodic Report"), I, William J. Burns, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 1, 2019

/s/ William J. Burns

William J. Burns

Executive Vice President, Chief Financial Officer (Principal Accounting and Financial Officer)

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

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