

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

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Fiscal Year Ended December 31, 2004**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission file number 0-33169**



**Cross Country Healthcare, Inc.**  
(Exact name of registrant as specified in its charter)

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

**13-4066229**  
(I.R.S. Employer Identification No.)

**6551 Park of Commerce Boulevard, N.W.**  
**Boca Raton, Florida 33487**  
(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: **(561) 998-2232**  
Securities registered pursuant to Section 12(b) of the act: **None**  
Securities registered pursuant to Section 12(g) of the act:  
**Common Stock, \$0.0001 Par Value Per Share**

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of Common Stock on June 30, 2004 of \$18.15 as reported on the Nasdaq National Market, was \$368,031,942. This calculation does not reflect a determination that persons are affiliated for any other purpose.

As of February 28, 2005, 32,224,277 shares of Common Stock, \$0.0001 par value per share, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement, for the 2005 Annual Meeting of Stockholders, which statement will be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Report, are incorporated by reference in Part III hereof.

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

## Forward-Looking Statements

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to those discussed in the section entitled "Business-Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the Risk Factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in fiscal year 2005.

## PART I

### Item 1. Business.

#### Overview of Our Company

We are one of the largest providers of healthcare staffing services in the United States. Our healthcare staffing business segment represented approximately 94% of our 2004 revenue and was comprised of travel and per diem nurse staffing, allied health staffing as well as clinical research trials staffing. Travel nurse staffing represented approximately 76% of our healthcare staffing revenue. Our other human capital management services business segment represented approximately 6% of our 2004 revenue and consisted of education and training, and retained physician and healthcare executive search services.

We believe we are well positioned in the current environment for healthcare staffing services to take advantage of longer-term industry and demographic dynamics that include a growing shortage and aging of registered nurses (RNs), an aging U.S. population expected to result in growth of hospital admissions, state and federal legislation regarding minimum nurse staffing levels and maximum allowable overtime, and the long-term secular trend among hospitals toward outsourcing to provide variable cost structure for flexibility in meeting their staffing requirements. For the year ended December 31, 2004, our revenue was \$654.1 million and our net income was \$20.7 million, or \$0.63 per diluted share. During 2004, we generated \$43.3 million in cash flow from operations and we reduced our debt to \$42.3 million, resulting in a debt to total capitalization ratio of 11% as of December 31, 2004.

During the fourth quarter of 2004, we sold two of our healthcare consulting practices and have a plan of sale for the remaining practice. Accordingly, our healthcare consulting business has been reclassified as a discontinued operation. Previously, these operations were included in our other human capital management services segment. In June 2003, we acquired the assets of Med-Staff, Inc. (MedStaff), a large privately-held travel and per diem nurse staffing company.

#### *Nurse and Allied Health Staffing*

We are a leading provider of travel nurse staffing services in the U.S. We also provide per diem nurse staffing and allied health professional staffing services. We market our healthcare staffing services to hospitals and healthcare facilities through our Cross Country Staffing and MedStaff brands to provide our clients with fixed-term travel and flexible-term per diem staffing solutions. We provide credentialed nurses for travel and per diem staffing assignments at public and private healthcare facilities, and for-profit and not-for-profit facilities located predominantly throughout the U.S. The vast majority of our assignments are at acute care hospitals, including teaching institutions, trauma centers and community hospitals located in major metropolitan areas. We also provide other healthcare professionals, in a wide range of specialties, which include operating room technicians, therapists, and other allied health professionals, such as radiology technicians, rehabilitation therapists and respiratory therapists. We also fill a small number of staffing assignments in non-acute care settings, including nursing homes, skilled nursing facilities and sports medicine clinics, and, to a lesser degree, in non-clinical settings, such as schools. Together, our client base includes approximately 3,000 hospitals and other healthcare providers across all 50 states. Our fees are paid directly by our clients and, in certain cases, by third-party administrative payors. As a result, we have no direct exposure to Medicare or Medicaid reimbursements.

In January 2005, Cross Country Staffing's travel staffing business received certification by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) under its Health Care Staffing Services Certification Program. The JCAHO certification program offers an independent, comprehensive evaluation of a staffing agency's ability to provide quality staffing services. We believe this certification program is the most important quality initiative in the history of our industry and one that we believe addresses certain quality concerns held by hospitals about healthcare staffing agencies.

Cross Country Staffing is our core staffing brand that markets its staffing services to hospitals and healthcare facilities as well as operates differentiated recruiting brands to recruit registered nurses and allied healthcare professionals on a domestic and international basis. In addition to staffing nurses and allied professionals at healthcare facilities throughout the U.S., Cross Country Staffing is pursuing and implementing exclusive and preferred provider relationships with hospital clients and group purchasing organizations. Cross Country Staffing provides clients with an integrated suite of solutions to facilitate the efficient management of their temporary workforce while decreasing overall staffing costs. These solutions include vendor management, interview servicing and technology.

We also market our nurse staffing services at numerous national, regional and local conferences and meetings, including the Johnson & Johnson "Campaign for Nursing's Future," the National Association of Health Care Recruiters, Association of Critical Care Nurses, American Organization of Nurse Executives, American Society for Healthcare Human Resource Administration, American College of Healthcare Executives and Medical Group Management Association.

Our centralized travel nurse staffing services are provided to clients in all 50 states from our headquarters in Boca Raton, Florida as well as offices in Malden, Massachusetts, Tampa, Florida and Newtown Square, Pennsylvania. In addition to providing travel nurse staffing services, our MedStaff brand also provides per diem nurse staffing solutions through a network of branch offices serving major metropolitan markets as well as provides nurse staffing services to military hospitals and clinics.

### *Recruiting and Retention*

We operate differentiated nurse recruiting brands consisting of Cross Country TravCorps, MedStaff, NovaPro, Cross Country Local and Assignment America to recruit nurses and allied healthcare professionals on a domestic and international basis. We believe that these professionals are attracted to us because we offer them high levels of customer service, competitive compensation and benefits packages, as well as a wide range of diverse assignments at attractive locations primarily throughout the U.S.

In 2004, thousands of healthcare professionals applied with us through our differentiated recruitment brands. Historically, more than half of our field employees have been referred to us by other healthcare professionals, with the remainder attracted by advertisements in trade publications and our Internet websites. Our Internet sites allow potential applicants to review our business profile, apply on-line, view our company-provided housing and participate in on-line forums.

In our travel staffing business, our recruiters are an important component of our business, responsible for establishing and maintaining key relationships with candidates for the duration of their employment with our Company. Our nurse recruiters work with the candidates throughout their initial placement process as well as on subsequent assignments. We believe our strong retention rate is a direct result of these relationships. Recruiters match the supply of qualified candidates in our database with the demand of positions from our hospital clients. At year-end 2004, we had 134 recruiters and believe we have an adequate number of nurse recruiters to support the present level of demand.

Our educational and training services give us a competitive advantage by enhancing both the quality of our nurses and the effectiveness of our recruitment efforts. Through Cross Country University, a unit of Cross Country TravCorps, we can also further develop the capabilities of our recruiters and working nurses by:

- Offering training opportunities;
- Enabling our nurses to easily complete state licensing requirements for continuing education; and
- Providing professional development opportunities to our nurses.

Our recruiters utilize our computerized databases of positions to match assignment opportunities with the experience, skills and geographic preferences of their candidates. Once an assignment is selected, our account managers review the candidate's application package before submitting it to the client for review. Account managers are knowledgeable about the specific requirements and operating environment in the hospitals that they service. Our databases are kept up-to-date by our account managers as well as through StaffingOffice.com, a component of Cross Country Staffing's suite of services that provides hospitals with an online tool for managing their supplemental healthcare staffing needs. This technology solution utilizes the hospital's existing Internet connection and requires no infrastructure or software purchase on the part of the client.

### *Contracts with Field Employees and Hospital Clients*

Each of our traveling field employees works for us under a contract. Travel assignments are typically 13 weeks in duration. Our traveling field employees that are on payroll contracts are hourly employees whose contract specifies the hourly rate they will be paid and any other benefits they are entitled to receive during the contract period. For payroll contract employees, we bill clients at an hourly rate and assume all employee costs, including payroll, withholding taxes, benefits, professional liability insurance and Occupational Safety and Health Administration, or OSHA, requirements, as well as any travel and housing arrangements. Mobile contract employees are hourly employees of the hospital client and receive an agreement that specifies the hourly rates they will be paid by the hospital employer, as well as any benefits they are entitled to receive from us. For mobile contract employees, we provide recruitment, housing in apartments we lease and travel services. Our contract with the healthcare professional obligates us to provide these services to the healthcare professional. We are compensated for the services we provide at a predetermined rate negotiated with our hospital client, without regard to our cost of providing these services. Currently, approximately 98% of our employees work for us under payroll contracts. Our fees are paid directly by our clients and, in certain cases, by third-party administrative payors. As a result, we have no direct exposure to Medicare or Medicaid reimbursements.

### *Operations*

We operate our travel nurse staffing business from a relatively centralized business model servicing all of the assignment needs of our field employees and client facilities through operations centers located in Boca Raton, Florida, Malden, Massachusetts, Tampa, Florida and Newtown Square, Pennsylvania. These centers perform key support activities such as coordinating assignment accommodations, payroll processing, benefits administration, billing and collections, contract processing, client care and risk management. Our per diem staffing services are provided through a network of branch offices serving major metropolitan markets predominantly located along the East and West coasts of the U.S.

Hours worked by field employees are recorded by our operations system, which then transmits the data directly to Automated Data Processing (ADP) for payroll processing. Biweekly client billings are generated automatically once the payroll information is complete. Our payroll department also provides customer support services for field employees who have questions.

During 2004, we leased an average of approximately 2,450 apartments throughout the U.S. Our housing departments typically secure leases and arrange for furniture rental and utilities for field employees at their assignment locations. Generally, we provide accommodations at no cost to the healthcare professional on assignment with us based on our respective recruitment brand's practices, with lease terms that usually correspond to the length of the assignment. We believe that our economies of scale help us secure preferred pricing and favorable lease terms.

### *Clinical Trials Staffing*

Our ClinForce subsidiary provides clinical research professionals for in-sourced and out-sourced fixed-term contract assignments and permanent placement services to many of the world's leading companies in the pharmaceutical, biotechnology, medical device, contract research organization and related clinical research organization clients in North America. Many of our research trials professionals are also RNs. We provide professionals in such areas as clinical research and clinical data sciences, medical review and writing, and pharmacoeconomics and regulatory affairs. Our understanding of the clinical research process enables us to provide responsive services to our clients and to offer greater opportunities to our research professionals.

### *Education and Training Services*

Our Cross Country Education (CCE) subsidiary (formerly known as Cross Country Seminars) provides continuing education programs to the healthcare industry. CCE holds one-day seminars, as well as national conferences, on topics relevant to nurses and other healthcare professionals. In 2004, CCE held 5,270 seminars and conferences that were attended by approximately 180,000 registrants in more than 230 cities across the U.S. In addition, we extend these educational services to our field employees on favorable terms as a recruitment and retention tool.

### *Retained Search*

Our Cejka Search subsidiary, a nationally recognized retained search organization, provides physician and executive search services throughout the U.S. exclusively to the healthcare industry, including hospitals, pharmaceutical companies, insurance companies and physician groups.

## Overview of the Nurse Staffing Industry

### *Increasing Utilization of Healthcare Services*

There are a number of factors driving an increase in the utilization of healthcare services, including:

- ÿ Population and aging of Americans – A projected 18% increase in overall U.S. population between the year 2000 and 2020, will result in an additional 50 million people who will require health care – 19 million of which will be in the 65 and over age group (U.S. Department of Health and Human Services report – July 2002). People age 65 and older accounted for 13% of the population and \$144 billion, or 37%, of hospital spending in 1999, according to the most recent data available from the Centers for Medicare & Medicaid Services (CMS). The CMS projects that annual growth in spending on hospital services will remain relatively constant at about 6% throughout the next decade while total healthcare expenditures are expected to grow by an average of 7.1% annually from 2001 through 2010.
- ÿ Advances in medical technology and healthcare treatment methods that attract a greater number of patients with complex medical conditions requiring higher intensity care.

### *Industry Dynamics*

Over the coming decades, demand for healthcare services is expected to increase due to an aging U.S. population while the national supply of RNs is projected to decline. The expected result is a pronounced shortage of RNs. Contributing to this shortage is a rapidly aging population of working RNs, lower overall enrollment in nursing schools over the past decade, and a nurse education system strained by a lack of teaching facilities as well as an aging faculty with fewer doctoral candidates as potential replacement educators. Hospitals and other healthcare facilities utilize outsourced nurse staffing as a means of supplementing their own recruiting and retention programs, and benefit from the flexibility and variable cost that outsourcing provides in managing their changing nurse staffing requirements. Similarly, RNs have turned to outsourced nurse staffing for greater job flexibility and better working conditions.

### *Temporary Nurses*

The most common temporary nurse staffing alternatives available to hospital administrators are travel nurses and per diem nurses. Travel nurse staffing involves placement of RNs on a contracted, fixed-term basis typically for a 13 week assignment, although assignments may range from several weeks to one year. Travel assignments usually involve temporary relocation to the geographic area of the assignment. Travel nurses provide hospitals and other healthcare facilities with the flexibility and variable cost to manage changes in their staffing needs due to shifts in demand, represent a pool of potential full-time job candidates, and enable healthcare facilities to provide their patients with continuity of care. The staffing company generally is responsible for providing travel nurses with customary employment benefits and for coordinating travel and housing arrangements. Per diem nurse staffing comprises the majority of temporary healthcare staffing and involves the placement of locally-based healthcare professionals on short-term assignments, often for daily shift work, with little advance notice of assignments by the client.

### *Demand Dynamics*

During the five-year period from 1997 through 2002, outsourced labor used by hospitals increased by 72% according to a study by Shoemaker and Howell (August 2004). However, since mid-2002, we believe several factors have combined to reduce demand for outsourced nurse staffing services:

- ÿ Our nurse staffing business has weakened due to budgetary actions taken by acute care hospital customers resulting in a more cautious buying process that reduced the level of demand for our nurse staffing services and resulted in a decline in the number of nurses applying with us for contract travel assignments. During this time, hospitals have relied more on staff nurse overtime, expanded nurse patient ratios, and increased wages and compensation to attract more nurses to their workforce. We believe the reduction in the use of outsourced labor is an expected temporary pull-back following an extended period of rapid growth and does not signify a change in the long-term secular trend towards outsourcing. A recent study co-authored by Peter Buerhaus, Associate Dean of Vanderbilt University's School of Nursing that was published in Health Affairs (November 2004), reported that 205,000 full-time RNs entered the nursing workforce during the 2001 to 2003 period representing the largest two-year growth in nursing employment since the early 1980s. Most of the growth occurred in hospitals which added 183,000 RNs. Of this increase, nurses over age 50 and, to a lesser extent, foreign-born RNs accounted for the largest share of employment growth. We believe this increase is a function of a slow

recovery of the U.S. job market since the recession ended in fourth quarter of 2001. The result has been an increase in the number of hours worked by full-time and part-time nurses. These nurses are working directly for hospital employers at prevailing wages in order to supplement family income due to their spouses being unemployed, under-employed or just concerned about the future. For example, in 2002, hospital employment of RNs over the age of 50 rose 15.8%, and most of these RNs were married and lived in states where the unemployment rate had risen faster than the national average. More specifically, employment rose more than 14% among married RNs (nearly three-quarters of all RNs are married) between 2001 and 2003, compared to 4.8% among unmarried RNs suggesting that continued job security among RNs' spouses may have contributed to these RNs' increased presence in the workforce. In addition to economic factors, higher wages also resulted in older nurses re-entering the workforce and younger nurses being attracted into the profession.

- Ÿ Relatively low in-patient hospital admissions starting in 2003 and continuing through 2004 further decreased demand for temporary nurse staffing services. As admission rates increase, temporary employees are often added before full-time employees are hired. As admission rates decrease, hospitals tend to reduce their use of temporary employees before undertaking layoffs of their staff nurses. While hospitals were unable to explain the decline in admissions, it affected the degree to which they were willing to bring outsourced nurse staffing labor into their facilities. We believe this created a purchasing psychology where hospitals were more willing to be understaffed than overstaffed. During 2004, hospitals continued to be cautious purchasers of nurse staffing services based on relatively low expectations for in-patient admissions growth that were realized and their utilization of internal and external resources to staff to the level of their expectations.
- Ÿ Many travel nurses have been disappointed by the decline in the amount and diversity of staffing opportunities. This has heightened their perceived risk in the ability of nurse staffing companies to keep them working contract after contract in a geographic location and clinical setting they desire. Some have chosen to stop traveling to take full-time or part-time staff positions with hospitals. While we believe this may not be their first choice, they may delay returning to travel nursing until they become more assured in being able to be consistently employed by nurse staffing companies.

In 2004, when looking at these factors, we believe nurses' willingness to engage in the travel employment model was most responsible for continued declines in volumes in our nurse staffing business. While the number of orders for contract nurses improved substantially during 2004 from the low point in mid-2003, the level of our contract bookings for future assignments remained below the prior year. In the near term, we believe these metrics would be favorably impacted by higher than expected in-patient hospital admission trends. Longer term, improvement in overall job creation in the economy would provide many staff nurses with increased household income and greater confidence in being able to reduce the amount of regular and overtime hours they provided directly to hospital employers during the last two years. We believe this would lead to an increase in the demand for our services and encourage more nurses to actively seek travel assignments and apply with us. In general, we believe nurses are more willing to seek travel assignments during relatively high levels of demand for contract employment, and conversely, are more reluctant to seek travel assignments during and immediately following periods of weak demand for contract employment. We also believe demand for travel nurse staffing services will be favorably impacted in the long term by an aging population and an increasing shortage of nurses, although we cannot predict when that will happen.

#### *Shortage of Nurses*

There are approximately 2.7 million licensed RNs in the U.S. Of this total, approximately 2.2 million are employed in nursing of which approximately 1.7 million full-time and part-time RNs work in acute care hospital settings, according to the most recent data available from the U.S. Department of Health and Human Services (February 2001).

Notwithstanding the recent two-year increase in the nurse workforce, the nursing shortage is expected to grow over the coming decades. The nursing workforce is projected to shrink to 2.2 million by 2020, yet the latest government forecast reflects that 2.8 million FTE RNs will be required by 2020. A U.S. Bureau of Labor Statistics report (February 2004) stated that, for the first time, nurses represented the largest projected 10-year job growth occupation, putting the demand for RNs at 2.9 million in 2012, up from 2.3 million in 2002. A study by the U.S. Department of Health and Human Services (July 2002) estimated there will be a 20% shortage of nurses by 2015 and 29% by 2020 that equates to a vacancy of 810,000 RNs. A similar report in 2002 to JCAHO quantified this shortage to be at least 400,000 fewer nurses available to provide care than will be needed by 2020. Meanwhile, the

current national nurse vacancy rate is estimated to be approximately 7%. A year earlier, the vacancy rate was 13.9% according to a survey conducted by Bernard Hodes Group. The 2004 Health Affairs study, however, stated that despite the recent increase in nurses in the workforce, there is no empirical evidence that the nursing shortage has ended, citing a national survey of RNs and physicians conducted in 2004 which found that a majority of RNs (82%) and doctors (81%) perceived shortages of RNs in the hospitals where they worked or admitted most of their patients. Further, the national shortage of RNs is not evenly distributed across the country. The 2003 Nursing Shortage Update by Fitch, Inc. (Fitch) estimates that thirty states are currently experiencing a shortage, and by 2020, 44 states and the District of Columbia are projected to have shortages. Several factors are expected to contribute to the decline in the supply of RNs:

Ÿ The RN population is getting older and approaching retirement age. The average age of working RNs continues to advance from 42.1 years in 2002 toward 45.4 years projected by 2010. The Fitch report projects that by 2011 the number of retiring nurses will equal the number of new nurses entering the profession. According to the Department of Health and Human Services, the late 1990s was the slowest period of nursing population growth in the past 20 years, slowing to 1.3% compared with 2% to 3% in prior years. However, the more recent 2004 Health Affairs study reflects significant increases to the nurse workforce, primarily by older nurses where employment of nurses older than age 50 grew faster than any other age group. The study suggests that older RNs are sensitive to economic incentives, particularly to changes affecting their spouses' incomes and job security. It is likely that older RNs will remain in the workforce as long as job creation nationally runs below historically normal levels and hospitals continue to raise RN wages. It is unclear whether RN wage increases alone will be enough to retain many recently employed older RNs, particularly as they approach retirement due to the physically demanding nature of the job. The number of RNs retiring from the workforce is projected to exceed the number of new entrants to the nursing workforce between 2012 and 2016.

Another Health Affairs article published in 2003 co-authored by Peter Buerhaus estimated that nursing school enrollment would have to increase 40% annually over the next decade to put enough RNs in the pipeline to replace the number of nurses expected to retire. Following six straight years of decline, the number of domestically trained nurses sitting for the NCLEX exam, which is required for all new nurses entering the profession in the U. S., increased in the last three years. There were 17,000 more nurses taking this exam in 2004 than at the low point in 2001. Despite the recent increases, the number of NCLEX takers in 2004 was still 9% lower than in 1995 and falls well short of the required increase estimated by Buerhaus mentioned above.

Ÿ The capacity of U.S. nursing schools is also constraining the supply of domestically trained nurses. Nursing schools turned away more than 26,000 qualified applicants in 2004 according to the American Association of Colleges of Nursing (AACN) due to insufficient numbers of faculty and limited clinical placement sites and classroom space. In 2003, approximately 11,000 applicants were declined admittance to entry-level baccalaureate programs. The shortage of nurses is mirrored by a corresponding shortage of nursing faculty, which are even older than the average age of RNs. In addition, the Honor Society of Nursing reported a 7% vacancy rate for nursing faculty positions. Part of the challenge is that the minimum credential to educate nurses at the associate degree level is a master's degree, and a baccalaureate degree is required to get a master's degree. The constraint in the baccalaureate training programs is expected to exacerbate the future shortage of nurse educators. The AACN believes that baccalaureate-degreed RNs are five times more likely to pursue a higher degree than associate-degreed nurses. The AACN reported a 10% drop in nurses graduating with doctoral degrees in 2004 from the prior year.

Ÿ Many RNs are leaving the hospital workforce through retirement, death or by choosing careers outside of acute care hospitals or in professions other than nursing. There are approximately 500,000 licensed nurses not employed in nursing. According to a Peter D. Hart Research Associates study (April 2001), the top reasons nurses leave patient care, besides retirement, are to seek a job that is less stressful and less physically demanding (56%), to seek more regular hours (22%) and a desire for more compensation (18%).

### *Outsourcing of Staffing Services*

The use of temporary workers by hospitals increased by 72% from 1997 to 2002, rising from 4.7% of personnel expenses to 8.1% over that period, according to a recent study by Shoemaker and Howell (August 2004). Using temporary personnel enables healthcare providers to vary their staffing levels to match the changes in demand for their permanent staff caused by both planned and unplanned vacancies as well as variability in patient admissions.



Healthcare providers also use temporary personnel to address budgeted shortfalls due to vacancy rates and use temporary staffing to manage seasonal fluctuations in demand for their services. The following factors create seasonal fluctuations in demand for healthcare personnel:

- ÿ Seasonal population swings, in the sun-belt states of Florida, Arizona and California in the winter months and the Northeast and other geographical areas in the summer months; and
- ÿ Seasonal changes in occupancy rates that tend to increase during the winter months and decrease during the summer months.

The Staffing Industry Report, an independent staffing industry publication, estimates that in 2004 \$10.1 billion in revenue was generated in the U.S. healthcare staffing market and that this represented an overall decline of approximately 3% from \$10.4 billion in 2003 and \$11.4 billion in 2002. We believe approximately \$60.0 billion is spent on nursing labor by acute care hospitals. We estimate that historically about 8% to 10% of hospital nurse staffing was outsourced with utilization of about 25% travel nurse staffing and 75% per diem nurse staffing. However, as a result of the overall decrease in demand, we estimate about 7% to 8% of hospital nurse staffing is currently outsourced, representing approximately \$4.5 to \$5.0 billion of the total.

#### *Legislative Changes Expected To Increase Demand*

In response to concerns made by consumer groups about the quality of care provided in healthcare facilities and concerns by nursing organizations about the increased workloads and pressures on nurses, a number of states have either passed or introduced legislation addressing nurse to patient ratios and/or limiting mandatory nurse overtime. The federal government has taken, and is also contemplating, legislative action on these issues. The passage of such legislation is expected to increase the demand for nurses.

#### ÿ Nurse Staffing Plans and Nurse to Patient Ratio Legislation

The California Safe Hospital Staffing law went into effect January 1, 2004, which requires all hospitals in the state to have enough nurses to provide each patient with safe and quality care. These ratios set a cap on the number of patients for which any one nurse can be responsible, recognizing that the standard for patient care remains staffing based on patient acuity. This ratio legislation incorporated phased-in implementation dates of January 1, 2004, 2005, and 2008. According to a recent review of hospital data by the *L.A. Times*, only about 36% of hospitals in California were able to comply with the 2004 patient ratio requirements. In November 2004, however, certain state governmental actions occurred that may keep ratios at 2004 levels until 2008 rather than tighten in January 2005 as initially set by the legislation. The outcome of this matter is currently unresolved.

During 2004, the following states introduced legislation that would require healthcare facilities to develop nurse staffing plans and/or nurse to patient ratios: Florida, Hawaii, Massachusetts, Rhode Island and Washington. In addition to California, in prior years, the states of Nevada, Texas, Oregon, Kentucky, and Virginia adopted similar legislation that has not yet been implemented.

In January 2005, the U.S. Senate introduced the Registered Nurse Safe Staffing Act of 2005 that would require Medicare providers to disclose staffing levels and patient outcomes. A companion bill has been introduced in the U.S. House of Representatives.

#### ÿ Mandatory Overtime

During 2004, legislation was enacted in West Virginia and Connecticut prohibiting or limiting the use of mandatory nurse overtime. Similar legislation was also introduced in the states of Florida, Georgia, Hawaii, Iowa, Illinois, Massachusetts, Michigan, Missouri, New York, Ohio, Pennsylvania, Rhode Island, Tennessee, Vermont and Washington. In prior years, the states of California, Louisiana, Maine, Maryland, Minnesota, Nevada, New Jersey, Oregon and Texas enacted or introduced similar legislation.

In February 2005, a bill was introduced in the U.S. House of Representatives that is similar to laws passed in several states and would limit mandatory overtime for nurses to 12 hours in a 24-hour period and 80 hours over 14 days. Companion legislation is expected to be introduced in the U.S. Senate.

## Additional Information About Our Business

### Competitive Strengths

- Ÿ *Recognition in the Nurse Staffing Industry.* We have operated in the travel nurse staffing industry since the 1970s and have a leading nurse recruitment brand based on revenue. Our Cross Country Staffing brand is well recognized among leading hospitals and healthcare facilities and our Cross Country TravCorps and MedStaff brands are well recognized by RNs and other healthcare professionals. We believe that through our existing relationships with travel nurse staffing clients, we are positioned to effectively market our complementary per diem nurse, allied health and clinical research trial staffing services. In our non-staffing businesses, we believe our retained physician search business has one of the highest levels of recognition in its industry and our education and training business provides its services to a wide range of healthcare managers and professionals, including some healthcare professionals currently working for us on assignments or considering us for a future assignment.
- Ÿ *Strong and Diverse Client Relationships.* We provide staffing solutions to a client base of approximately 3,000 hospitals, pharmaceutical companies and other healthcare providers across all 50 states. No single client accounted for more than 3% of our revenue. We worked with 88% of the nation's top "Honor Roll" hospitals and 65% of the top hospitals as identified by U.S. News & World Report in its most recently published study.
- Ÿ *Vendor Management Capabilities.* Our Cross Country Staffing brand has the ability to provide acute care facilities with comprehensive vendor management services. By leveraging proprietary technology and its single-point of contact service model, Cross Country can manage all job orders, credential verification, candidate testing, invoicing, and management reporting.
- Ÿ *JCAHO Certification.* In January 2005, our Cross Country Staffing travel business received certification by the Joint Commission on Accreditation for Healthcare Organizations under its Health Care Staffing Services Certification Program. We are one of the first healthcare staffing companies and the first publicly traded company to receive this new certification. The JCAHO certification program offers independent, comprehensive evaluation of a staffing agency's abilities to provide quality staffing services. While this JCAHO program is voluntary for healthcare staffing companies, we believe it will result in differentiation among healthcare staffing providers and expect that hospitals will increasingly look for JCAHO certification when selecting a nurse staffing company to meet their temporary staffing needs.
- Ÿ *Recruiting and Employee Retention.* We are a leader in recruiting and retaining highly qualified healthcare professionals. We recruit healthcare professionals from all 50 states and Canada. We also recruit RNs from English-speaking foreign countries, assist them in obtaining U.S. nursing licenses, sponsor them for U.S. permanent residency visas, and then place them in domestic acute care hospitals. In 2004, thousands of healthcare professionals applied with us through our differentiated recruitment brands. Referrals generated a majority of our new candidates. We believe we offer appealing assignments, competitive compensation packages, attractive housing options and other valuable benefits.
- Ÿ *Continuing Education.* In 1996, we established Cross Country University, the first educational program in the travel nurse industry to be accredited by the American Nurse Credentialing Center. This accreditation enables us to provide continuing education credits to our healthcare professionals. Cross Country University provides accreditation and continuing education to other healthcare professionals.
- Ÿ *Scalable and Efficient Operating Structure.* At year-end 2004, the databases for our travel and per diem staffing businesses included approximately 200,000 RNs and other healthcare professionals who completed job applications with us. Our size and centralized travel nurse staffing structure provide us with operating efficiencies in key areas such as recruiting, advertising, marketing, training, housing and insurance benefits. Our proprietary information systems enable us to manage virtually all aspects of our travel nurse staffing operations. Our systems are designed to accommodate significant future growth.
- Ÿ *Strong Management Team with Extensive Healthcare Staffing and Acquisition Experience.* Our management team has played a key role in the development of the travel nurse staffing industry. Our management team, which averages more than 10 years of experience in the healthcare industry, has consistently demonstrated the ability to successfully identify and integrate strategic acquisitions.

## Systems

Our placement and support operations are enhanced by sophisticated information systems that facilitate smooth interaction between our recruitment and support activities. Our proprietary information systems enable us to manage virtually all aspects of our travel staffing operations. These systems are designed to accommodate significant future growth of our business. In addition, their parallel process design allows further capacity to be added to its existing hardware platform. We have proprietary software that handles most facets of our business, including contract pricing and profitability, contract processing, job posting, housing management, billing/payroll and insurance. Our systems provide reliable support to our facility clients and field employees and enable us to efficiently fulfill and renew job assignments. Our systems also provide detailed information on the status and skill set of each registered field employee.

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

## Growth Strategy

Despite the reduction in overall demand for outsourced healthcare staffing, there still remains unmet demand for our nurse staffing services. We are striving to meet a greater portion of this demand by pursuing and implementing exclusive and preferred provider relationships with new and existing hospital and health system clients that are large users of nurse staffing services. We also continue to recruit additional licensed nurses and other healthcare professionals, and manage our internal capacity to efficiently and effectively meet the changing supply and demand requirements of the healthcare staffing marketplace. We intend to continue to grow our businesses by:

- ÿ *Exclusive and Preferred Provider Relationships.* We plan to establish more exclusive and preferred provider relationships with our existing hospital clients and healthcare organizations as well as at hospitals and healthcare organizations for which we do not presently provide staffing services. We also plan to utilize our relationships with existing travel staffing clients to more effectively market our complementary services, including staffing of clinical trials and allied health professionals, search and recruitment, and education and training.
- ÿ *Enhancing Our Recruitment Efforts to Increase Our Supply of RNs and Other Healthcare Professionals.* Our recruitment strategy is focused on:
  - Utilizing a multi-brand approach to recruit nurses and other healthcare professionals on a domestic and international basis while segmenting the nurse marketplace with differentiated brand offerings;
  - Increasing the number of recruiters and improving the productivity of staff dedicated to the recruitment of new nurses;
  - Using the Internet to accelerate the recruitment-to-placement cycle;
  - Expanding our advertising presence to reach more nursing professionals; and
  - Increasing the number of referrals from existing field employees by providing them with superior service.
- ÿ *Increasing Our Market Presence in the Flexible-Term Per Diem Staffing Market.* We intend to use our existing brand recognition, client relationships and database of nurses who have expressed an interest in flexible-term assignments to expand our per diem services to the acute care hospital market. While we have not historically had a significant presence in per diem staffing services, MedStaff provides us with a more substantial platform for growth.
- ÿ *Acquiring Complementary Businesses.* We continually evaluate opportunities to acquire complementary businesses to strengthen and broaden our market presence.

## Competitive Environment

The nurse staffing industry is highly competitive. While barriers to entry are relatively low, achieving substantial scale is more challenging. Of the market for outsourced nurse staffing services used by hospitals, we believe that approximately 25% is fixed-term travel nurse staffing and approximately 75% is flexible-term per diem nurse staffing. Our principal competitor in the travel nurse staffing sector is AMN Healthcare Services, Inc. We also

compete with a number of nationally and regionally focused temporary nurse staffing companies that have the capabilities to relocate nurses geographically. The per diem nurse staffing sector is highly fragmented and comprised of numerous local temporary nurse agencies across the nation as well as some national providers such as, Medical Staffing Network Holdings, Inc. and IntelliStaf Healthcare, Inc. In addition, the markets for our clinical trials and allied staffing services and for our healthcare-oriented human capital management services are highly competitive and highly fragmented, with limited barriers to entry.

The principal competitive factors in attracting qualified candidates for temporary employment are salaries and benefits, quality of accommodations, quality and breadth of assignments, speed of placements, quality of recruitment teams and reputation. We believe that persons seeking temporary employment through us are also pursuing employment through other means, including other temporary staffing firms, and that multiple staffing companies have the opportunity to place employees with many of our clients. Therefore, the ability to respond to candidate inquiries and submit candidates to clients more quickly than our competitors is an important factor in our ability to fill assignments. In addition, because of the large overlap of assignments, we focus on retaining field employees by providing long-term benefits, such as 401(k) plans and cash bonuses. Although we believe that the relative size of our database and economies of scale derived from the size of our operations make us an attractive employer for nurses seeking travel opportunities, we expect competition for candidates to continue.

The principal competitive factors in attracting and retaining temporary healthcare staffing clients include the ability to fill client needs, price, quality assurance and screening capabilities, compliance with regulatory requirements, an understanding of the client's work environment, risk management policies and coverages, and general industry reputation. In addition, the level of demand for outsourced nurse staffing is influenced by in-patient admissions, national healthcare spending and spending on hospital care, general economic conditions and its impact on national, regional and local labor markets, and the corresponding supply of full-time and part-time hospital-based nurses willing to work at prevailing hospital wages.

#### *Regulatory Issues*

In order to service our client facilities and to comply with OSHA and JCAHO standards, we have a risk management program. The program is designed to, among other things, protect against the risk of negligent hiring. In addition, we have a claims-made professional liability insurance policy pursuant to which we provide primary coverage of \$2 million for each occurrence through a self-insured retention program that is guaranteed by a \$2 million irrevocable letter of credit held by our excess insurance provider. We also have up to \$10 million in umbrella liability insurance coverage after the \$2 million primary coverage has been exhausted.

#### *Professional Licensure*

Nurses and most other healthcare professionals employed by us are required to be individually licensed or certified under applicable state law. In addition, the healthcare professionals that we staff are frequently required to have been certified to provide certain medical care, such as CPR and ACLS, depending on the positions in which they are placed. Our comprehensive compliance program is designed to ensure that our employees possess all necessary licenses and certifications, and we believe that our employees, including nurses and therapists, comply with all applicable state laws.

#### *Business Licenses*

A number of states require state licensure for businesses that, for a fee, employ and assign personnel, including healthcare personnel, to provide services on-site at hospitals and other healthcare facilities to support or supplement the hospitals' or healthcare facilities' workforce. A number of states also require state licensure for businesses that operate placement services for individuals attempting to secure employment. Failure to obtain the necessary licenses can result in injunctions against operating, cease and desist orders, and/or fines. We endeavor to maintain in effect all required state licenses.

#### *Regulations Affecting Our Clients*

Many of our clients are reimbursed under the federal Medicare program and state Medicaid programs for the services they provide. In recent years, federal and state governments have made significant changes in these programs that have reduced reimbursement rates. In addition, insurance companies and managed care organizations seek to control costs by requiring that healthcare providers, such as hospitals, discount their services in exchange for exclusive or preferred participation in their benefit plans. Future federal and state legislation or evolving commercial reimbursement trends may further reduce, or change conditions for, our clients' reimbursement. Such limitations on reimbursement could reduce our clients' cash flows, hampering their ability to pay us.

## *Immigration*

Changes in immigration law and procedures following September 11, 2001 have slowed down our ability to recruit foreign nurses to meet demand, and changes to such procedures in the future could further hamper our overseas recruiting efforts. In addition, our use of foreign nurses may entail greater difficulty in ensuring that each professional has the proper credentials and licensure.

## *Regulations Applicable to Our Business*

Our business is subject to extensive regulation by numerous governmental authorities in the United States. These complex federal and state laws and regulations govern, among other things, the validity of our foreign nurses working in the U.S., the licensure of professionals, the payment of our employees (e.g. wage and hour laws, employment taxes and income tax withholdings, etc.) and the operations of our business generally. We conduct business in 50 states and are subject to the laws and regulations applicable to our business therein, which may be amended from time to time. Future federal and state legislation or interpretations thereof may require us to change our business practices. Compliance with all of these applicable rules and regulations require a significant amount of resources. We endeavor to be in compliance with all such rules and regulations.

## **Employees**

As of December 31, 2004, we had approximately 1,000 corporate employees and during 2004 had an average of 5,756 full-time equivalent field employees. We are not subject to a collective bargaining agreement with any of our employees. We consider our relationship with employees to be good.

## **Available Information**

Financial reports and filings with the Securities and Exchange Commission (SEC), including this report on Form 10-K, are available free of charge as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC, on or through our Internet website, [www.crosscountry.com](http://www.crosscountry.com).

## **Risk Factors**

***Although demand for outsourced nurse staffing has declined from the historically high levels reached during the peak years of 2000 and 2001, industry dynamics are such that we are still unable to recruit enough nurses to meet our clients' demands for our nurse staffing services, limiting the potential growth of our nurse staffing business.***

We rely significantly on our ability to attract, develop and retain nurses and other healthcare professionals who possess the skills, experience and, as required, licensure necessary to meet the specified requirements of our healthcare staffing clients. We compete for healthcare staffing personnel with other temporary healthcare staffing companies, as well as actual and potential clients, some of which seek to fill positions with either regular or temporary employees. Currently, there is a shortage of qualified nurses in most areas of the United States and competition for nursing personnel is increasing. Although demand from our clients has slowed down, at this time we still do not have enough nurses to meet our clients' demands for our nurse staffing services. This shortage of nurses limits our ability to grow our nurse staffing business. Furthermore, we believe that the aging of the existing nurse population and lower enrollment in nursing schools from levels seen in the mid 1990s will further exacerbate the existing nurse shortage.

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

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

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

We compete with hospitals and other healthcare staffing companies for qualified nurses and other healthcare professionals. Because there is currently a shortage of qualified healthcare professionals, competition for these employees is intense. To induce healthcare professionals to sign on with them, our competitors may increase hourly

wages or other benefits. If we do not raise wages or other benefits in response to such increases by our competitors, we could face difficulties attracting and retaining qualified healthcare professionals. If we raise wages in response to our competitors' wage increases and are unable to pass such cost increases on to our clients, our margins could decline.

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

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

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

Our travel staffing arrangements with clients are generally terminable upon 30 or 90 days' notice. We may have fixed costs, including housing costs, associated with terminated arrangements that we will be obligated to pay post-termination.

Our clinical trials staffing business is conducted under long-term contracts with individual clients that may conduct numerous clinical trials. Some of these long-term contracts are terminable by the clients without cause upon 30 to 60 days' notice.

Health systems may develop their own in-house staffing capabilities that may replace their need to outsource staffing to us.

***Decreases in in-patient admissions at our clients' facilities may adversely affect the profitability of our business.***

The general level of in-patient admissions at our clients' facilities significantly affects demand for our temporary healthcare staffing services. When a hospital's admissions increase, temporary employees are often added before full-time employees are hired. As admissions decrease, clients may reduce their use of temporary employees before undertaking layoffs of their regular employees. We also may experience more competitive pricing pressure during periods of in-patient admissions downturn. In addition, if a trend emerges toward providing healthcare in alternative settings, as opposed to acute care hospitals, in-patient admissions at our clients' facilities could decline. This reduction in admissions could adversely affect the demand for our services and our profitability.

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

Our Company is dependent on the proper functioning of our information systems in operating our business. Critical information systems used in daily operations identify and match staffing resources and client assignments and perform billing and accounts receivable functions. Additionally, we rely on our information systems in managing our accounting and financial reporting. Our information systems are protected through physical and software safeguards and we have backup remote processing capabilities. However, they are still vulnerable to fire, storm, flood, power loss, telecommunications failures, physical or software break-ins and similar events. In the event that critical information systems fail or are otherwise unavailable, these functions would have to be accomplished manually, which could temporarily impact our ability to identify business opportunities quickly, to maintain billing and clinical records reliably, to bill for services efficiently and to maintain our accounting and financial reporting effectively.

***If regulations that apply to us change, we may face increased costs that reduce our revenue and profitability.***

The temporary healthcare staffing industry is regulated in many states. In some states, firms such as our Company must be registered to establish and advertise as a nurse-staffing agency or must qualify for an exemption from registration in those states. If we were to lose any required state licenses, we could be required to cease operating in those states. The introduction of new regulatory provisions could substantially raise the costs associated with hiring

temporary employees. For example, some states could impose sales taxes or increase sales tax rates on temporary healthcare staffing services. These increased costs may not be able to be passed on to clients without a decrease in demand for temporary employees. In addition, if government regulations were implemented that limited the amounts we could charge for our services, our profitability could be adversely affected.

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

We are spending an increased amount of management time and external resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq Stock Market rules. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires management's annual review and evaluation of our internal control systems, and attestations of the effectiveness of these systems by our independent auditors. This process for 2004 required us to hire additional personnel and outside advisory services and resulted in additional accounting and legal expenses.

***Future changes in reimbursement trends could hamper our clients' ability to pay us.***

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

***Competition for acquisition opportunities may restrict our future growth by limiting our ability to make acquisitions at reasonable valuations.***

Our business strategy includes increasing our market share and presence in the temporary healthcare staffing industry and other human capital management services through strategic acquisitions of companies that complement or enhance our business. We have historically faced competition for acquisitions. In the future, this could limit our ability to grow by acquisition or could raise the prices of acquisitions and make them less accretive to our earnings. In addition, restrictive covenants in our credit facility, including a covenant that requires us to obtain lender's approval for any acquisition over \$25.0 million, may limit our ability to complete desirable acquisitions. If we are unable to secure necessary financing under our credit facility or otherwise, we may be unable to complete desirable acquisitions.

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

We continually evaluate opportunities to acquire healthcare staffing companies and other human capital management services companies that would complement or enhance our business and at times have preliminary acquisition discussions with some of these companies.

These acquisitions involve numerous risks, including:

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

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

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

Our industry is subject to many complex federal and state laws and regulations related to, among other things, the validity of our foreign nurses working in the U.S., the licensure of professionals, the payment of our employees (e.g., wage and hour laws, employment taxes and income tax withholdings, etc.) and the operations of our business generally. If we do not comply with the laws and regulations that are applicable to our business, we could incur civil and/or criminal penalties or be subject to equitable remedies.

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

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

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

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

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

The costs related to obtaining and maintaining professional and general liability insurance and health insurance for healthcare providers has been increasing. If the cost of carrying this insurance continues to increase significantly, we will recognize an associated increase in costs, which may negatively affect our margins. This could have an adverse impact on our financial condition.

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

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

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

The Company is a defendant in a purported class action captioned *Theodora Cossack, et al. v. Cross Country TravCorps, Inc. and Cross Country Nurses, Inc.*, pending in the Superior Court of the State of California, Orange County, alleging, among other things, that the defendants failed to pay plaintiffs, and the class they purport to represent, properly under California law. MedStaff, Inc. is a defendant in a purported class action captioned *Maureen Petray and Carina Higareda, et al. v. MedStaff, Inc.* filed in the Superior Court of the State of California, for the County of Riverside, alleging among other things, that that defendant failed to provide meal period and rest breaks and pay for those missed meal periods and rest breaks; failed to pay plaintiffs and the class they purport to represent for all hours worked; failed to compensate the employees for overtime worked; and failed to keep appropriate records to keep track of time worked. The defense of these lawsuits may result in substantial costs and



may divert management's attention and resources, which may seriously harm our business. In addition, an adverse determination or a substantial settlement in either case could have a material adverse effect on our business, financial condition, results of operations, cash flow or future prospects.

***Our indemnity from W. R. Grace, in connection with our acquisition of the assets of Cross Country Staffing, may be materially impaired by Grace's financial condition.***

In connection with our acquisition from W. R. Grace & Co. ("Grace") of the assets of Cross Country Staffing, our predecessor, Grace agreed to indemnify us against damages arising out of the breach of certain representations or warranties of Grace, as well as against any liabilities retained by Grace. In March 2001, Grace filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. This bankruptcy filing could materially impair Grace's obligations to indemnify us.

***Until the sale by certain selling stockholders of a significant portion of the shares offered by the prospectus filed in November 2004, those selling stockholders will be able to substantially influence the outcome of all matters submitted to our stockholders for approval, regardless of the preferences of other stockholders.***

Charterhouse Equity Partners III, ("CEP III"), CHEF Nominees Limited ("CHEF", and together with CEP III, the "CEP Investors") and investment funds affiliated with Morgan Stanley Dean Witter Capital Partners, IV, L.P. and Morgan Stanley Venture Partners III, L.P. (collectively, the "Morgan Stanley Funds") together own approximately 35% of our outstanding common stock. Accordingly, acting together, they will be able to substantially influence:

- the election of directors;
- management and policies; and
- the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets.

Currently, our Board of Directors is comprised of nine members, two of whom are designees of the CEP Investors and two of whom are designees of the Morgan Stanley Funds. Under our stockholders' agreement, the CEP Investors and the Morgan Stanley Funds each have the right to designate two directors for nomination to our Board of Directors. This number decreases (i) to one director for each group of investors if either the CEP Investors or the Morgan Stanley Funds reduce their respective ownership by more than 50% of their holdings prior to our initial public offering and (ii) to zero for each group of investors upon a reduction of ownership by more than 90% of their holdings prior to our initial public offering. Their interests may conflict with the interests of the other holders of Common Stock.

On November 3, 2004, the Company filed Registration Statement (File No. 333-120189) on Form S-3 pursuant to Rule 415 under the Securities Act of 1933 with the SEC relating to 11,403,455 of common stock owned by the CEP Investors and the Morgan Stanley funds. To date no such shares have been sold.

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

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

***CEP III and investment funds managed by Morgan Stanley Private Equity each have demand rights to cause us to file a registration statement under the Securities Act covering resales of their stock and sales of this stock could cause our stock price to decline.***

CEP III and investment funds managed by Morgan Stanley Private Equity each have demand rights to cause us to file, at our expense, a registration statement under the Securities Act covering resales of their shares. These shares represent approximately 35% of our outstanding common stock. These shares may also be sold under Rule 144 of the Securities Act, depending on their holding period and are subject to significant restrictions in the case of shares held by persons deemed to be our affiliates. On November 3, 2004, the Company filed Registration Statement

(File No. 333-120189) on Form S-3 pursuant to Rule 415 under the Securities Act of 1933 with the SEC relating to 11,403,455 of common stock owned by the CEP Investors and the Morgan Stanley funds. To date, no such shares have been sold.

In addition, we registered 4,398,001 shares of common stock for issuance under our stock option plans. Options to purchase 2,689,963 shares of common stock were issued and outstanding as of February 28, 2005, of which, options to purchase 2,146,652 shares were vested. Common stock issued upon exercise of stock options, under our benefit plans, is eligible for resale in the public market without restriction.

We cannot predict what effect, if any, market sales of shares held by any stockholder or the availability of these shares for future sale will have on the market price of our common stock.

**Item 2. Properties.**

We do not own any real property. Our principal leases as of December 31, 2004 are listed below.

Location	Function	Square Feet	Lease Expiration
Boca Raton, Florida	Headquarters	70,406	May 1, 2013
Newtown Square, Pennsylvania	Staffing administration and general office use	35,000	July 31, 2006
Malden, Massachusetts	Staffing administration and general office use	31,662	June 30, 2009
Clayton, Missouri	Search and recruitment headquarters	20,539	November 30, 2008
Durham, North Carolina	Clinical research and trials staffing headquarters	21,400	September 30, 2013
Tampa, Florida	Staffing administration and general office use	15,698	December 31, 2007
Nashville, Tennessee	Education training corporate office	9,070	August 31, 2007

**Item 3. Legal Proceedings.**

***Theodora Cossack, et. al. v. Cross Country TravCorps and Cross Country Nurses, Inc.***

On August 26, 2003, Theodora Cossack and Barry S. Phillips, C.P.A., filed suit in the Superior Court of the State of California, for the County of Orange, naming Cross Country TravCorps, Inc. and Cross Country Nurses, Inc. as defendants. Plaintiffs plead causes of action for (1) Violation of California Business and Professions Code §§ 17200, et. seq; (2) Violations of California Labor Code §§ 200, et. seq; (3) Recovery of Unpaid Wages and Penalties; (4) Conversion; (5) Breach of Contract; (6) Common Counts—Work, Labor, Services Provided; and (7) Common Counts—Money Had and Received.

Plaintiffs, who purport to sue on behalf of themselves and all others similarly situated, allege that Defendants failed to pay plaintiffs, and the class they purport to represent, properly under California law. Plaintiffs claim that defendants failed to pay nurses hourly overtime as required by California law; failed to calculate correctly their employees’ regular rate of pay used to calculate the rate at which overtime hours are to be compensated; failed to calculate correctly and pay a double time premium for all hours worked in excess of 12 in a workday; scheduled some of its employees on an alternative workweek schedule, but failed to pay them additional compensation when those employees did not work such alternative workweek, as scheduled; failed to pay for missed meal and rest breaks; and failed to pay employees for the minimum hours defendants had promised them.

Plaintiffs seek (among other things) an order enjoining defendants from engaging in the practices challenged in the complaint; for an order for full restitution of all monies Defendants allegedly failed to pay Plaintiffs (and their purported class); for pre-judgment interest; for certain penalties provided for by the California Labor Code; and for attorneys’ fees and costs.

The lawsuit has not yet been certified by the court as a class action. As a result, we are unable at this time to determine our potential exposure. We intend to vigorously defend this matter.

***Peter A. Cohen, individually and on behalf of all other similarly situated v. Cross Country Healthcare, Inc., Joseph Boshart and Emil Hensel; and City of Ann Arbor Employees Retirement System v. Cross Country Healthcare, Inc., Joseph A. Boshart and Emil Hensel; and Robert Husted and Marcella Husted, individually and on behalf of all other similarly situated v. Cross Country Healthcare, Inc., Joseph Boshart and Emil Hensel.***

In August 2004, the lawsuits described above were filed on behalf of the plaintiffs in those lawsuits and all other persons who acquired the Company’s Common Stock during the period October 25, 2001 through August 6, 2002.

The lawsuits were brought against Messrs. Boshart (President and CEO of Cross Country and a director) and Hensel (Chief Financial Officer of Cross Country and a director) and the Company. All three lawsuits were filed in the United States District Court, Southern District of Florida.

Plaintiffs in these lawsuits alleged, among other things, that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by, among other things, issuing public documents and statements that were materially false and misleading concerning the Company's business, operations and prospects which artificially inflated the price of the Company's Common Stock. The complaints further alleged that defendants knew or recklessly disregarded that hospitals were hiring fewer of the Company's nurses; the shortage of nurses was no longer creating as strong a demand for temporary nurses; and the Company had problems with staffing orders being received from hospitals and then abruptly cancelled.

All three of these lawsuits were voluntarily dismissed without prejudice by the respective plaintiffs. No consideration was paid by the Company.

***William Marcus, Derivatively On Behalf of Cross Country Healthcare, Inc. v. Joseph A. Boshart, Emil Hensel, Karen H. Bechtel, W. Larry Cash, Bruce A. Cerullo, Thomas C. Dircks, A. Lawrence Fagan, M. Fazle Husain, Joseph Swedish and Joseph Trunfio; and David Steiner, Derivatively On Behalf of Cross Country Healthcare, Inc. v. Joseph A. Boshart, Emil Hensel, Karen H. Bechtel, W. Larry Cash, Bruce A. Carlo, Thomas C. Dircks, A. Lawrence Fagan, M. Fazle Husain, Joseph Swedish and Joseph Trunfio.***

In September 2004, each of William Marcus and David Steiner filed identical lawsuits derivatively on behalf of the Company v. Joseph A. Boshart, Emil Hensel, Karen H. Bechtel, W. Larry Cash, Bruce A. Cerullo, Thomas C. Dircks, A. Lawrence Fagan, M. Fazle Husain, Joseph Swedish and Joseph Trunfio (each a member of the Board of Directors of the Company from October 25, 2001 to August 6, 2002). Plaintiffs alleged, among other things, that the defendants violated state laws, including breaches of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment from October 25, 2001 to August 6, 2002 which allegedly resulted in substantial losses to the Company and other damages, such as to its reputation and goodwill. The complaints further alleged that defendants misrepresented its financial results during that period.

Both of these lawsuits were voluntarily dismissed without prejudice by the respective plaintiffs. No consideration was paid by the Company.

***Maureen Petray and Carina Higareda v. MedStaff, Inc.***

On February 18, 2005, Maureen Petray and Carina Higareda, two former MedStaff, Inc. corporate employees, filed suit in the Superior Court of the State of California, for the County of Riverside, naming MedStaff, Inc. as defendant. Plaintiffs plead causes of action for (1) Violations of California Labor Code Sections 200, et seq.; (2) Recovery of Unpaid Wages and Penalties; (3) Violation of California Business and Professions Code Sections 17200, et seq; (4) Conversion; and (5) Accounting.

Plaintiffs, who purport to sue on behalf of themselves and all others similarly situated, allege that Defendant failed to pay plaintiffs, and the class they purport to represent, properly under California law. Plaintiffs claim that defendant failed to provide meal period and rest breaks and pay for those missed meal periods and rest breaks; failed to compensate the employees for all hours worked; failed to compensate the employees for overtime worked more than eight hours in a day or forty hours in a week; and failed to keep appropriate records to keep track of time worked.

Plaintiffs seek, among other things, an order enjoining defendant from engaging in the practices challenged in the complaint; for an order for full restitution of all monies Defendants allegedly failed to pay Plaintiffs and their purported class; for interest; for certain penalties provided for by the California Labor Code; and for attorneys' fees and costs.

At December 31, 2004, there were less than 50 corporate employees working at MedStaff, Inc. in California. The lawsuit is in its very early stages and has not yet been certified by the court as a class action. As a result, we are unable at this time to determine our potential exposure. We intend to vigorously defend this matter.

#### **Item 4. Submission Of Matters To A Vote Of Security Holders.**

There were no matters submitted to a vote of security holders during the fourth quarter of 2004.

## PART II

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

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

<u>Calendar Period</u>	Closing Sale Prices	
	High	Low
<b><u>2004</u></b>		
Quarter Ended March 31, 2004	\$ 19.31	\$ 15.72
Quarter Ended June 30, 2004	\$ 18.44	\$ 16.09
Quarter Ended September 30, 2004	\$ 17.63	\$ 13.92
Quarter Ended December 31, 2004	\$ 19.35	\$ 14.83
<b><u>2003</u></b>		
Quarter Ended March 31, 2003	\$ 16.25	\$ 9.75
Quarter Ended June 30, 2003	\$ 13.91	\$ 10.33
Quarter Ended September 30, 2003	\$ 16.00	\$ 13.00
Quarter Ended December 31, 2003	\$ 15.47	\$ 13.05

As of March 1, 2005, there were approximately 148 stockholders of record of our common stock. In addition, there are approximately 3,800 beneficial owners of our common stock held by brokers or other institutions on behalf of stockholders.

We have never paid or declared cash dividends on our common stock. We currently intend to use available cash from operations for use in the operation and expansion of our business or to retire debt, to repurchase our common stock or to possibly pay cash dividends. Covenants in our credit facility limit our ability to repurchase our common stock and declare and pay cash dividends on our common stock.

During 2004, we granted options to purchase a total of 88,700 shares of common stock to employees, including certain senior managers, at a weighted average exercise price of approximately \$17.85 per share. Such grants were deemed exempt from registration under the Securities Act in reliance on either: (1) Rule 701 promulgated under the Securities Act as offers and sales of securities pursuant to certain compensatory benefit plans and contracts relating to compensation in compliance with Rule 701; or (2) Section 4(2) of the Securities Act, including Regulation D there under, as transactions by an issuer not involving any public offering.

With respect to equity compensation plans as of December 31, 2004, see table below:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</u>
Equity compensation plans approved by security holders	2,413,722	\$ 13.63	955,708
Equity compensation plans not approved by security holders	<u>None</u>	<u>N/A</u>	<u>N/A</u>
<b>Total</b>	<u><u>2,413,722</u></u>	<u><u>\$ 13.63</u></u>	<u><u>955,708</u></u>

## Item 6. Selected Financial Data.

The selected consolidated financial data as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003, and 2002 are derived from the audited consolidated financial statements of Cross Country Healthcare, Inc. included elsewhere in this report. The selected consolidated financial data as of December 31, 2002, 2001 and 2000 and for the years ended December 31, 2001 and 2000, are derived from the consolidated financial statements of Cross Country Healthcare, Inc. that have been audited but not included in this report.

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

	Years Ended December 31,				
	2004 (a)	2003 (a) (b)	2002 (a)	2001 (a)	2000 (a)
(Dollars in thousands, except share and per share data)					
<b>Consolidated Statements of Income Data</b>					
Revenue from services	\$ 654,111	\$ 673,102	\$ 626,109	\$ 504,364	\$ 368,332
Operating expenses:					
Direct operating expenses	509,571	519,840	478,550	377,291	273,094
Selling, general and administrative expenses	99,535	95,736	82,465	68,560	49,594
Bad debt expense	957	1,350	162	1,274	433
Depreciation	5,140	4,371	3,397	2,700	1,324
Amortization	2,345	3,470	3,083	14,851	13,624
Non-recurring secondary offering costs (c)	—	16	886	—	—
Non-recurring indirect transaction costs (d)	—	—	—	—	1,289
Total operating expenses	<u>617,548</u>	<u>624,783</u>	<u>568,543</u>	<u>464,676</u>	<u>339,358</u>
Income from operations	36,563	48,319	57,566	39,688	28,974
Other expenses:					
Interest expense, net	4,025	4,317	3,733	14,422	15,435
Loss on early extinguishment of debt (e)	—	960	—	8,000	—
Income from continuing operations before income taxes	32,538	43,042	53,833	17,266	13,539
Income tax expense	<u>(11,935)</u>	<u>(16,657)</u>	<u>(20,833)</u>	<u>(7,646)</u>	<u>(6,807)</u>
Income from continuing operations	20,603	26,385	33,000	9,620	6,732
Discontinued operations, net of income taxes:					
Income (loss) from discontinued operations (f)	56	(564)	(3,217)	(741)	(1,680)
Loss on disposal (f)	—	—	—	(207)	(454)
Net income	<u>\$ 20,659</u>	<u>\$ 25,821</u>	<u>\$ 29,783</u>	<u>\$ 8,672</u>	<u>\$ 4,598</u>
Net income (loss) per common share - basic:					
Income from continuing operations	\$ 0.65	\$ 0.82	\$ 1.02	\$ 0.39	\$ 0.29
Discontinued operations	0.00	(0.02)	(0.10)	(0.04)	(0.09)
Net income	<u>\$ 0.65</u>	<u>\$ 0.80</u>	<u>\$ 0.92</u>	<u>\$ 0.35</u>	<u>\$ 0.20</u>
Net income (loss) per common share - diluted :					
Income from continuing operations	\$ 0.63	\$ 0.81	\$ 0.98	\$ 0.38	\$ 0.29
Discontinued operations	0.00	(0.02)	(0.10)	(0.04)	(0.09)
Net income	<u>\$ 0.63</u>	<u>\$ 0.79</u>	<u>\$ 0.88</u>	<u>\$ 0.34</u>	<u>\$ 0.20</u>
Weighted-average common shares outstanding:					
Basic	31,992,752	32,090,731	32,432,026	24,881,218	23,205,388
Diluted	32,578,319	32,530,563	33,653,433	25,222,936	23,205,388
<b>Other Operating Data</b>					
FTE's (g)	5,756	5,917	5,535	4,816	4,167
Weeks worked (h)	299,312	307,684	287,820	250,432	216,684
Average healthcare staffing revenue per FTE per week (i)	\$ 2,045	\$ 2,069	\$ 2,046	\$ 1,865	\$ 1,619
Net cash flow provided by operating activities	\$ 43,268	\$ 51,799	\$ 42,690	\$ 19,795	\$ 11,594
Net cash flow provided by (used in) investing activities	\$ 4,007	\$ (109,477)	\$ (19,834)	\$ (42,321)	\$ (10,781)
Net cash flow (used in) provided by financing activities	\$ (47,275)	\$ 40,468	\$ (8,382)	\$ 25,262	\$ (5,641)

**Year Ended December 31,**

	2004	2003	2002	2001	2000
	(Dollars in thousands)				
<b>Consolidated Balance Sheet Data</b>					
Working Capital	\$ 71,929	\$ 79,532	\$ 78,148	\$ 72,732	\$ 36,436
Cash and cash equivalents	—	—	17,210	2,736	—
Total assets (j)	455,995	474,724	390,827	361,980	317,626
Total debt	42,274	93,738	42,815	48,865	157,272
Stockholders' equity	346,374	320,523	300,832	269,927	123,340

- (a) In the fourth quarter of 2004, the Company reclassified its Cross Country Consulting, Inc. subsidiary (CCC Inc.) to discontinued operations. Accordingly, the results of operations have been reclassified to the discontinued line item on the income statement for the respective periods ended December 31, 2004, 2003, and 2002. The Company participated in the consulting business in 2001 and 2000 but at that time did not segregate their results separately and the results were immaterial to the total consolidated results. Accordingly, the income statements for the years ended December 31, 2001 and December 31, 2000 have not been reclassified.
- (b) Includes results of operations of MedStaff, from June 5, 2003, the date of its acquisition.
- (c) Non-recurring secondary offering costs were \$0.9 million, all relating to expenses incurred as a result of our secondary offering in March 2002. We did not receive any proceeds from this offering and, accordingly, did not capitalize any of the associated costs.
- (d) Non-recurring indirect transaction costs consist of non-capitalizable transition bonuses and integration costs related to the TravCorps acquisition and expenses related to this transaction.
- (e) Loss on early extinguishment of debt in the year ended December 31, 2003 relates to the write-off of loan fees associated with the early termination of our prior amended credit facility as a result of our refinancing in connection with the MedStaff acquisition. Loss on early extinguishment of debt recorded in the period ended December 31, 2001 represents the write-off of loan fees relating to a repayment of \$134.5 million of debt and a prepayment penalty relating to the early termination of \$38.8 million of subordinated debt. The debt was repaid with proceeds from our initial public offering of common stock in October 2001.
- (f) Reflects the operating results of CCC Inc. (see footnote (a) above), E-Staff, Inc. (E-Staff), and HospitalHub, Inc (HospitalHub). These amounts also include: 1) a \$3.7 million pretax (\$0.7 million after tax) gain recognized in the year ending December 31, 2004 relating to the sale of assets of our Jennings Ryan & Kolb and Gill/Balsano Consulting businesses to a third party; and 2) impairment charges relating to our valuation of discontinued net assets of \$0.8 million and \$4.1 million in the years ended December 31, 2004 and 2002, respectively. In March 2002, we committed to a formal plan to dispose of E-Staff. E-Staff ceased operations in the first quarter of 2003. HospitalHub began operations in 1999. We completed the divestiture of HospitalHub, Inc. during the second quarter of 2001.
- (g) FTE's represent the average number of contract staffing personnel on a full-time equivalent basis.
- (h) Weeks worked is calculated by multiplying the FTE's by the number of weeks during the respective period.
- (i) Average healthcare staffing revenue per FTE per week is calculated by dividing the healthcare staffing revenue by the number of weeks worked in the respective periods. Healthcare staffing revenue includes revenue from permanent placement of nurses.
- (j) The Company has reclassified its consolidated balance sheet for the year ended December 31, 2002, in accordance with the provisions of EITF 03-08, *Accounting for Claims-Made Insurance and Retroactive Insurance Contracts*, as explained in the notes to the consolidated financial statements. This reclassification was not made for the other prior periods as the amount of reclassification would be immaterial to total assets.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Selected Financial Data, and our consolidated financial statements and the accompanying notes and other data, all of which appear elsewhere in this annual report on Form 10-K.*

*Certain prior year information has been reclassified to conform to the current year's presentation including the reclassification of our Cross Country Consulting, Inc. operations to discontinued operations.*

### Overview

We are one of the largest providers of healthcare staffing services in the United States. Our healthcare staffing business segment represented approximately 94% of our 2004 revenue and was comprised of travel and per diem nurse staffing, allied health staffing as well as clinical research trials staffing. Travel nurse staffing represented approximately 76% of this business segment's revenue. Other staffing services include the placement of allied healthcare professionals, such as radiology technicians, rehabilitation therapists and respiratory therapists, and the placement of clinical research professionals. Our other human capital management services business segment represented approximately 6% of our 2004 revenue and consisted of education and training, and retained physician and healthcare executive search services. For the year ended December 31, 2004, our revenue and net income as shown on the accompanying consolidated statements of income were \$654.1 million and \$20.7 million, respectively.

In general we evaluate the Company's financial condition and operating results by monitoring several key volume and profitability indicators such as number of orders, contract bookings, average FTEs, price, mix and contribution income (see Segment Data where defined). We also use measurement of our cash flow generation and operating and leverage ratios to help us assess our financial condition.

Our healthcare staffing revenue and earnings are impacted by the relative supply of and demand for nurses at healthcare facilities. We rely significantly on our ability to recruit and retain nurses and other healthcare personnel who possess the skills, experience and, as required, licensure necessary to meet the specified requirements of our clients. Shortages of qualified nurses and other healthcare personnel could limit our ability to fill open assignments and grow our revenue and net income. In general, we believe nurses are more willing to seek travel assignments during relatively high levels of demand for contract employment, and conversely, are more reluctant to seek travel assignments during and immediately following periods of weak demand for contract employment, such as what we have experienced since mid-2002. We also believe demand for travel nurse staffing services will be favorably impacted in the long term by an aging population and an increasing shortage of nurses, although we cannot predict when that will happen.

We operate differentiated nurse recruiting brands consisting of Cross Country TravCorps, MedStaff, NovaPro, Cross Country Local and Assignment America to recruit nurses and allied healthcare professionals on a domestic and international basis. We believe that these professionals are attracted to us because we offer them high levels of customer service, competitive compensation and benefits packages, as well as a wide range of diverse assignments at attractive locations primarily throughout the U.S.

Notwithstanding the most recent two-year increase in the nurse workforce, the nursing shortage is expected to grow over the coming decades. Several factors are expected to contribute to the decline in the supply of RNs:

- The RN population is getting older and approaching retirement age.
- It is estimated that nursing school enrollment would have to increase 40% annually over the next decade to put enough RNs in the pipeline to replace the number of nurses expected to retire.
- The capacity of U.S. nursing schools is also constraining the supply of domestically trained nurses.
- Many RNs are leaving the hospital workforce through retirement, death or by choosing careers outside of acute care hospitals or in professions other than nursing.

The relative demand for our services at clients' facilities may also affect the profitability of our business. Since the later part of 2002, many hospitals have taken nurse staffing actions that have decreased demand, some of which have been due to budgetary initiatives, which have contracted our revenue. We believe these decisions have resulted in increased reliance on staff nurse overtime, increased patient-to-nurse ratios and high wage and compensation increases, including sign-on bonuses, by the hospitals. We also believe that, due to recent economic conditions, where many nurse's spouses have been laid off and severance and unemployment benefits have ended, many part-time nurses employed directly by hospitals who would have typically worked two shifts or less per week have increased the number of shifts worked at their hospitals and are doing so at the prevailing hospital wage. Other factors that affect the demand for our services are patient occupancy rates. As occupancy increases, temporary employees are often added before full-time employees are hired. As occupancy decreases, clients tend to reduce their use of temporary employees before undertaking layoffs of their regular employees. Additionally, we may experience more competitive pricing pressure during these periods of decreased demand.

In 2004, when looking at these factors, we believe nurses' reduced willingness to engage in the travel employment model was most responsible for continued declines in volumes in our nurse staffing business. While the number of orders for contract nurses improved substantially during 2004 from the low point in mid-2003, the level of our contract bookings for future assignments remained below the prior year. In the near term, we believe these metrics would be favorably impacted by higher than expected in-patient hospital admission trends. Longer term, improvement in overall job creation in the economy would provide many staff nurses with increased household income and greater confidence in being able to reduce the amount of regular and overtime hours they provided directly to hospital employers during the last two years. We believe this would lead to an increase in the demand for our services and encourage more nurses to actively seek travel assignments and apply with us.

Cross Country Staffing is our core staffing brand that markets its staffing services to hospitals and healthcare facilities as well as operates differentiated recruiting brands to recruit registered nurses and allied healthcare professionals on a domestic and international basis. In addition to staffing nurses and allied professionals at healthcare facilities throughout the U.S., Cross Country Staffing is pursuing and implementing exclusive and preferred provider relationships with hospital clients and group purchasing organizations. Cross Country Staffing provides clients with an integrated suite of solutions to facilitate the efficient management of their temporary workforce while decreasing overall staffing costs. These solutions include vendor management, interview servicing and technology.

Refer to Item 1. Business, for discussion of the Company's Risk Factors.

## History

In July 1999, an affiliate of Charterhouse Group International, Inc. and certain members of management acquired the assets of Cross Country Staffing, our predecessor, from W. R. Grace & Co. Upon the closing of this transaction, we changed from a partnership to a C corporation form of ownership. In December 1999, we acquired TravCorps Corporation (TravCorps), which was owned by investment funds managed by Morgan Stanley Private Equity and certain members of TravCorps' management and subsequently changed our name to Cross Country TravCorps, Inc. Subsequent acquisitions and dispositions were made as discussed below. In May 2001, we changed our name to Cross Country, Inc. Subsequently, in May 2003, we changed our name to Cross Country Healthcare, Inc.

## Revenue

Our travel and per diem nurse staffing and allied healthcare staffing revenue is received primarily from acute care hospitals. Our clinical trials staffing revenue is received primarily from pharmaceutical and biotechnology companies, medical device companies as well as contract research organizations. Revenue from allied health staffing services is received from numerous sources, including providers of radiation, rehabilitation and respiratory services at hospitals, nursing homes, sports medicine clinics and schools. Revenue from our search and recruitment, education and training and our discontinued consulting services is received from numerous sources, including hospitals, physician group practices, insurance companies and individual healthcare professionals. Our fees are paid directly by our clients rather than by third-party payors.

Revenue is recognized when services are rendered. Accordingly, accounts receivable includes an accrual for employees' time worked but not yet invoiced. Similarly, accrued compensation includes an accrual for employees' time worked but not yet paid. Each of our field employees on travel assignment works for us under a contract. These contracts typically last 13 weeks. Payroll contract employees are hourly employees whose contract specifies the hourly rate they will be paid, and any other benefits they are entitled to receive during the contract period. For payroll contract employees, we bill clients at an hourly rate and assume all employee costs, including payroll, withholding taxes, benefits, professional liability insurance and Occupational Safety and Health Administration, or OSHA, requirements, as well as any travel and housing arrangements. Mobile contract employees are hourly employees of the hospital client and receive an agreement that specifies the hourly rates they will be paid by the hospital employer, as well as any benefits they are entitled to receive from us. For mobile contract employees, we provide recruitment, housing in apartments leased by us and travel reimbursement. Our contract with the healthcare professional obligates us to provide these services to the healthcare professional. We are compensated for the services we provide at a predetermined rate negotiated with our hospital client, without regard to our cost of providing these services. Approximately 98% of our employees work under payroll contracts and 2% under mobile contracts.

## Acquisitions

On June 5, 2003, we acquired the assets of Med-Staff, Inc. (MedStaff) for \$102.2 million in cash, net of a post closing working capital adjustment, plus an earnout provision up to a maximum of \$37.5 million based on 2003 performance. MedStaff did not qualify to receive any earnout payments. MedStaff is headquartered in Newtown Square, Pennsylvania, and is a national provider of travel and per diem healthcare professionals that operates across a wide geographic and client base in all 50 states.

The acquisition has been included in the healthcare staffing segment and the results of MedStaff's operations have been included in the consolidated statements of income since the date of acquisition, in accordance with FASB Statement No. 141, *Business Combinations*.

The purchase price has been allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition. Other identifiable intangible assets were valued at \$4.5 million, of which \$2.4 million was assigned to hospital relations and \$2.1 million was assigned to non-compete agreements, based on a third-party appraisal. These identifiable intangible assets have been assigned useful lives with a weighted-average range of 6.6 years. Approximately \$77.5 million has been recorded to goodwill as the excess of purchase price over the fair value of net tangible and intangible assets acquired. Additional direct acquisition costs of \$0.5 million are included as goodwill as of December 31, 2004. Goodwill is expected to be deductible for tax purposes over a 15 year life.

In connection with the acquisition, we entered into a \$200.0 million senior secured credit facility consisting of a \$125.0 million term loan with staggered maturities through June 2009, and a five year \$75.0 million revolving credit facility. The proceeds from the term loan, along with cash on hand of \$9.6 million, were used to finance the purchase of MedStaff, to repay the term loan balance on the prior credit facility, and to pay fees and expenses incurred in connection with the financing.



The following table provides certain information relating to our acquisitions to date:

Acquired Business	Acquisition Date	Primary Services	Purchase Price (a)	Potential Earnout	Earnout Earned to Date
Med-Staff	June 2003	Healthcare staffing—travel nurse, per diem nurse, military nurse staffing	\$102.2 million	\$37.5 million for full year 2003 (b)	—
Jennings Ryan & Kolb, Inc. (Sold in 2004)	March 2002	Healthcare management consulting services	\$2.1 million	\$1.8 million over 34 months	\$1.8 million
NovaPro	January 2002	Nurse staffing	\$7.6 million	—	—
Gill/Balsano Consulting, LLC (Sold in 2004)	May 2001	Healthcare management consulting services	\$1.8 million	\$2.0 million over 3 years	\$2.0 million
ClinForce, Inc.	March 2001	Clinical trials staffing	\$32.8 million	—	—
Heritage Professional Education, LLC	December 2000	Continuing education for healthcare professionals	\$6.6 million	\$6.5 million over 3 years (c)	\$3.5 million
E-Staff (Discontinued in 2002)	July 2000	Internet subscription based communication, scheduling, credentialing and training services	\$1.5 million	\$3.8 million(d) over 3 years	\$0.5 million
TravCorps Corporation	December 1999	Healthcare staffing-nurse and allied professionals	\$77.1 million	—	—

(a) Acquisition purchase price includes cash paid, the assumption of debt and post-closing adjustments. The TravCorps acquisition price represents the approximate value of our common stock that was exchanged for all the outstanding shares of TravCorps—\$32.1 million, plus the assumption of \$45.0 million of debt.

(b) The earnout period relating to MedStaff ended December 31, 2003. MedStaff did not qualify to receive any earnout payments.

(c) The earnout period relating to the Heritage Professional Education business ended December 31, 2003. Accordingly, we do not have any additional obligations.

(d) Due to the discontinuance of the E-Staff business, we do not have any additional earnout payments.

### Discontinued Operations

On October 4, 2004, Cross Country sold assets of its Jennings Ryan & Kolb (JRK) and Gill/Balsano Consulting (GBC) practices to Mitretek Systems, Inc. (Mitretek) for \$12.3 million in cash plus a working capital adjustment. The carrying amount of net assets sold was \$7.0 million and consisted primarily of goodwill and other intangibles with a carrying amount of \$6.8 million. Mitretek had approached us with interest in expanding its healthcare consulting presence. We had been evaluating our commitment to our consulting businesses as a result of significant volatility in these businesses in 2003. We recognized a pre-tax gain on this transaction of \$3.7 million (\$0.7 million after taxes) which is included in discontinued operations in the consolidated statement of income for the year ended December 31, 2004. Net proceeds from this transaction were used to pay down \$10.4 million of term loan debt.

Separately, in the fourth quarter of 2004, Cross Country's Board of Directors approved a plan to pursue a sale with respect to our Cejka Consulting practice that was not acquired by Mitretek. Cejka Consulting was a part of TravCorps Corporation, which was acquired by Cross Country Healthcare in December 1999. Cejka Consulting, along with the aforementioned disposed practices and some subsidiary level infrastructure costs comprised our Cross Country Consulting, Inc. (CCC Inc.) subsidiary, which was a component of our other human capital management services business segment. We determined that as of December 31, 2004 the CCC Inc. subsidiary met the criteria to report the pending sale as "Assets Held for Sale" and the subsidiary as "Discontinued Operations" in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company has accounted for CCC Inc. as such within the consolidated financial statement of income and cash flows and notes to the consolidated financial statements included in this Form 10-K filing.

The Company conducted an assessment of the tangible and intangible net assets of the Cejka Consulting practice as a result of the above reclassification in accordance with FASB Statement No. 144 and FASB Statement No. 142, *Goodwill and Other Intangible Assets*. Based on this assessment, the Company determined that the carrying amount of the net assets as then reflected on the Company's consolidated balance sheet exceeded its estimated fair value. In accordance with the assessment, the Company recorded a pretax charge of \$0.8 million to discontinued operations. The charge represents the impairment of goodwill in the amount of \$0.4 million and a reduction in value of other tangible assets in the amount of \$0.4 million.

In March 2002, we committed to a formal plan to dispose of our subsidiary, E-Staff, through a sale of this business. E-Staff was previously included in our other human capital management services segment. E-Staff was an application service provider that had developed an Internet subscription-based communication, scheduling, credentialing and training service business for healthcare providers. As an application service provider, E-Staff maintained a database of the client's employees on E-Staff's servers. However, prospective E-Staff clients were concerned about placing their health care employees names and credentials on servers owned or controlled by one of the nation's largest healthcare staffing companies. Pursuant to FASB Statement No. 144, our consolidated financial statements have been reclassified to reflect the discontinuance of E-Staff. The costs and expenses, assets and liabilities of E-Staff have been segregated and reported as discontinued operations in the consolidated balance sheets and statements of income.

During the first quarter of 2003, we abandoned our efforts to sell the E-Staff business and decided to dispose of the subsidiary by winding down its operations. E-Staff ceased operations as of March 31, 2003. At that time, we determined that approximately \$0.3 million of the net carrying amount of the assets from discontinued operations was impaired. This impairment charge was taken as a loss from discontinued operations during the year ended December 31, 2003.

### Goodwill and Other Identifiable Intangible Assets

Goodwill and other identifiable intangible assets from the acquisition of the assets of our predecessor, Cross Country Staffing, a partnership, as well as from subsequent acquisitions were \$302.9 million and \$22.3 million, at December 31, 2004. We adopted the provisions of FASB No. 142 as of January 1, 2002. Accordingly, goodwill and certain other identifiable intangible assets are no longer subject to amortization. Instead, we review impairment annually. Other identifiable intangible assets, which are subject to amortization, are being amortized using the straight-line method over their estimated useful lives ranging from 3 to 15 years. Goodwill and other intangible assets represented 94% of our stockholders' equity as of December 31, 2004.

### Results of Operations

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

	Year Ended December 31,		
	2004	2003	2002
		(Unaudited)	
Revenue from services	100.0%	100.0%	100.0%
Direct operating expenses	77.9	77.2	76.4
Selling, general and administrative expenses	15.2	14.2	13.2
Bad debt expense	0.2	0.2	0.0
Depreciation and amortization	1.1	1.2	1.1
Non-recurring secondary offering costs	—	0.0	0.1
Income from operations	5.6	7.2	9.2
Loss on early extinguishment of debt	—	0.1	—
Interest expense, net	0.6	0.7	0.6
Income from continuing operations before income taxes	5.0	6.4	8.6
Income tax expense	1.8	2.5	3.3
Income from continuing operations	3.2	3.9	5.3
Discontinued operations, net of income taxes	0.0	(0.1)	(0.5)
Net income	3.2%	3.8%	4.8%

### Year Ended December 31, 2004 Compared To Year Ended December 31, 2003

Revenue from services decreased \$19.0 million, or 2.8%, to \$654.1 million for the year ended December 31, 2004 as compared to \$673.1 million for the year ended December 31, 2003. Excluding the effect of the MedStaff acquisition, revenue decreased \$64.3 million, or 10.9%. This decrease was primarily due to a decrease in revenue from our organic healthcare staffing businesses partially offset by a slight increase in our other human capital management businesses. The organic decrease in other healthcare staffing was mostly from our travel staffing operations, but was partially offset by an increase in our clinical trials staffing and international recruitment businesses. The increase in other human capital management was primarily due to an increase in our educational seminars business and our search business. See Segment Information below for further analysis.

Direct operating expenses are comprised primarily of field employee compensation expenses, housing expenses, travel expenses and field insurance expenses. Direct operating expenses totaled \$509.6 million for the year ended December 31, 2004 as compared to \$519.8 million for the year ended December 31, 2003. As a percentage of revenue, direct operating expenses represented 77.9% of revenue for the year ended December 31, 2004 and 77.2% for year ended December 31, 2003. As a percent of revenue this increase is primarily attributable to higher compensation and insurance costs.

Selling, general and administrative expenses totaled \$99.5 million for the year ended December 31, 2004 as compared to \$95.7 million for the year ended December 31, 2003. This increase is primarily due to the added selling, general and administrative expenses of the MedStaff organization, as well as higher legal fees and higher public company expenses amounting to \$2.1 million in 2004 relating to our efforts toward complying with Section 404 of the Sarbanes-Oxley Act of 2002. Partially offsetting these increases were lower selling expenses in our healthcare staffing segment as a result of lower volumes. As a percentage of revenue, selling, general and administrative expenses were 15.2% and 14.2% for the years ended December 31, 2004 and 2003, respectively, reflecting negative operating leverage resulting from an organic decline in volume.

Bad debt expense totaled \$1.0 million for the year ended December 31, 2004 as compared to \$1.4 million for the year ended December 31, 2003. This slight decrease reflects recoveries of previously reserved accounts that we had success in collecting. Bad debt expense represented approximately 0.2% of revenue for both the years ended December 31, 2004 and 2003.

Depreciation and amortization expense for the year ended December 31, 2004 totaled \$7.5 million as compared to \$7.8 million for the year ended December 31, 2003. As a percentage of revenue, depreciation and amortization expense was 1.1% for the year ended December 31, 2004 and 1.2% for the year ended December 31, 2003.

Net interest expense totaled \$4.0 million for the year ended December 31, 2004 as compared to \$4.3 million for the year ended December 31, 2003. This decrease was primarily due to lower average borrowings outstanding during the year ended December 31, 2004 compared to the year ended December 31, 2003. This decrease was partially offset by slightly higher interest rates in the year ended December 31, 2004. The effective interest rate for the year ended December 31, 2004 was 5.7% compared to a rate of 5.4% for the year ended December 31, 2003.

Income tax expense totaled \$11.9 million for the year ended December 31, 2004 as compared to \$16.7 million for the year ended December 31, 2003. The effective tax rate on continuing operations was 36.7% for the year ended December 31, 2004 compared to 38.7% in the year ended December 31, 2003 primarily due to certain nonrecurring items relating to state tax refunds.

Discontinued operations, net of income taxes, amounted to income of \$0.1 million in the year ended December 31, 2004 compared to a loss of \$0.6 million in the year ended December 31, 2003. Discontinued operations in the year ended December 31, 2004 includes the gain on the sale of our JRK and GBC businesses as discussed previously, which amounted to \$0.7 million after taxes. Discontinued operations also includes impairment and valuation charges relating to the net assets of the Cejka business held for sale, amounting to \$0.8 million, pretax, net losses from operations of \$0.3 million pretax, and related income taxes.

#### *Year Ended December 31, 2003 Compared to Year Ended December 31, 2002*

Revenue for the year ended December 31, 2003 totaled \$673.1 million as compared to \$626.1 million for the year ended December 31, 2002. Revenue increased \$47.0 million or 7.5% for the year ended December 31, 2003 from the prior year. The increase was primarily attributable to the acquisition of MedStaff on June 5, 2003, partially offset by a decrease in revenue from other healthcare staffing businesses. Excluding the effects of this acquisition, revenue for the year ended December 31, 2003 decreased 5.6% from the year ended December 31, 2002. (See—Segment Information.)

Direct operating expenses are comprised primarily of field employee compensation expenses, housing expenses, travel expenses and field insurance expenses. Direct operating expenses totaled \$519.8 million for the year ended December 31, 2003 as compared to \$478.5 million for the year ended December 31, 2002. As a percentage of revenue, direct operating expenses represented 77.2% of revenue for the year ended December 31, 2003 compared to 76.4% for the year ended December 31, 2002. This increase is primarily attributable to a higher mix of healthcare staffing businesses, which operate at higher direct cost structures than our other human capital management services as well as higher housing and insurance costs in our healthcare staffing segment.

Selling, general and administrative expenses for the year ended December 31, 2003 totaled \$95.7 million as compared to \$82.5 million for the year ended December 31, 2002. As a percentage of revenue, selling, general and administrative expenses represented 14.2% of revenue for the year ended December 31, 2003 compared with 13.2% for the year ended December 31, 2002. This increase is primarily due to increased expenses in our healthcare staffing business related to the acquisition of MedStaff, and to the expansion of our sales and marketing activities to support our strategy of pursuing and implementing exclusive and preferred provider relationships with hospital customers.

Bad debt expense for the year ended December 31, 2003 totaled \$1.4 million as compared to \$0.2 million for the year ended December 31, 2002. As a percentage of revenue, bad debt expense represented 0.2% of revenue for the year ended December 31, 2003 compared with less than 0.1% for the year ended December 31, 2002. During the year ended December 31, 2003, we increased the allowance for doubtful accounts to cover the increased aging on certain accounts. We experienced a shift in relative mix of our business more towards the Northeast where we tend to have slower-paying customers.

Depreciation and amortization expense for the year ended December 31, 2003 totaled \$7.8 million as compared to \$6.5 million for the year ended December 31, 2002. As a percentage of revenue, depreciation and amortization expense was 1.2% for the year ended December 31, 2003 compared to 1.1% for the year ended December 31, 2002. This was due to the implementation of system enhancements and the additional amortization from certain specifically identifiable intangible assets related to the acquisition of MedStaff.

Non-recurring secondary offering costs were \$0.9 million for the year ended December 31, 2002. These costs are all related to expenses incurred as a result of our secondary offering in March 2002. We did not receive any proceeds from this offering and, accordingly, did not capitalize any of the associated costs.

Net interest expense for the year ended December 31, 2003 totaled \$4.3 million as compared to \$3.7 million for the year ended December 31, 2002. The increase was primarily related to higher average borrowings resulting from the financing for the acquisition of MedStaff. This increase was partially offset by a reduction in the effective interest rate due mainly to the expiration of our interest rate swap agreement in February 2003. The effective interest rate for the year ended December 31, 2003 was 5.4% compared to 9.3% during the year ended December 31, 2002.

Income tax expense for the year ended December 31, 2003 was \$16.7 million as compared to \$20.8 million for the year ended December 31, 2002. Our effective tax rate was 38.7% for the years ended December 31, 2003 and 2002.

Discontinued operations, net of income taxes, for the years ended December 31, 2003 and December 31, 2002, were a loss of \$0.6 million and \$3.2 million, respectively. These losses from discontinued operations included results of operations from our discontinued consulting businesses and E-Staff business. The consulting businesses' pretax operating results included in discontinued operations were \$(0.3) million and \$1.1 million, respectively, for the years ended December 31, 2003 and 2002. E-Staff's pretax operating losses included in discontinued operations amounted to \$0.6 million and \$2.2 million pretax for the years ended December 31, 2003 and 2002, respectively. An impairment charge of \$4.1 million related to the development of our E-Staff technology, a web-based scheduling business was included in discontinued operations in the year ended December 31, 2002.

## Segment Information

The following table presents, for the periods indicated, selected statement of income data by segment:

	Year Ended December 31,		
	2004	2003(a)	2002(a)
Revenue from unaffiliated customers:			
Healthcare staffing	\$ 612,076	\$ 636,735	\$ 588,743
Other human capital management services	42,035	36,367	37,366
	<u>\$ 654,111</u>	<u>\$ 673,102</u>	<u>\$ 626,109</u>
Contribution income (b):			
Healthcare staffing	\$ 62,035	\$ 75,934	\$ 81,160
Other human capital management services	7,090	4,761	5,222
Unallocated corporate overhead	25,077	24,519	21,450
Depreciation	5,140	4,371	3,397
Amortization	2,345	3,470	3,083
Non-recurring secondary offering costs	—	16	886
Loss on early extinguishment of debt	—	960	—
Interest expense, net	4,025	4,317	3,733
Income from continuing operations before income taxes	<u>\$ 32,538</u>	<u>\$ 43,042</u>	<u>\$ 53,833</u>

(a) Prior periods have been reclassified to conform to the current 2004 presentation, primarily the reclassification of Cross Country Consulting, Inc.'s results from continuing operations to discontinued operations. Cross Country Consulting, Inc. was previously included in the other human capital management services business segment.

(b) We define contribution income as earnings before interest, income taxes, depreciation, amortization and corporate expenses not specifically identified to a reporting segment. Contribution income is a measure used by management to assess operations and is provided in accordance with FASB No. 131, *Disclosure About Segments of an Enterprise and Related Information*.

*Year Ended December 31, 2004 Compared to Year Ended December 31, 2003*

### Healthcare Staffing

Revenue from our healthcare staffing business segment decreased \$24.7 million or 3.9% from \$636.7 million in the year ended December 31, 2003 to \$612.1 million for the year ended December 31, 2004. Revenue comparisons are impacted by the acquisition of MedStaff on June 5, 2003. Excluding the effect of the MedStaff acquisition, revenue decreased \$70.0 million, or 12.6%. This decrease was due to a decrease in FTEs, representing \$60.3 million of the decrease while the remainder was due to price and mix. For comparison purposes only, on a stand alone basis, MedStaff's revenue for the year ended December 31, 2004 decreased by \$25.7 million or 16.8% compared to the year ended December 31, 2003.

On a combined basis, the number of full time equivalents (FTEs) decreased by 2.7% over the prior year. Excluding the FTEs from the MedStaff acquisition, the average number of FTEs on contract decreased 12.0% from the prior year. This decline in volume was due to a decrease in FTEs from our travel staffing operations and partially offset by higher FTEs in our clinical trials staffing and international recruitment businesses. As discussed above, our travel nurse operations have weakened throughout 2003 and 2004 due to a more cautious buying process on the part of acute care hospital customers which reduced the level of demand for our nurse staffing services and resulted in a decline in the number of nurses applying with us for contract travel assignments.

Revenue per FTE decreased 1.2% during the year ended December 31, 2004 compared to the year ended December 31, 2003. The average bill rates, excluding hospital sponsored pass-through bonuses and administrative and co-marketing expenses, in our organic nurse staffing business during the year ended December 31, 2004, were 0.7% lower than the year ended December 31, 2003. Our pricing was negatively impacted by co-marketing and third party administrative fees as well as a reduction in hospital sponsored pass-through bonuses that are accounted for in revenue. Fees relating to the co-marketing arrangements we have with group purchasing organizations in which we have exclusive or preferred provider status, and third-party administrative fees relating to vendor managed programs are included as an offset to revenue. We have experienced an increase in co-marketing expenses as we secure more preferred provider relationships and an increase in vendor management services being utilized by our customers. In addition, the mix of business also contributed to the decrease in revenue per FTE as the incremental per diem business from MedStaff in 2004 had lower average bill rates than our organic travel nurse business.

Mobile contracts, where the nurse is on the hospital payroll, accounted for approximately 2% of our volume in our healthcare staffing business segment in both the year ended December 31, 2004 and 2003.

For the year ended December 31, 2004, nurse staffing operations generated 87.1% of healthcare staffing revenue and 12.9% was generated by other operations. For the year ended December 31, 2003, 88.8% of healthcare staffing revenue was generated from nursing operations and 11.2% was generated by other operations.

Contribution income from our healthcare staffing segment for the year ended December 31, 2004 decreased 18.3% or \$13.9 million from \$75.9 million to \$62.0 million. As a percentage of healthcare staffing revenue, contribution income was 10.1% for the year ended December 31, 2004 compared to 11.9% for the year ended December 31, 2003. Our profitability was negatively impacted by a decline in the bill-pay spread and higher insurance costs. The increase in direct costs in our travel staffing businesses was not offset by an increase in pricing to our customers. All of these factors, combined with less leverage on our overhead, contributed to this decrease in contribution income as a percentage of revenue.

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

Revenue from other human capital management services for the year ended December 31, 2004 increased 15.6% to \$42.0 million from \$36.4 million in the year ended December 31, 2003. This increase was due to higher revenue from both our educational training and search businesses. The increase in revenues from our educational training business primarily reflects higher seminar attendance in the year ended December 31, 2004 compared to the year ending December 31, 2003.

Contribution income from other human capital management services for the year ended December 31, 2004 increased 48.9% to \$7.1 million from \$4.8 million in the year ended December 31, 2003. This increase was primarily due to the increased revenues from both our educational training business and our search business combined with improved operating leverage. Contribution income as a percentage of other human capital management services revenue for the year ended December 31, 2004 was 16.9% compared to 13.1% for the year ended December 31, 2003 reflecting expense controls and improved operating leverage on our educational training business resulting from an increase in average attendees per seminar.

### **Unallocated Corporate Overhead**

Unallocated corporate overhead was \$25.1 million in the year ended December 31, 2004 compared to \$24.5 million in the year ended December 31, 2003. Increases in legal and public company expenses related to our efforts toward complying with Section 404 of the Sarbanes-Oxley Act of 2002 were partially offset by corporate cost saving measures. As a percentage of consolidated revenue, unallocated corporate overhead was 3.8% during both year ended December 31, 2004 and 3.6% during the year ended December 31, 2003.

*Year Ended December 31, 2003 Compared to Year Ended December 31, 2002*

### **Healthcare Staffing**

Revenue from our healthcare staffing segment for the year ended December 31, 2003 totaled \$636.7 million as compared to \$588.7 million for the year ended December 31, 2002. This increase was primarily attributable to the acquisition of MedStaff on June 5, 2003 along with increases in revenue from our developmental centralized per diem and international recruitment businesses. This increase was partially offset by a decrease in our other healthcare staffing businesses. Including MedStaff, the number of FTEs increased 6.9% over the prior year. Excluding the effects of the MedStaff acquisition, revenue decreased \$34.2 million or 5.8%, from 2002 revenue. This decrease was due to a decrease in the average number of FTEs, representing \$(46.0) million; an increase in the percentage of FTEs working under mobile contracts, representing \$(4.5) million; partially offset by an increase in the average hourly bill rate, contributing \$16.3 million. The average number of FTEs on contract, excluding the FTEs from the MedStaff acquisition, decreased 7.6%. This decline in FTEs was due to a decrease in FTEs from our travel nurse staffing operations and clinical research trials business, partially offset by higher FTEs in our centralized per diem and international recruitment businesses. Demand for our travel nurse staffing operations continued to decrease during 2003 due to a more cautious buying process on the part of acute care hospital customers and full-time and part-time nurses offering more hours of service directly to hospital employers. Mobile contracts, where the nurse is on the hospital payroll accounted for 2% of our volume in the healthcare staffing business segment in the year ended December 31, 2003 as compared to 1% in the year ended December 31, 2002.

Although revenue from our developmental centralized per diem and international recruitment businesses increased in the year ended December 31, 2003 compared to the year ended December 31, 2002, the increase was partially offset by lower revenue in our clinical research trials staffing business for the same periods. While improving sequentially during the second half of 2003, FTEs from our clinical research trials business decreased on a year over year basis, due to a decrease in demand for clinical research professionals since the beginning of 2002.

For the year ended December 31, 2003, 88.8% of our healthcare staffing revenue was generated by nurse staffing operations and 11.2% was generated by other operations. For the year ended December 31, 2002, 86.8% of our healthcare staffing revenue was generated by nurse staffing operations and 13.2% was generated by other operations.

Contribution income from our healthcare staffing segment for the year ended December 31, 2003 was \$75.9 million compared to \$81.2 million for the year ended December 31, 2002. Contribution income was impacted by relatively higher housing and insurance costs and less leverage on overhead, partially offset by the contribution from the MedStaff acquisition. As a percentage of revenue, contribution income was 11.9% for the year ended December 31, 2003 compared to 13.8% for the year ended December 31, 2002.

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

Revenue from our other human capital management services segment for the year ended December 31, 2003 totaled \$36.4 million as compared to \$37.4 million for the year ended December 31, 2002. This decrease was primarily due to a decrease in revenues from our search business partially offset by an increase in revenues from our educational training business. During 2003, there was a reduction in demand for our physician search business. Revenue from the educational training business increased due to an increase in the number of seminars conducted partially offset by a lower number of attendees and average price per seminar.

Contribution income from other human capital management services was \$4.8 million for the year ended December 31, 2003 as compared to \$5.2 million for the year ended December 31, 2002. This decrease in contribution income was primarily due to the same factors that impacted revenue.

### **Unallocated Corporate Overhead**

Unallocated corporate overhead was \$24.5 million in the year ended December 31, 2003 compared to \$21.4 million in the year ended December 31, 2002. This increase was primarily due to an increase in the cost of employee benefits, higher legal fees, certain organizational costs related to the acquisition of MedStaff and higher insurance costs. As a percentage of consolidated revenue, unallocated corporate overhead was 3.6% for the year ended December 31, 2003 compared to 3.4% in the prior year.

### **Transactions with Related Parties**

We provide services to hospitals which are affiliated with certain Board of Director members. Revenue related to these transactions amounted to approximately \$8.2 million, \$6.9 million, and \$6.2 million in 2004, 2003 and 2002, respectively. Accounts receivable due from these hospitals at December 31, 2004 and 2003 were approximately \$0.8 million and \$0.9 million, respectively.

### **Liquidity and Capital Resources**

As of December 31, 2004, we had a current ratio, defined as the amount of current assets divided by current liabilities, of 2.6 to 1.0. Working capital decreased by \$7.6 million to \$71.9 million as of December 31, 2004, compared to \$79.5 million as of December 31, 2003. The decrease in working capital is primarily due to a decrease in accounts receivable, partially offset by an increase in other current assets and decreases in accounts payable and accrued expenses and current portion of long term debt in the year ended December 31, 2004. Accounts receivable, less allowance for doubtful accounts, decreased \$17.0 million in the year ended December 31, 2004 as compared to the prior year due to lower revenue and an improvement in days' sales outstanding. Including acquisitions, days' sales outstanding decreased 4 days to 55 days at December 31, 2004 compared to 59 days at December 31, 2003.

Our operating cash flows constitute our primary source of liquidity, and historically, have been sufficient to fund our working capital, capital expenditures, internal business expansion and debt service including our commitments as described in the *Commitments* table. We believe that our capital resources are sufficient to meet our working capital needs for the next twelve months. We expect to meet our future needs for working capital, capital expenditures,

internal business expansion, debt service, and any additional stock repurchases from a combination of operating cash flows and funds available under our credit facility. We also continue to evaluate acquisition opportunities that may require additional funding. In addition to those amounts then available under our existing credit agreement, we are limited, by such agreement, to incur an additional \$25.0 million in indebtedness.

#### *Stockholders' Equity*

On October 30, 2001, we completed our initial public offering of 7,812,500 shares of common stock at \$17.00 per share. Additionally, the underwriters exercised the over-allotment option of 1,171,875 shares, bringing the total number of shares issued to 8,984,375. Total proceeds received by us, net of expenses related to the initial public offering, were \$138.8 million. The proceeds were used to repay \$89.6 million of our outstanding balance under the term loan portion of our senior secured credit facility, \$6.1 million of our outstanding balance under the revolver portion of our senior secured credit facility, and \$40.3 million to redeem our outstanding senior subordinated pay-in-kind notes, including the associated redemption premium. The remainder of the proceeds was used for general corporate purposes.

On March 20, 2002, an aggregate of 9,000,000 shares of our common stock were sold by existing shareholders pursuant to a registration statement filed by us with the Securities and Exchange Commission. The Company and no member of management sold any shares or received any of the proceeds from the sale of these shares, but the Company paid \$0.9 million of expenses for such registration in 2002.

On November 5, 2002, our Board of Directors authorized a stock repurchase program, whereby we may purchase up to 1,500,000 of our common shares at an aggregate cost not to exceed \$25.0 million. In November 2002, we amended our credit facility to increase our limitation on repurchases of capital stock in order to allow us to proceed with this program. During the year ended December 31, 2004, we purchased 29,000 shares of common stock at an average cost of \$15.37 per share pursuant to the current authorization. The cost of such purchases was approximately \$0.4 million. As of December 31, 2004, we had purchased 1,030,400 shares of our common stock at an average cost of \$13.75 per share pursuant to the current authorization. All of the common stock was retired. The cost of such purchases was approximately \$14.2 million. Under the remainder of the current authorization we can purchase up to an additional 469,600 shares at an aggregate cost not to exceed \$10.8 million. The shares may be purchased from time to time on the open market. The repurchase program may be discontinued at any time at our discretion.

On November 3, 2004, the Company filed a Registration Statement on Form S-3 with the SEC for the registration of approximately 11,403,455 shares of common stock owned by three of our existing stockholders. No members of management are registering shares pursuant to this registration statement. The Company has and will incur all fees and expenses relating to the registration statement. To date no such shares have been sold.

#### *Credit Facility*

The current credit facility is provided by a lending syndicate comprised of Citicorp Global Markets, Inc., Wachovia Securities LLC, SunTrust Bank, Key Corporate Capital, LaSalle Bank, N.A., GE Capital Corp., and Merrill Lynch Capital Corp. We amended and restated our credit facility in June 2003 in conjunction with our acquisition of MedStaff. As of December 31, 2004, the amended credit facility was comprised of (i) a revolving credit facility of up to \$75.0 million, including a swing-line sub-facility of \$10.0 million and a letter of credit sub-facility of \$25.0 million, and (ii) a \$42.1 million term loan facility. The revolving credit facility matures on June 5, 2008 and the term loan facility has staggered maturities through 2009.

Borrowings under the amended credit facility bear interest at variable rates based, at our option, on LIBOR or the prime rate plus various applicable margins that are determined by the amended credit facility. At December 31, 2004, the weighted average effective interest rate under the amended credit facility was 5.64%. We are required to pay a quarterly commitment fee at a rate of 0.50% per annum on unused commitments under the revolving loan facility. As of December 31, 2004, we had no borrowings outstanding under our revolving credit facility and \$11.6 million of outstanding letters of credit, leaving availability under our revolving credit facility of \$63.4 million.

The terms of the credit facility include customary covenants and events of default. Aside from customary mandatory prepayment covenants, beginning in 2004, we are required to make mandatory prepayments subsequent to the completion of a fiscal year using a portion of our excess cash flow, as defined in the agreement. We are required to obtain the consent of our lenders to complete any acquisition which exceeds \$25.0 million. The Agreement also includes a provision that limits our ability to pay dividends and make stock repurchases. As of December 31, 2004,



the remainder of our current stock repurchase authorization is within the covenant limit of \$23.4 million for dividend and/or stock purchases. The covenant limitation can increase each year by 25% of cumulative net income from January 1, 2004, provided that our Debt/EBITDA Ratio (as defined in the Agreement) is 1.5 to 1.0 and, after the repayment, we have either \$25.0 million of cash or \$25.0 million of availability under the revolver. In the event of a default, our lenders may terminate their lending commitments to us and declare our outstanding indebtedness under the credit facility due and payable, together with accrued but unpaid interest and fees. Borrowings under the amended credit facility are collateralized by substantially all our assets and the assets of our subsidiaries.

*Year Ended December 31, 2004 Compared to Year Ended December 31, 2003*

Net cash provided by operating activities during 2004 was \$43.3 compared to \$51.8 million during 2003. This decrease in operating cash flow is primarily due to lower net income excluding non-cash items in the year ended December 31, 2004 compared to the year ended December 31, 2003. Investing activities provided \$4.0 million during 2004 compared to a use of \$109.5 million during 2003. Investing activities during the year ended December 31, 2004 included \$10.6 million of net proceeds from the disposal of our discontinued JRK and GBC consulting practices. These proceeds were offset by \$2.0 million of remaining earnout payments on the purchase of these businesses, capital expenditures of \$4.6 million and other investing activities. In 2003, the primary use of cash in investing activities was for the acquisition of MedStaff using \$102.8 million, including professional fees. The remainder of cash used by investing activities in 2003 was primarily for capital expenditures and earnout payments relating to previous acquisitions. Net cash used in financing activities in 2004 was \$47.3 million as opposed to a use of \$40.5 million in 2003. During the year ended December 31, 2004, we utilized cash flow from operations and investing activities to repay \$51.3 million, net, of debt and repurchase \$0.5 million of our common stock. These repayments were partially offset by the proceeds received from the exercise of stock options and other financing activities. Net cash provided by financing activities in 2003 was primarily attributable to increased borrowings associated with the acquisition of MedStaff. In connection with the acquisition, we borrowed \$125.0 million under our new term loan facility, which we used to fund the purchase of MedStaff and to prepay approximately \$27.3 million of our term debt. Subsequent to the acquisition of MedStaff, we also repaid \$31.8 million of the new term loan, of which \$28.7 million was an optional prepayment. In addition, we continued to repurchase shares under our current authorization.

*Year Ended December 31, 2003 Compared to Year Ended December 31, 2002*

Net cash provided by operating activities during 2003 was \$51.8 compared to \$42.7 million during 2002. The increase in operating cash flow is primarily due to higher collections of receivables in 2003 and cash flow provided by discontinued operations in 2003 of \$1.1 million compared to cash flow used in discontinued operations in 2002 of \$4.2 million. This was primarily due to the discontinuance of E-Staff operations in March 2003. Investing activities used \$109.5 million during 2003 compared to \$19.8 million during 2002. In 2003, the primary use of cash in investing activities was for the acquisition of MedStaff using \$102.8 million, including professional fees. The remainder of cash used by investing activities in 2003 was for capital expenditures and earnout payments relating to previous acquisitions. Investing activities in 2002 were primarily attributable to the acquisitions of NovaPro, JRK and capital expenditures relating to upgrading our information systems. NovaPro and JRK were acquired in the first quarter of 2002 using cash of approximately \$9.8 million during the year ended December 31, 2002. The remainder of cash used in 2002 was primarily for earnout payments relating to previous acquisitions. Net cash provided by financing activities in 2003 was primarily attributable to increased borrowings associated with the acquisition of MedStaff. In connection with the acquisition, we borrowed \$125.0 million under our new term loan facility, which we used to fund the purchase of MedStaff and to prepay approximately \$27.3 million of our term debt. Subsequent to the acquisition of MedStaff, we also repaid \$31.8 million of the new term loan, of which \$28.7 million was an optional prepayment. In addition, we continued to repurchase shares under our current authorization. In 2002, we used \$6.4 million, net, to repay debt and \$6.0 million to repurchase shares of our common stock in accordance with the approved program described above. These uses were offset by cash received from the exercise of stock options in 2002.

## Commitments

The following table reflects our contractual obligations and other commitments as of December 31, 2004:

<u>Contractual Obligations</u>	<u>Total</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>
	(Unaudited, amounts in thousands)						
Senior secured credit facility (a)	\$ 42,053	\$ 2,273	\$ 2,273	\$ 2,273	\$ 18,185	\$ 17,049	\$ —
Capital lease obligations	222	135	69	10	8	—	—
Operating leases obligations	20,305	4,475	3,812	3,019	2,421	1,608	4,970
Purchase obligations (b)	1,814	1,814	—	—	—	—	—
	<u>\$ 64,394</u>	<u>\$ 8,697</u>	<u>\$ 6,154</u>	<u>\$ 5,302</u>	<u>\$ 20,614</u>	<u>\$ 18,657</u>	<u>\$ 4,970</u>

(a) Under our credit facility we are required to comply with certain financial covenants. Our inability to comply with the required covenants or other provisions could result in default under our credit facility. In the event of any such a default and our inability to obtain a waiver of the default, all amounts outstanding under the credit facility could be declared to be immediately due and payable.

(b) Other contractual obligations include contracts for information systems consulting services.

## Critical Accounting Principles and Estimates

We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We evaluate our estimates on an on-going basis, including those related to asset impairment, accruals for insurance, allowance for doubtful accounts, and contingencies and litigation. We state our accounting policies in the notes to the audited consolidated financial statements and related notes for the year ended December 31, 2004, contained herein. These estimates are based on information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

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

ÿ We have recorded goodwill and intangibles resulting from our acquisitions through December 31, 2004. Upon the adoption of FASB Statement No. 142 on January 1, 2002, we ceased amortizing goodwill and certain other intangible assets with indefinite lives and performed a transitional impairment analysis as of January 1, 2002, to assess the recoverability of these intangibles, in accordance with the provisions of FASB Statement No. 142. We also completed the annual impairment test of goodwill and indefinite lived intangible assets during the fourth quarters of 2004, 2003 and 2002. Based on the results of the tests, we determined that there was no impairment of continuing operations goodwill or indefinite lived intangible assets as of December 31, 2004, December 31, 2003, December 31, 2002 and January 1, 2002. The calculation of fair value used in these impairment assessments included a number of estimates and assumptions, including projections of future income and cash flows, the identification of appropriate market multiples and the choice of an appropriate discount rate. If we are required to record an impairment charge in the future, it could have an adverse impact on our results of operations. We periodically evaluate the recovery of the carrying amount of net assets held for sale to determine if the net assets are impaired. This evaluation can also be triggered by various indicators of impairment which could cause the estimated discounted cash flows to be less than the carrying amount of net assets. In the fourth quarter of 2004, we recognized an impairment charge on goodwill reported as discontinued operations of \$0.4 million relating to the Cejka consulting business classified as held for sale. An additional impairment charge of \$0.4 million was also recorded in discontinued operations related to the Cejka consulting net assets. Fair value was based on the latest offer received for the sale of the Cejka consulting net assets. During the year ended December 31, 2002, an impairment charge of approximately \$2.5 million net of a \$1.6 million income tax benefit, was recorded relating to the net assets of E-Staff and is included in our consolidated statement of income as loss from discontinued operations. At December 31, 2002, fair value was based on the latest offer received for the sale of E-Staff at that time and included the estimated cash flows from the sale to a potential buyer, adjusted for

the estimated probability of the sale. In 2003, when we determined that we would wind down operations of the business without a buyer, a further impairment of \$0.3 million was recognized and included in the loss from discontinued operations. As of December 31, 2004, we had total goodwill and intangible assets not subject to amortization of \$318.4 million, net of accumulated amortization.

- Ÿ We maintain accruals for our health, workers' compensation and professional liability policies that are partially self-insured and are classified as accrued employee compensation and benefits in our consolidated balance sheets. We determine the adequacy of these accruals by periodically evaluating our historical experience and trends related to health, workers' compensation and professional liability claims and payments, based on actuarial computations and industry experience and trends. If such information indicates that our accruals are overstated or understated, we will reduce or provide for additional accruals as appropriate. Historically, our accruals for insurance have been adequate to provide for incurred claims. Healthcare insurance accruals have fluctuated with increases or decreases in the average number of temporary healthcare professionals on assignment and increases in national healthcare costs. As of December 31, 2004 and December 31, 2003, we had \$2.7 million and \$2.1 million accrued, respectively, for incurred but not reported health insurance claims. Prior to 2004, only our field employees were covered through a partially self-insured health plan; corporate employees were covered through a fully insured plan. Beginning in 2004, the corporate employees were also covered through a partially self-insured health plan. At December 31, 2004, \$0.6 million of the incurred but not reported claim health insurance accrual related to corporate employees. Workers' compensation and professional liability insurance accruals have generally increased over time due to the lag times associated with the settlement of claims as well as additional exposures arising from the current policy year. As of December 31, 2004, we had \$4.1 million accrued for incurred but not reported workers' compensation claims and retentions, an increase of \$0.5 million over the amount accrued at December 31, 2003. As of December 31, 2004 and 2003, we had \$8.7 million and \$6.3 million accrued, respectively, for incurred but not reported professional liability claims and retentions. The accrual for professional liability is based on an independent actuarial study, which estimated the required professional liability accrual at December 31, 2004 to be in the range of \$7.2 million to \$10.2 million.
- Ÿ We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which results in a provision for bad debt expense. We determine the adequacy of this allowance by continually evaluating individual customer receivables, considering the customer's financial condition, credit history and current economic conditions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Historically losses on uncollectible accounts have not exceeded our allowances. As of December 31, 2004, our allowance for doubtful accounts was \$3.7 million.
- Ÿ We are subject to various claims and legal actions in the ordinary course of our business. Some of these matters include professional liability and employee-related matters. Our hospital and healthcare facility clients may also become subject to claims, governmental inquiries and investigations and legal actions to which we may become a party relating to services provided by our professionals. From time to time, and depending upon the particular facts and circumstances, we may be subject to indemnification obligations under our contracts with our hospital and healthcare facility clients relating to these matters. Material pending legal proceedings brought against the Company, other than ordinary routine litigation incidental to the business, is described in Item 3. Legal Proceedings above. Neither *Cossack, et al. v. Cross Country TravCorps and Cross Country Nurses, Inc.* nor *Maureen Petray and Carina Higareda v. MedStaff, Inc.* have been certified by a court as a class action. In addition, the lawsuit brought by Maureen Petray and Carina Higareda against MedStaff, Inc. is in its very early stages. As a result, we are unable to determine our potential exposure regarding these two lawsuits at this time. We will continue to evaluate the probability of an adverse outcome and provide accruals for such contingencies as required. We are currently not aware of any other such pending or threatened litigation that we believe is reasonably likely to have a material adverse effect on us. If we become aware of such claims against us, we will evaluate the probability of an adverse outcome and provide accruals at that time.

### Recent Accounting Pronouncements

On December 16, 2004, FASB issued Statement No. 123(R), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. FASB Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in FASB Statement 123(R) is similar to the approach described in FASB Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock

options, to be recognized in the income statement based on their fair values. The compensation cost will be measured based on the fair value of the equity or liability instruments issued. Pro forma disclosure is no longer an alternative. The new standard will be effective for public entities (excluding small business issuers) in the first interim or annual reporting period beginning after June 15, 2005. We will adopt FASB Statement No. 123(R) on July 1, 2005 using the modified prospective transition method. We have disclosed the pro forma impact of adopting FASB Statement No. 123(R) on net income and earnings per share for the years ended December 31, 2004, 2003, and 2002 in Note 2-Summary of Significant Accounting Policies, which includes all share-based payment transactions to date. We expect the impact of the current share-based payments outstanding as of December 31, 2004, not to exceed \$0.3 million of compensation expense in 2005. This estimate does not include the impact of any share-based compensation issued in 2005. The FASB believes the use of a binomial lattice model for option valuation is capable of more fully reflecting certain characteristics of employee share options compared to the Black-Scholes options pricing model. We currently use the Black-Scholes method for disclosures and will be evaluating the binomial lattice model as an alternative. At this point, we have not decided on which model to use and we do not yet know the impact that any future share-based payment transactions will have on our financial position or results of operations.

### **Inflation**

During the last several years, the rate of inflation in healthcare related services has exceeded that of the economy as a whole. This inflation has increased our direct operating costs. We are also impacted by fluctuations in housing costs and recently by increases in costs of professional, general and healthcare insurance. Depending on the demand environment, we may be able to recoup the negative impact of such fluctuations by increasing our billing rates. We may not be able to continue increasing our billing rates and increases in our direct operating costs may adversely affect us in the future. In addition, our clients are impacted by payments of healthcare reimbursements by federal and state governments as well as private insurers.

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

We are exposed to interest rate changes, primarily as a result of our credit facility, which bears interest based on floating rates. A 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately \$0.7 million in 2004, \$0.8 million in 2003, and \$0.5 million for 2002.

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

See—Item 15 of Part IV of this Report.

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

None.

### **Item 9A. Controls and Procedures.**

We carried out an evaluation, under the supervision and with the participation of the our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (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 and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

As a result of the evaluation, there were no significant changes in our internal control over financial reporting during the three months ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Cross Country’s management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2004, using the criteria set forth in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that our internal control over financial reporting as of December 31, 2004 is effective. Ernst & Young LLP, our independent registered public accounting firm, has issued an audit report on management’s assessment of our internal control over financial report ing which is included in the Annual Report on Form 10-K and shown below.

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Cross Country Healthcare, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Cross Country Healthcare, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Cross Country Healthcare, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Cross Country Healthcare, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cross Country Healthcare, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004 of Cross Country Healthcare, Inc. and our report dated March 14, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP  
Certified Public Accountants

West Palm Beach, Florida  
March 14, 2005

## PART III

### Item 10. Directors and Executive Officers of the Registrant.

Information with respect to directors and executive officers is included in our Proxy Statement for the 2005 Annual Meeting of Stockholders (the "Proxy Statement") to be filed pursuant to Regulation 14A with the SEC and such information is incorporated herein by reference.

### Item 11. Executive Compensation.

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

### Item 12. Security Ownership of Certain Beneficial Owners and Management.

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

### Item 13. Certain Relationships and Related Transactions.

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

### Item 14. Principal Accounting Fees and Services.

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

## PART IV

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

#### (a) Documents filed as part of the report.

##### (1) Consolidated Financial Statements

[Report of Independent Registered Public Accounting Firm](#)

[Consolidated Balance Sheets as of December 31, 2004 and 2003](#)

[Consolidated Statements of Income for the Years Ended](#)

[December 31, 2004, 2003 and 2002](#)

[Consolidated Statement of Changes in Stockholders' Equity for the](#)

[Years Ended December 31, 2004, 2003 and 2002](#)

[Consolidated Statements of Cash Flows for the Years Ended](#)

[December 31, 2004, 2003 and 2002](#)

[Notes to Consolidated Financial Statements](#)

##### (2) Financial Statements Schedule

[Schedule II—Valuation and Qualifying Accounts for the Years Ended](#)

[December 31, 2004, 2003 and 2002](#)

##### (3) Exhibits

[See Exhibit Index immediately following signatures.](#)

## Signatures

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

### CROSS COUNTRY HEALTHCARE, INC.

By: /s/ JOSEPH A. BOSCHART

Name: Joseph A. Boshart

Title: Chief Executive Officer and President

Date: March 16, 2005

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOSEPH A. BOSCHART</u> Joseph A. Boshart	President, Chief Executive Officer, Director (Principal Executive Officer)	March 16, 2005
<u>/s/ EMIL HENSEL</u> Emil Hensel	Chief Financial Officer and Director (Principal Financial Officer)	March 16, 2005
<u>/s/ DANIEL J. LEWIS</u> Daniel J. Lewis	Chief Accounting Officer	March 16, 2005
<u>/s/ THOMAS C. DIRCKS</u> Thomas C. Dircks	Director	March 16, 2005
<u>/s/ W. LARRY CASH</u> W. Larry Cash	Director	March 16, 2005
<u>/s/ C. TAYLOR COLE</u> C. Taylor Cole	Director	March 16, 2005
<u>/s/ ERIC FRY</u> Eric Fry	Director	March 16, 2005
<u>/s/ FAZLE HUSAIN</u> Fazle Husain	Director	March 16, 2005
<u>/s/ JOSEPH SWEDISH</u> Joseph Swedish	Director	March 16, 2005
<u>/s/ JOSEPH TRUNFIO</u> Joseph Trunfio	Director	March 16, 2005

## Exhibit Index

No.	Description
2.1+	Cross Country Staffing Asset Purchase Agreement, dated June 24, 1999, by and among W. R. Grace & Co.-Conn., a Connecticut corporation, Cross Country Staffing, a Delaware general partnership, and the Registrant, a Delaware corporation
2.2+	Agreement and Plan of Merger, dated as of October 29, 1999, by and among the Registrant, CCTC Acquisition, Inc. and Certain Stockholders of Cross Country Staffing, Inc. and TravCorps Corporation and the Stockholders of TravCorps Corporation
2.3+	Stock Purchase Agreement, dated as of December 15, 2000, by and between Edgewater Technology, Inc. and the Registrant
2.4p	Asset Purchase Agreement dated as of May 8, 2003, by and among Cross Country Nurses, Inc., the Registrant, Med-Staff, Inc., William G. Davis, Davis Family Electing Small Business Trust and Timothy Rodden
3.1+	Amended and Restated Certificate of Incorporation of the Registrant
3.2+	Amended and Restated By-laws of the Registrant
4.1+	Form of specimen common stock certificate
4.2+	Amended and Restated Stockholders Agreement, dated August 23, 2001, among the Registrant, a Delaware corporation, the CEP Investors and the Investors
4.3+	Registration Rights Agreement, dated as of July 29, 1999, among the Registrant, a Delaware corporation, and the DB Capital Investors, L.P. and The Northwestern Mutual Life Insurance Company
4.4+	Registration Rights Agreement, dated as of October 29, 1999, among the Registrant, a Delaware corporation, and the CEP Investors and the MSDWCP Investors
4.5+	Amendment to the Registration Rights Agreement, dated as of August 23, 2001, among the Registrant, a Delaware corporation, and the CEP Investors and the MSDWCP Investors
4.6+	Stockholders Agreement, dated as of August 23, 2001, among the Registrant, Joseph Boshart and Emil Hensel and the Financial Investors
10.1+	Employment Agreement, dated as of June 24, 1999, between Joseph Boshart and the Registrant
10.2+	Employment Agreement, dated as of June 24, 1999, between Emil Hensel and the Registrant
10.3+	Lease Agreement, dated April 28, 1997, between Meridian Properties and the Registrant
10.4+	Lease Agreement, dated October 31, 2000, by and between Trustees of the Goldberg Brothers Trust, a Massachusetts Nominee Trust and TVCM, Inc.
10.5+	222 Building Standard Office Lease between Clayton Investors Associates, LLC and Cejka & Company
10.6*	Amended and Restated 1999 Stock Option Plan of the Registrant
10.7*	Amended and Restated Equity Participation Plan of the Registrant
10.8p	Third Amended and Restated Credit Agreement, dated as of June 5, 2003, among Cross Country Healthcare, Inc., The Lenders Party Hereto, Citigroup Global Markets Inc., as Sole Bookrunner and Joint Lead Arranger, Wachovia Securities LCC, as Joint Lead Arranger, Citigroup USA, Inc., as Administrative Agent, Collateral Agent, Issuing Bank and Swingline Lender, Wachovia Bank, National Association, as Syndication Agent, and General Electric Capital Corporation, Key Corporate Capital, Inc., LaSalle Bank N.A., and SunTrust Bank, as Documentation Agents



## Exhibit Index—(Continued)

No.	Description
10.9+	Waiver and Amendment No. 1 dated as of May 3, 2001, to the Credit Agreement dated as of July 29, 1999, as amended and by and among Registrant, and CitiCorp USA, as collateral agent for the Obligees
10.10+	Form of Subsidiary Guarantee Agreement, dated as of July 29, 1999, as amended and restated as of December 16, 1999 and March 16, 2001, among the Registrant's subsidiary guarantors and Citicorp USA, Inc., as collateral agent for the Obligees
10.11+	Form of Security Agreement, dated as of July 29, 1999, as amended and restated as of December 16, 1999, among the Registrant and CitiCorp USA, Inc. as collateral agent for the Obligees
10.12+	Form of Pledge Agreement, dated as of July 29, 1999, as amended and restated as of December 16, 1999, among the Registrant and CitiCorpUSA, Inc., as collateral agent for the Obligees
10.13+	Form of Indemnity, Subrogation and Contribution Agreement, dated as of December 16, 1999, among the Registrant, the subsidiaries of the Registrant and CitiCorp USA, Inc., as collateral agent for the Obligees
10.14^	Amendment to Lease by and between Meridian Commercial Properties Limited Partnership and Cross Country, Inc. dated May 1, 2002
10.15#	Cross Country, Inc. Deferred Compensation plan
10.16#	Restricted Stock Agreement between Company and Joseph A. Boshart
10.17#	Restricted Stock Agreement between Company and Emil Hensel
10.18#	Restricted Stock Agreement between Company and Vickie Anenberg
10.19#	Restricted Stock Agreement between Company and Jonathan Ward
10.20^	Amendment to Lease Agreement, as of May 1, 2002, by and between Meridian Commercial Properties Limited Partnership and Cross Country Healthcare, Inc.
10.21x	Lease Agreement by and between Edgewood General Partnership and HR Logic, dated July 6, 2000
10.22x	First Amendment to Lease Agreement by and between Edgewood General Partnership and HR Logic, dated December 7, 2000
10.23x	Second Amendment to Lease Agreement by and between Edgewood General Partnership and Cross Country TravCorps, dated April 29, 2002
10.24x	Lease Agreement between Corners Realty Corporation, Inc. and Cejka & Company dated May 11, 2001
10.25x	Lease Agreement between Corners Realty Corporation, Inc and Cross Country Consulting, Inc., dated March 21, 2002
10.26x	Lease Agreement by and between Petula Associates, Ltd. And Principal Life Insurance Company and Clinical Trials Support Services, Inc. dated November 3, 1999
10.27x	First Amendment to Lease Agreement by and between Petula Associates, Ltd. And Principal Life Insurance Company and Clinical Trials Support Services, Inc., dated December 20, 1999
10.28x	Lease Agreement by and between Newtown Street Road Associates and Med-Staff, Inc., dated June 21, 2001.
10.29x	Lease Agreement by and between Newtown Street Road Associates and Med-Staff, Inc., dated June 23, 1998
10.30y	Second Amendment to Lease, dated October 10, 2003, between Canterbury Hall IC, LLC and ClinForce, Inc.

**Exhibit Index—(Continued)**

<b>No.</b>	<b>Description</b>
10.31y	Lease Agreement, dated January 30, 2004, between Goldberg Brothers Real Estate, LLC and TVCM, Inc.
10.32	Reaffirmation of Guarantee and Security Documents, dated as of June 5, 2003, among Cross Country Healthcare, Inc., its subsidiary guarantors, The Lenders Party Thereto, Citigroup Global Markets Inc., as Sole Bookrunner and Joint Lead Arranger, Wachovia Securities LLC, as Joint Lead Arranger, CitiCorp USA, Inc., as Administrative Agent, Collateral Agent, Issuing Bank and Swingline Lender, Wachovia Bank, National Association, as Syndication Agent, and General Electric Capital Corporation Key Corporate Capital, Inc., LaSalle Bank N.A., and SunTrust Bank, as Documentation Agents
10.33	Subsidiary Guarantee Agreement, dated as of June 5, 2003, between Cross Country Capital, Inc. and CitiCorp USA, Inc., as Collateral Agent
10.34	Security Agreement, dated as of June 5, 2003, between Cross Country Capital, Inc. and CitiCorp USA Inc., as Collateral Agent
10.35	Pledge Agreement, dated as of June 5, 2003, between Cross Country Capital, Inc. and CitiCorp USA Inc., as Collateral Agent
10.36	Indemnity, Subrogation and Contribution Agreement, dated as of June 5, 2003, between Cross Country Capital, Inc. and CitiCorp USA, Inc., as Collateral Agent
10.37	Subsidiary Guarantee Agreement, dated as of June 5, 2003, between MCVT, Inc. and CitiCorp USA, Inc., as Collateral Agent
10.38	Security Agreement, dated as of June 5, 2003, between MCVT, Inc. and CitiCorp USA Inc., as Collateral Agent
10.39	Pledge Agreement, dated as of June 5, 2003, between MCVT, Inc. and CitiCorp USA Inc., as Collateral Agent
10.40	Indemnity, Subrogation and Contribution Agreement, dated as of June 5, 2003, between MCVT, Inc. and CitiCorp USA, Inc., as Collateral Agent
10.41	Subsidiary Guarantee Agreement, dated as of June 5, 2003, between HealthStaffers, Inc. and CitiCorp USA, Inc., as Collateral Agent
10.42	Security Agreement, dated as of June 5, 2003, between HealthStaffers, Inc. and CitiCorp USA Inc., as Collateral Agent
10.43	Pledge Agreement, dated as of June 5, 2003, between HealthStaffers, Inc. and CitiCorp USA Inc., as Collateral Agent
10.44	Indemnity, Subrogation and Contribution Agreement, dated as of June 5, 2003, between HealthStaffers, Inc. and CitiCorp USA, Inc., as Collateral Agent
10.45	First Amendment to Lease Agreement, dated December 11, 2001, between Clayton Investors Associates LLC and Cejka & Company
10.46	First Amendment to Lease Agreement, dated December 22, 1999, between Newtown Street Road Associates and MedStaff, Inc.
10.47	Second Amendment to Lease Agreement, dated June 21, 2001 between Newtown Street Road Associates and MedStaff, Inc.
10.48	Lease Agreement between Corporex Key Limited Partnership No. 8 and Cross Country Seminars, Inc.
10.49	Form of Incentive Stock Option Agreement
14.1	Code of Ethics

## Exhibit Index—(Continued)

No.	Description
<a href="#">21.1</a>	List of subsidiaries of the Registrant
<a href="#">23.1</a>	Consent of Independent Registered Public Accounting Firm
<a href="#">31.1</a>	Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Joseph A. Boshart, President and Chief Executive Officer
<a href="#">31.2</a>	Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Emil Hensel, Chief Financial Officer
<a href="#">32.1</a>	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Joseph A. Boshart, Chief Executive Officer
<a href="#">32.2</a>	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Emil Hensel, Chief Financial Officer

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- + Previously filed as an exhibit to the Company's Registration Statement on Form S-1, Commission File No. 333-74403, and incorporated by reference herein.
  - \* Previously filed as an exhibit to the Company's Registration Statement on Form S-1, Commission File No. 333-83450, and incorporated by reference herein.
  - ^ Previously filed as exhibits in the Company's Quarterly Reports on Form 10Q filings during the year ended December 31, 2002, and incorporated by reference herein.
  - # Previously filed as exhibits in the Company's Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.
  - p Previously filed as an exhibit in the Company's Form 8-K dated June 5, 2003, and incorporated by reference herein.
  - x Previously filed as exhibits in the Company's Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.
  - y Previously filed as exhibits in the Company's Form 10-Q for the quarter ended March 31, 2004, and incorporated by reference herein.

# Index to Financial Statements

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<a href="#"><u>Consolidated Balance Sheets as of December 31, 2004 and 2003</u></a>	F-3
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<a href="#"><u>Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2004, 2003 and 2002</u></a>	F-5
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Schedules not filed herewith are either not applicable, the information is not material or the information is set forth in the consolidated financial statements or notes thereto.

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Cross Country Healthcare, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cross Country Healthcare, Inc. at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cross Country Healthcare, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2005, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP  
Certified Public Accountants

West Palm Beach, Florida  
March 14, 2005

**Cross Country Healthcare, Inc.**  
**Consolidated Balance Sheets**

	December 31,	
	2004	2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable, less allowance for doubtful accounts of \$3,741,955 in 2004 and \$3,613,834 in 2003	95,438,605	112,406,934
Deferred income taxes	4,949,450	1,933,301
Income taxes receivable	3,099,678	2,310,236
Prepaid rent on field employees' apartments	3,407,932	3,523,241
Deposits on field employees' apartments, net of allowance of \$450,483 in 2004 and \$411,160 in 2003	618,259	886,679
Assets held for sale, net	820,500	—
Other current assets	8,353,044	6,229,152
Total current assets	116,687,468	127,289,543
Property and equipment, net of accumulated depreciation and amortization of \$10,510,343 in 2004 and \$17,248,084 in 2003	11,839,592	12,602,570
Trademarks, net of accumulated amortization of \$1,401,169 in 2004 and 2003	15,498,831	15,748,831
Goodwill, net of accumulated amortization of \$20,617,670 in 2004 and \$20,873,294 in 2003	302,853,504	307,531,874
Other identifiable intangible assets, net of accumulated amortization of \$13,328,005 in 2004 and \$11,890,956 in 2003	6,813,995	8,579,794
Debt issuance costs, net of accumulated amortization of \$1,100,676 in 2004 and \$335,991 in 2003	2,301,385	2,971,070
Other assets	—	528
Total assets	\$ 455,994,775	\$ 474,724,210
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,993,159	\$ 9,461,986
Accrued employee compensation and benefits	32,031,385	29,993,911
Current portion of long-term debt and note payable	2,407,644	4,943,777
Other current liabilities	4,326,114	3,357,950
Total current liabilities	44,758,302	47,757,624
Deferred income taxes	24,995,782	17,649,548
Long-term debt and note payable	39,866,753	88,793,769
Total liabilities	109,620,837	154,200,941
Commitments and contingencies		
Stockholders' equity:		
Common stock—\$0.0001 par value; 100,000,000 shares authorized; 32,204,060 and 31,801,885 shares issued and outstanding at December 31, 2004 and 2003, respectively	3,220	3,180
Additional paid-in capital	257,179,760	251,987,826
Retained earnings	89,190,958	68,532,263
Total stockholders' equity	346,373,938	320,523,269
Total liabilities and stockholders' equity	\$ 455,994,775	\$ 474,724,210

See accompanying notes.

**Cross Country Healthcare, Inc.**  
**Consolidated Statements of Income**

	Year ended December 31,		
	2004	2003	2002
Revenue from services	\$ 654,110,876	\$ 673,102,146	\$ 626,109,198
Operating expenses:			
Direct operating expenses	509,570,451	519,839,563	478,549,635
Selling, general and administrative expenses	99,535,378	95,736,078	82,465,017
Bad debt expense	957,300	1,350,314	162,734
Depreciation	5,139,984	4,370,857	3,397,394
Amortization	2,344,582	3,470,422	3,083,022
Non-recurring secondary offering costs	—	16,173	886,036
Total operating expenses	617,547,695	624,783,407	568,543,838
Income from operations	36,563,181	48,318,739	57,565,360
Other expenses:			
Interest expense, net	4,024,791	4,317,024	3,732,601
Loss on early extinguishment of debt	—	959,991	—
Income from continuing operations before income taxes	32,538,390	43,041,724	53,832,759
Income tax expense	(11,935,770)	(16,657,147)	(20,833,278)
Income from continuing operations	20,602,620	26,384,577	32,999,481
Discontinued operations, net of income taxes:			
Income (loss) from discontinued operations	56,075	(563,792)	(3,216,776)
Net income	\$ 20,658,695	\$ 25,820,785	\$ 29,782,705
Net income (loss) per common share—basic:			
Income from continuing operations	\$ 0.65	\$ 0.82	\$ 1.02
Discontinued operations	0.00	(0.02)	(0.10)
Net income	\$ 0.65	\$ 0.80	\$ 0.92
Net income (loss) per common share—diluted:			
Income from continuing operations	\$ 0.63	\$ 0.81	\$ 0.98
Discontinued operations	0.00	(0.02)	(0.10)
Net income	\$ 0.63	\$ 0.79	\$ 0.88
Weighted average common shares outstanding—basic	31,992,752	32,090,731	32,432,026
Weighted average common shares outstanding—diluted	32,578,319	32,530,563	33,653,433

See accompanying notes.

**Cross Country Healthcare, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**

	Common Stock		Additional Paid In Capital	Accumulated Other Comprehensive (Loss) Gain	Retained Earnings	Total Stockholders' Equity
	Shares	Dollars				
Balance at December 31, 2001	32,211,745	\$ 3,221	\$ 258,151,811	\$ (1,156,736)	\$ 12,928,773	\$ 269,927,069
Exercise of stock options	452,921	45	4,401,717	—	—	4,401,762
Tax benefit from stock option exercises	—	—	2,158,863	—	—	2,158,863
Stock repurchase and retirement	(435,000)	(43)	(6,014,790)	—	—	(6,014,833)
Other	—	—	(208,828)	—	—	(208,828)
Net income	—	—	—	—	29,782,705	29,782,705
Comprehensive gain:						
Net change in hedging transaction	—	—	—	785,049	—	785,049
Balance at December 31, 2002	32,229,666	3,223	258,488,773	(371,687)	42,711,478	300,831,787
Exercise from stock options	122,403	12	1,012,449	—	—	1,012,461
Tax benefit from stock option exercises	—	—	148,485	—	—	148,485
Stock repurchase and retirement	(566,400)	(57)	(7,708,905)	—	—	(7,708,962)
Issuance of restricted shares to employees	16,216	2	188,104	—	—	188,106
Unearned compensation under restricted stock plan, net of amortization	—	—	(141,080)	—	—	(141,080)
Net income	—	—	—	—	25,820,785	25,820,785
Comprehensive gain:						
Net change in hedging transaction	—	—	—	371,687	—	371,687
Balance at December 31, 2003	31,801,885	3,180	251,987,826	—	68,532,263	320,523,269
Exercise of stock options	431,175	43	4,579,069	—	—	4,579,112
Tax benefit from stock option exercises	—	—	996,012	—	—	996,012
Stock repurchase and retirement	(29,000)	(3)	(445,849)	—	—	(445,852)
Amortization of unearned compensation under restricted stock plan	—	—	62,702	—	—	62,702
Net income	—	—	—	—	20,658,695	20,658,695
Balance at December 31, 2004	<u>32,204,060</u>	<u>\$ 3,220</u>	<u>\$ 257,179,760</u>	<u>\$ —</u>	<u>\$ 89,190,958</u>	<u>\$ 346,373,938</u>

See accompanying notes.



**Cross Country Healthcare, Inc.**  
**Consolidated Statements of Cash Flows**

	Year Ended December 31,		
	2004	2003	2002
<b>Operating activities</b>			
Net income	\$ 20,658,695	\$ 25,820,785	\$ 29,782,705
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	5,139,984	4,370,857	3,397,394
Amortization	2,344,582	3,470,422	3,083,022
Bad debt expense	957,300	1,350,314	162,734
Deferred income tax expense	5,513,405	4,628,964	3,921,244
Amortization of unearned compensation	62,702	47,026	—
(Income) loss from discontinued operations	(56,075)	563,792	3,216,776
Loss on early extinguishment of debt	—	959,991	—
Changes in operating assets and liabilities:			
Accounts receivable	13,532,571	6,017,664	(3,277,712)
Prepaid rent, deposits, and other current assets	(2,301,065)	1,336,003	4,756,310
Accounts payable and accrued expenses	(1,421,084)	1,612,641	1,556,936
Other current liabilities and income taxes payable	957,369	531,132	331,486
Net cash provided by continuing operations	45,388,384	50,709,591	46,930,895
Income (loss) from discontinued operations, net	56,075	(563,792)	(3,216,776)
Gain on sale of consulting business, net	(728,833)	—	—
Loss on impairment of discontinued operations	844,649	302,205	4,142,750
Depreciation, amortization and bad debt expense	305,045	480,356	271,036
Deferred income tax (benefit) expense	(508,279)	(28,595)	57,123
Change in net assets of discontinued operations	(2,088,680)	898,801	(5,495,398)
Net cash (used in) provided by discontinued operations	(2,120,023)	1,088,975	(4,241,265)
Net cash provided by operating activities	43,268,361	51,798,566	42,689,630
<b>Investing activities</b>			
Acquisition of assets of Med-Staff, Inc.	(30,388)	(102,757,172)	—
Acquisition of assets of Heritage Professional Education, LLC	—	(2,000,000)	(1,500,000)
Acquisition of NovaPro assets	—	—	(7,906,527)
Purchases of property and equipment, net	(4,615,679)	(3,507,998)	(6,749,388)
Other	—	44,652	72,794
Investing activities of discontinued operations:			
Acquisition and earn out payments related to discontinued businesses	(1,969,154)	(1,194,776)	(2,874,758)
Net proceeds from sale of discontinued operations	10,633,970	—	—
Other investing activities of discontinued operations	(11,554)	(61,153)	(876,412)
Net cash provided by (used in) investing activities	4,007,195	(109,476,447)	(19,834,291)
<b>Financing activities</b>			
Debt issuance costs	(95,000)	(3,307,061)	(153,747)
Exercise of stock options	4,579,112	1,012,461	4,401,762
Stock repurchase and retirement	(445,852)	(7,708,962)	(6,014,833)
Initial public offering costs	—	—	(208,828)
Repayment of debt and note payable	(154,762,016)	(74,506,103)	(30,188,986)
Proceeds from issuance of debt	103,465,000	125,000,000	23,750,000
Financing activities of discontinued operations	(16,800)	(22,400)	33,279
Net cash (used in) provided by financing activities	(47,275,556)	40,467,935	(8,381,353)
Change in cash and cash equivalents	—	(17,209,946)	14,473,986
Cash and cash equivalents at beginning of year	—	17,209,946	2,735,960
Cash and cash equivalents at end of year	\$ —	\$ —	\$ 17,209,946
<b>Supplemental disclosure of noncash investing and financing activities</b>			
Issuance of common stock in exchange for employee services	\$ —	\$ 188,106	\$ —
Equipment purchased through capital lease obligations	\$ —	\$ 451,529	\$ —
<b>Supplemental disclosure of cash flow information</b>			
Interest paid	\$ 3,784,366	\$ 4,776,102	\$ 3,785,670
Income taxes paid	\$ 11,009,845	\$ 11,158,128	\$ 11,683,839

See accompanying notes.



**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2004**

**1. Organization and Basis of Presentation**

On July 29, 1999, Cross Country Staffing, Inc. (CCS), a Delaware corporation, was established through an acquisition of certain assets and liabilities of Cross Country Staffing, a Delaware general partnership (the Partnership). The acquisition included certain identifiable intangible assets primarily related to proprietary databases and contracts. The Partnership was engaged in the business of providing nurses and other allied health personnel to healthcare providers primarily on a contract basis. CCS recorded the assets and certain assumed liabilities, as defined in the asset purchase agreement, at fair market value. The purchase price of approximately \$189,000,000 exceeded the fair market value of the assets less the assumed liabilities by approximately \$167,537,000, which, was recorded as goodwill and other identifiable intangible assets.

On December 16, 1999, CCS entered into a Plan of Merger with TravCorps Corporation (TravCorps). TravCorps and its wholly-owned subsidiary, Cejka & Company (Cejka), provide flexible staffing, search, consulting, and related outsourced services to healthcare providers throughout the United States. Pursuant to the Plan of Merger on December 16, 1999, all outstanding shares of TravCorps' common stock were exchanged for common stock in CCS and TravCorps became a wholly-owned subsidiary of CCS. The fair value of the shares of common stock issued to the stockholders of TravCorps, as determined by a valuation of the common stock as of December 16, 1999, was \$32,102,000. The purchase price exceeded the fair value of the net tangible assets acquired by approximately \$66,575,000, of which \$10,243,000 was allocated to certain identifiable intangible assets (\$5,800,000—trademark, \$2,910,000—databases, \$630,000—workforce, \$900,000—hospital relations, and \$3,000—covenant not to compete). The remaining \$56,332,000 was allocated to goodwill. Subsequent to the adoption of Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets*, the amount originally recorded as workforce was reclassified to goodwill.

Effective October 1, 2000, TravCorps changed its name to TVCM, Inc. Effective October 10, 2000, CCS changed its name to Cross Country TravCorps, Inc. Subsequent to December 31, 2000, Cross Country TravCorps, Inc. changed its name to Cross Country, Inc. In May 2003, Cross Country, Inc. changed its name to Cross Country Healthcare, Inc. (the Company). The Company is primarily engaged in the business of providing temporary healthcare staffing services to acute and sub acute care facilities nationwide.

The consolidated financial statements include the accounts of the Company and its wholly-owned direct and indirect subsidiaries: CC Staffing, Inc., Cross Country TravCorps, Inc., Cross Country TravCorps, Inc. Ltd. (NZ), TVCM, Inc. (f/k/a TravCorps), MCVT, Inc., Cross Country Local, Inc. (f/k/a Flexstaff, Inc.), Med-Staff, Inc. (MedStaff)(f/k/a Cross Country Nurses, Inc.), Cejka Search, Inc. (f/k/a Cejka & Company), E-Staff, Inc. (E-Staff), CFRC, Inc., HospitalHub, Inc. (f/k/a Ashley One, Inc.) (HospitalHub), NovaPro, Inc., Cross Country Consulting, Inc., Cross Country Education, Inc. (f/k/a CCS/Heritage Acquisition Corp.), ClinForce, Inc. (ClinForce), Cross Country Capital, Inc., HealthStaffers, Inc., and Assignment America, Inc. In December 2003, the legal entity E-Staff was merged into MedStaff. At December 31, 2002, CFRC, Inc. and HospitalHub were dissolved. All material intercompany transactions and balances have been eliminated in consolidation.

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of the consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Accounts Receivable and Concentration of Credit Risk**

Accounts receivable potentially subject the Company to concentrations of credit risk. The Company's customers are healthcare providers and accounts receivable represent amounts due from these providers. The Company performs

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**2. Summary of Significant Accounting Policies (Continued)**

ongoing credit evaluations of its customers' financial conditions and, generally, does not require collateral. The allowance for doubtful accounts represents the Company's estimate for 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 collectibility as well as management's past experience with the customer. The Company's contract terms are typically between 30 to 60 days and will be considered past due based on the particular negotiated contract terms.

Overall, based on the large number of customers in differing geographic areas throughout the United States and its territories, the Company believes the concentration of credit risk is limited. No single client accounted for more than 3% of our revenue. An aggregate of approximately 11% and 12% of the Company's outstanding accounts receivable as of December 31, 2004 and 2003, respectively, were due from six customers.

**Cash and Cash Equivalents**

The Company considers all investments with original maturities of less than three months to be cash and cash equivalents.

**Prepaid Rent and Deposits**

The Company leases a number of apartments for its field employees under short-term cancelable agreements (typically three to six months), which generally coincide with each employee's staffing contract. Expenses relating to these leases are included in direct operating expenses in the accompanying consolidated statements of income. As a condition of these agreements, the Company places security deposits on the leased apartments. Prepaid rent and deposits shown on the consolidated balance sheets relate to these short-term agreements.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which generally range from three to seven years. Leasehold improvements are depreciated over the shorter of their useful life or the term of the individual lease.

Certain software development costs are capitalized in accordance with the provisions of Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Such costs include charges for consulting services and costs for personnel associated with programming, coding, and testing such software. Amortization of capitalized software costs begins when the software is placed into service and is included in depreciation expense in the accompanying consolidated statements of income. Software development costs are being amortized using the straight-line method over five years.

**Reserves for Claims**

Workers' compensation, professional liability and health care benefits are provided under partially self-insured plans. We provide our eligible temporary healthcare professionals with individual professional liability insurance policies. The Company records its estimate of the ultimate cost of, and reserves for, workers' compensation and professional liability benefits based on actuarial computations reviewed by an independent actuary using the Company's loss history as well as industry statistics. Furthermore, in determining its reserves, the Company includes reserves for estimated claims incurred but not reported. The health care insurance accrual is for claims that have occurred but have not been reported and is based on the Company's historical claim submission patterns.

The ultimate cost of workers' compensation and professional liability costs will depend on actual costs incurred to settle the claims and may differ from the amounts reserved by the Company for those claims.

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**2. Summary of Significant Accounting Policies (Continued)**

In August 2001, the Company changed its professional liability coverage from an occurrence to a claims-made basis. The professional liability policy provided for coverage on a claims-made basis in the amount of \$1,000,000 per claim and \$3,000,000 in the aggregate as well as excess coverage in the amount of \$10,000,000 per claim and \$10,000,000 in the aggregate. In addition, there was a \$100,000 deductible per occurrence.

In August 2002, the Company changed its professional and general liability policy to include a self-insured limit of \$2,000,000 per claim through a self-insured retention. Separately the Company's MedStaff subsidiary has a claims-made professional liability policy with a limit of \$2,000,000 per occurrence and \$4,000,000 in the aggregate and a \$25,000 deductible. The Company also has excess liability coverage in the amount of \$10,000,000 in the aggregate on top of these policies.

In November 2003, the FASB issued Emerging Issues Task Force (EITF) No. 03-8, *Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity*. EITF No. 03-8 codified previously issued authoritative accounting guidance in the area of insurance contracts and related activity thereto. The Company had previously offset in its consolidated balance sheets its liability for known and incurred but not reported professional liability and worker's compensation losses with a corresponding receivable for such estimated losses from its commercial insurance companies under policies in effect for such periods. Such prior accounting treatment was pursuant to industry practice under the interpretative guidance under the American Institute of Certified Public Accountant's Audit and Accounting Guide for Health Care Organizations. EITF No. 03-8 concluded that, under circumstances such as in the Company's insured professional liability and worker's compensation policies, since a right of legal offset does not exist due to the fact that there are three parties to an incurred claim, (the insured, the insurer and the claimant), the related liability should be classified separately on a gross basis with a separate related receivable recognized as being due from insurance carriers. Accordingly, the Company's consolidated balance sheets as of December 31, 2004, and 2003, reflect the provisions of EITF No. 03-8 for the receivable portion in other current assets and for the related liability in accrued employee compensation and benefits.

Accruals for workers' compensation claims, health care benefits and professional liability insurance are included in accrued employee compensation and benefits in the consolidated balance sheets.

**Goodwill and Other Identifiable Intangible Assets**

Goodwill represents the excess of purchase price and related costs over the fair value assigned to the net tangible and identifiable intangible assets of businesses acquired. FASB Statement No. 142 clarifies the criteria to recognize intangible assets separately from goodwill and promulgates that goodwill and certain intangible assets with indefinite lives not be amortized. Instead, these assets are reviewed for impairment annually with any related losses recognized in earnings when incurred. Other identifiable intangible assets continue to be amortized, under the provisions of this Statement, using the straight-line method over their estimated useful lives ranging from 3 to 15 years.

Goodwill and intangible assets with indefinite lives are evaluated annually for impairment in accordance with FASB Statement No. 142. The impairment test requires the Company to determine the fair value of each reporting unit, as defined, and compare it to the reporting unit's carrying amount. The Company estimated the fair value of its reporting units using a discounted cash flow methodology. Based on the results of the annual impairment test during the fourth quarters of 2004 and 2003, the Company determined that there was no impairment of goodwill or indefinite-lived intangible assets related to assets held and used as of December 31, 2004 or December 31, 2003. See Note 16- Discontinued Operations for disclosure related to assets held for sale.

Long-lived assets and identifiable intangible assets with definite lives are evaluated for impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with this Statement, long-lived assets are reviewed for impairment whenever events or changes in circumstances

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**2. Summary of Significant Accounting Policies (Continued)**

indicate that the carrying amount may not be recoverable. The Company periodically reviews long-lived assets, including identifiable intangible assets, to determine if any impairment exists based upon projected, undiscounted net cash flows of the Company. Recoverability of intangible assets is measured by comparison of the carrying amount of the asset to net future cash flows expected to be generated from the asset. At December 31, 2004 and 2003, the Company believes that no impairment of long-lived assets or identifiable intangible assets related to assets held and used existed. See Note 16 - Discontinued Operations for disclosure related to assets held for sale.

**Debt Issuance Costs**

Deferred costs related to the issuance of debt have been capitalized and are being amortized using the effective interest method over the six-year term of the debt. In June 2003, in conjunction with the acquisition of MedStaff, the Company amended its credit facility. Related debt issuance costs of approximately \$960,000, net of amortization, relating to the prior amended credit facility were written off during the second quarter of 2003 and are included in loss on early extinguishment of debt in the other expenses section of the consolidated statements of income. See Note 7 – Long Term Debt and Note Payable for a further discussion.

**Revenue Recognition**

Revenue from services consists primarily of temporary staffing revenue. Revenue is recognized when services are rendered. Accordingly, accounts receivable includes an accrual for employees' time worked but not yet invoiced. At December 31, 2004 and 2003, the amounts accrued are approximately \$11,404,000 and \$18,450,000, respectively.

Revenue on permanent placements are recognized when services provided are substantially completed. The Company does not, in the ordinary course of business, give refunds. If a candidate leaves a permanent placement within a short period of time (*i.e.*, one month), it is customary for the Company to provide a replacement at no additional cost. Allowances are established as considered necessary to estimate significant losses due to placed candidates not remaining employed for the Company's guarantee period. During 2004, 2003 and 2002, such losses were not material and, accordingly, related allowances were not recorded.

Revenue from the Company's education and training services is recognized as the instructor-led seminars are performed and the related learning materials are delivered.

**Stock-Based Compensation**

The Company, from time to time, grants stock options for a fixed number of common shares to employees. The Company accounts for employee stock option grants in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and accordingly, recognizes no compensation expense for stock option grants when the exercise price of the options equals, or is greater than, the market value of the underlying stock on the close of business on the date of grant.

In addition, the Company issued 16,216 shares of restricted stock to certain key employees in the first quarter of 2003. The restricted stock will vest based on continued employment in three equal annual installments on the first, second and third anniversary of the grant date. Under APB Opinion No. 25, compensation expense is reflected over the period in which services are performed. The fair market value of the shares on the grant date approximated \$188,000. Unearned deferred compensation of approximately \$188,000 was recorded as a contra-equity account in additional paid-in capital and is being amortized to operations over the related vesting period.

FASB Statement No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*, requires disclosure of comparable information regardless of whether, when, or how an entity adopts the preferable, fair-value based method of accounting. The pro forma disclosure of stock-based compensation required by this Statement is shown below.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2004

**2. Summary of Significant Accounting Policies (Continued)**

The Company's consolidated net income would have changed to the pro forma amounts set forth below had compensation cost for stock options granted during 2004, 2003 and 2002 been measured under the fair value based method prescribed by FASB Statement No. 123, *Accounting for Stock-Based Compensation*.

	Year ended December 31,		
	2004	2003	2002
Net income as reported	\$ 20,658,695	\$ 25,820,785	\$ 29,782,705
Stock based employee compensation included in as-reported net income	—	—	—
Stock based employee compensation, net of tax, applying FASB Statement No. 123	(845,552)	(2,432,669)	(2,774,445)
Pro forma net income applying FASB Statement No. 123	<u>\$ 19,813,143</u>	<u>\$ 23,388,116</u>	<u>\$ 27,008,260</u>
Basic and diluted earnings per share as reported:			
Net income per common share—basic	<u>\$ 0.65</u>	<u>\$ 0.80</u>	<u>\$ 0.92</u>
Net income per common share—diluted	<u>\$ 0.63</u>	<u>\$ 0.79</u>	<u>\$ 0.88</u>
Pro forma basic and diluted earnings per share:			
Pro forma net income—basic	<u>\$ 0.62</u>	<u>\$ 0.73</u>	<u>\$ 0.83</u>
Pro forma net income—diluted	<u>\$ 0.61</u>	<u>\$ 0.72</u>	<u>\$ 0.81</u>

**Advertising**

The Company's advertising expense consists primarily of print media, online advertising, direct mail marketing and promotional material. Advertising costs that are not considered direct response are expensed as incurred and were approximately \$4,601,000, \$6,065,000 and \$5,875,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Direct response advertising costs associated with the Company's education and training services are capitalized and expensed when the related event takes place. At December 31, 2004 and 2003, approximately \$1,314,000 and \$976,000, respectively, of these costs are included in other current assets in the consolidated balance sheets.

**Derivative Financial Instruments**

The Company is exposed to market risks arising from changes in interest rates. To protect against such risks, the Company had one derivative financial instrument, an interest rate swap agreement, which matured in February 2003 and is more fully disclosed in Note 14 – Interest Rate Swap.

**Comprehensive Income**

FASB Statement No. 130, *Comprehensive Income*, requires that an enterprise: (a) classify items of other comprehensive income by their nature in the financial statements; and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The items of other comprehensive income that are typically required to be displayed are foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. There are no other components of comprehensive income or loss other than the Company's consolidated net income and the accumulated derivative gain or loss for the years ended December 31, 2004, 2003 and 2002.

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires companies to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**2. Summary of Significant Accounting Policies (Continued)**

relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. As the Company's derivative instrument was designated and qualified as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument was reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affected earnings. Any ineffective portion of the derivative instrument's change in fair value was immediately recognized in earnings.

During 2002, the Company reclassified to interest expense, net, approximately \$1,720,000 of the net amount recorded in other comprehensive loss. Upon maturity of the interest rate swap agreement in February 2003, the Company reclassified the remaining accumulated derivative loss of approximately \$372,000 to interest expense, net, in the accompanying consolidated statements of income.

**Income Taxes**

The Company accounts for income taxes under FASB Statement No. 109, *Accounting for Income Taxes*. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

**Reclassifications**

Certain 2003 and 2002 amounts have been reclassified to conform to the 2004 presentation. See Note 18 – Quarterly Financial Data.

**Recent Accounting Pronouncements**

In December 2004, FASB issued Statement No. 123(R), *Share-Based Payment*, which is a revision of FASB Statement No. 123. FASB Statement 123(R) supersedes APB Opinion No. 25 and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in FASB Statement 123(R) is similar to the approach described in FASB Statement 123. However, FASB Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The compensation cost will be measured based on the fair value of the equity or liability instruments issued. Pro forma disclosure is no longer an alternative. The new standard will be effective for public entities (excluding small business issuers) in the first interim or annual reporting period beginning after June 15, 2005. The Company will adopt FASB Statement No. 123(R) on July 1, 2005 using the modified prospective transition method. The Company has disclosed the pro forma impact of adopting FASB Statement No. 123(R) on net income and earnings per share for the years ended December 31, 2004, 2003, and 2002 in Note 2 – Summary of Significant Accounting Policies.

The Company expects the impact of the current share-based payments outstanding as of December 31, 2004 not to exceed \$300,000 of compensation expense in 2005. This estimate does not include the impact of any share-based compensation issued in 2005. The FASB believes the use of a binomial lattice model for option valuation is capable of more fully reflecting certain characteristics of employee share options compared to the Black-Scholes options pricing model. The Company currently uses the Black-Scholes method for disclosures and will be evaluating the binomial lattice model as an alternative. The Company has not yet decided on which model to use and does not yet know the impact that any future share-based payment transactions will have on its financial position or results of operations.



**Cross Country Healthcare, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2004**

**3. Goodwill and Other Identifiable Intangible Assets**

As of December 31, 2004 and 2003, the Company had the following acquired intangible assets:

	December 31, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Database	\$ 11,425,000	\$ 10,582,047	\$ 842,953	\$ 11,445,000	\$ 10,002,399	\$ 1,442,601
Hospital relations	6,314,000	1,803,041	4,510,959	6,422,750	1,253,417	5,169,333
Non-compete agreements	2,403,000	942,917	1,460,083	2,603,000	635,140	1,967,860
	<u>\$ 20,142,000</u>	<u>\$ 13,328,005</u>	<u>\$ 6,813,995</u>	<u>\$ 20,470,750</u>	<u>\$ 11,890,956</u>	<u>\$ 8,579,794</u>
Intangible assets not subject to amortization:						
Goodwill	\$ 323,471,174	\$ 20,617,670	\$ 302,853,504	\$ 328,405,168	\$ 20,873,294	\$ 307,531,874
Trademarks	16,900,000	1,401,169	15,498,831	17,150,000	1,401,169	15,748,831
	<u>\$ 340,371,174</u>	<u>\$ 22,018,839</u>	<u>\$ 318,352,335</u>	<u>\$ 345,555,168</u>	<u>\$ 22,274,463</u>	<u>\$ 323,280,705</u>

Aggregate amortization expense for intangible assets subject to amortization was approximately \$1,580,000, \$2,989,000 and \$2,644,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Estimated annual amortization expense is approximately as follows:

Year ending December 31:	
2005	\$ 1,424,000
2006	1,405,000
2007	983,000
2008	743,000
2009	563,000
Thereafter	1,696,000
	<u>\$ 6,814,000</u>

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

	Healthcare Staffing Segment	Other Human Capital Management Services Segment	Total
Balance as of December 31, 2003	\$ 283,516,055	\$ 24,015,819	\$ 307,531,874
Discontinued operations:			
Earnouts for discontinued operations	—	2,067,371	2,067,371
Sale of consulting practices	—	(6,377,533)	(6,377,533)
Impairment of goodwill	—	(398,596)	(398,596)
Other	30,388	—	30,388
Balance as of December 31, 2004	<u>\$ 283,546,443</u>	<u>\$ 19,307,061</u>	<u>\$ 302,853,504</u>

**4. Acquisitions**

On June 5, 2003, the Company acquired substantially all of the assets of Med-Staff, Inc. for \$104,000,000 in cash. The consideration for this acquisition was \$104,000,000 in cash paid at closing, of which \$8,000,000 was held in escrow to cover the post-closing net working capital adjustment and any post-closing liabilities that occurred before December 31, 2003. The purchase price was subject to a post-closing adjustment based on changes in the net working capital of the acquired company. In the fourth quarter of 2003, a post-closing net working capital adjustment of approximately \$1,762,000 was calculated and allocated to goodwill as a reduction to the purchase price. The final purchase price of the transaction, as adjusted for the net working capital adjustment, was \$102,238,250.

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**4. Acquisitions (Continued)**

In addition, the asset purchase agreement provided for potential earnout payments up to a maximum of \$37,500,000 based on adjusted earnings before interest, taxes, depreciation and amortization (as defined in the asset purchase agreement) of MedStaff for the one year period ended December 31, 2003. MedStaff did not qualify to receive any earnout payments.

MedStaff is headquartered in Newtown Square, Pennsylvania, and is a national provider of travel and per diem healthcare professionals operating across a wide geographic and client base in all 50 states. The Company believes that MedStaff's differentiated compensation program will allow it to further segment the travel nurse population. MedStaff also enables the Company to extend its nurse staffing services in the per diem and military staffing sectors.

The acquisition has been included in the healthcare staffing segment and the results of MedStaff's operations have been included in the consolidated statements of income since the date of acquisition, in accordance with FASB Statement No. 141, *Business Combinations*.

The purchase price, as adjusted for the net working capital adjustment, has been allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition. These estimates were revised subsequent to the date of acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed.

	<u>June 5, 2003</u>
Current assets:	
Accounts receivable, net	\$ 23,070,298
Other current assets	1,139,718
Total current assets	24,210,016
Property and equipment	717,319
Other identifiable intangible assets	4,534,000
Goodwill	77,455,648
Total assets acquired	106,916,983
Current liabilities:	
Accounts payable and accrued expenses	336,841
Accrued employee compensation and benefits	4,237,495
Other current liabilities	104,397
Total liabilities assumed	4,678,733
Net assets acquired	\$ 102,238,250

Of the total other identifiable intangible assets of \$4,534,000, \$2,434,000 was assigned to hospital relations and \$2,100,000 was assigned to non-compete agreements, based on an independent third-party appraisal. These identifiable intangible assets have been assigned useful lives with a weighted-average of 6.6 years. The excess of purchase price over the fair value of net tangible and intangible assets acquired has been recorded as goodwill, and is deductible for tax purposes. Additional direct acquisition costs of approximately \$549,000 were incurred primarily during the year ended December 31, 2003 and are included as goodwill in the consolidated balance sheets.

The following unaudited pro forma summary approximates the consolidated results of operations as if the MedStaff acquisition had occurred as of the beginning of the period presented, after giving effect to certain adjustments, including amortization of specifically identifiable intangibles, incremental ongoing expenses, incremental interest expense and related income tax effects. These pro forma results include a pre-tax reduction to net income for a loss

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**4. Acquisitions (Continued)**

on early extinguishment of debt of \$1,105,000. The pro forma financial information does not purport to be indicative of the results of operations that would have occurred had the transactions taken place at the beginning of the periods presented or of future results of operations.

	<b>Year Ended</b>
	<b>December 31, 2003</b>
Revenue from services	\$ 744,072,000
Net income	\$ 27,735,000
Net income per common share—basic	\$ 0.86
Net income per common share—diluted	\$ 0.85

In March 2002, the Company acquired all of the outstanding stock of Jennings, Ryan & Kolb, Inc. (JRK), a healthcare management consulting company, for approximately \$1,800,000 in cash and the assumption of \$300,000 in debt. Approximately \$700,000 was allocated to goodwill, which was not subject to amortization under the provisions of FASB Statement No. 142. In addition, the agreement provided for potential earnout payments of approximately \$1,766,000, of which approximately \$530,000 was paid in 2003 and approximately \$1,236,000 was paid in 2004. Subsequent to the acquisition, JRK was combined with the Company's other consulting operations to form Cross Country Consulting, Inc. This business was subsequently sold in 2004. See Note 16 - Discontinued Operations.

In January 2002, the Company acquired substantially all of the assets of NovaPro, the healthcare staffing division of HRLogic Holdings, Inc., a professional employer organization, for approximately \$7,100,000 in cash and a post-closing adjustment of approximately \$544,000. Approximately \$4,668,000 was allocated to goodwill, which is not subject to amortization under the provisions of FASB Statement No. 142. NovaPro targets nurses seeking more customized benefits package.

Both acquisitions were accounted for as a purchase in accordance with FASB Statement No. 141 and, accordingly, their results of operations have been included in the consolidated statements of income from their respective dates of acquisition.

Earnout payments relating to the Company's acquisition of Gill/Balsano Consulting, L.L.C. (Gill/Balsano or GBC), in May 2001, were \$1,995,000 based on adjusted EBITDA (as defined in the asset purchase agreement) over a three-year period ending March 31, 2004. This contingent consideration was not related to the seller's employment. Upon payment, the earnouts were allocated to goodwill as additional purchase price. To date, all earnout payments were paid, of which, \$831,250, \$665,000 and \$498,750 was paid in 2004, 2003 and 2002, respectively. This business was subsequently sold in 2004. See Note 16 - Discontinued Operations.

Earnout payments relating to the Company's acquisition of Heritage Professional Education, LLC on December 26, 2000 were \$3,500,000, of which \$2,000,000 was paid in 2003 and \$1,500,000 was paid in 2002. These payments were allocated to goodwill as additional purchase price in their respective periods of payments. As of December 31, 2003, no further payments of earnouts were applicable relating to this purchase agreement.

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**5. Property and Equipment**

At December 31, 2004 and 2003, property and equipment consist of the following:

	December 31,	
	2004	2003
Computer equipment	\$ 4,382,965	\$ 9,854,173
Computer software	14,102,365	13,080,438
Office equipment	1,079,536	1,871,170
Furniture and fixtures	1,720,930	3,064,795
Leasehold improvements	1,064,139	1,980,078
	<u>22,349,935</u>	<u>29,850,654</u>
Less accumulated depreciation and amortization	(10,510,343)	(17,248,084)
	<u>\$ 11,839,592</u>	<u>\$ 12,602,570</u>

During the year ended December 31, 2004, the Company wrote off approximately \$9,375,000 of fully depreciated property and equipment.

**6. Accrued Employee Compensation and Benefits**

At December 31, 2004 and 2003, accrued employee compensation and benefits consist of the following:

	December 31,	
	2004	2003
Salaries	\$ 9,575,677	\$ 10,102,869
Bonuses	5,844,055	7,072,807
Accrual for workers' compensation claims	4,092,461	3,572,084
Accrual for health care benefits	2,665,227	2,082,581
Accrual for professional liability insurance	8,656,475	6,318,875
Accrual for vacation	1,197,490	844,695
	<u>\$ 32,031,385</u>	<u>\$ 29,993,911</u>

**7. Long-Term Debt and Note Payable**

At December 31, 2004 and 2003, long-term debt and note payable consist of the following:

	December 31,	
	2004	2003
Term Loan, interest at 5.65% on principal of \$32,620,887, 5.59% on principal of \$5,000,000, and 5.67% on principal of \$4,431,721 at December 31, 2004 and interest at 6.25% on principal of \$93,196,202, at December 31, 2003	\$ 42,052,608	\$ 93,196,202
Other	221,789	541,344
	<u>42,274,397</u>	<u>93,737,546</u>
Less current portion	(2,407,644)	(4,943,777)
	<u>\$ 39,866,753</u>	<u>\$ 88,793,769</u>

On July 29, 1999, the Company entered into a \$105,000,000 senior secured credit facility consisting of a \$75,000,000 term loan and a \$30,000,000 revolving loan facility. This senior secured credit facility was amended and restated as of December 16, 1999 and again on March 16, 2001. In June 2003, the Company amended and restated the agreement in conjunction with its acquisition of MedStaff. The new senior secured credit facility consists of a \$125,000,000 term loan and a \$75,000,000 revolving credit facility. The Company repaid \$51,143,594 and \$31,803,798 of the principal on its term loan balance related to the new credit facility during 2004 and 2003, respectively. The Company is required to pay a quarterly commitment fee at a rate of 0.50% per year on unused

**7. Long-Term Debt and Note Payable (Continued)**

commitments under the revolving loan facility. The term loan balance under the new senior credit facility bears interest based on an alternative base rate plus a margin of 2.25% or LIBOR plus a margin of 3.25%. The revolving loan facility as of December 31, 2004 bears interest based on an alternate base rate plus a margin of 1.50% or LIBOR plus a margin of 2.50%. The revolving loan facility as of December 31, 2003 bears interest based on an alternate base rate plus a margin of 1.75% or LIBOR plus a margin of 2.75% (each as defined in the senior secured credit facility). The Company has pledged all of the assets of the Company as collateral for the senior credit facility.

At December 31, 2004, the senior credit facility allowed for the issuance of letters of credit in an aggregate face amount not to exceed \$25,000,000. Additionally, swingline loans, as defined in the senior credit facility, not to exceed an aggregate principal amount at any time outstanding of \$10,000,000 are available under the senior credit facility. As of December 31, 2004, \$11,639,004 was outstanding under the letter of credit facility leaving \$63,360,996 available under the revolving credit facility.

The senior credit facility requires that the Company meet certain covenants, including the maintenance of certain debt and interest expense ratios and capital expenditure limits. It also includes a mandatory prepayment provision, which, beginning in 2004, requires the Company to make mandatory prepayments subsequent to the completion of a fiscal year using a portion of its excess cash flow, as defined in the agreement. The dividends and distribution covenant limits the Company's ability to repurchase its common stock and declare and pay cash dividends on its common stock. As of December 31, 2004, the Company was limited to \$23,404,518 to be used for either dividends and/or stock repurchases. This limitation increases each year by 25% of net income provided that the Company's Debt/EBITDA ratio (as defined in the agreement) is less than 1.5 to 1.0 and the Company has \$25,000,000 in cash or available cash under the revolving credit facility. The Company is also required to obtain the consent of its lenders to complete any acquisition which exceeds \$25,000,000. At December 31, 2004, the Company was in compliance with all of its debt covenants.

The aggregate scheduled maturities of long-term debt and capitalized lease obligations as of December 31, 2004 are as follows:

Year ending December 31:		
2005	\$	2,407,644
2006		2,342,276
2007		2,282,697
2008		18,193,425
2009		17,048,355
Thereafter		—
	<u>\$</u>	<u>42,274,397</u>

Other long-term debt includes capitalized lease obligations and a note payable as of December 31, 2003.

**8. Employee Benefit Plans**

The Company maintains a voluntary defined contribution 401(k) profit-sharing plan covering all eligible employees as defined in the plan documents. The plan provides for a discretionary matching contribution, which is equal to a percentage of each eligible contributing participant's elective deferral, which the Company, at its sole discretion, determines from year to year. Eligible employees who elect to participate in the plan are generally vested in any matching contribution after three years of service with the Company. Contributions by the Company, net of forfeitures, under this plan amounted to approximately \$2,347,000, \$2,826,000, and \$3,030,000, for the years ended December 31, 2004, 2003 and 2002, respectively.

**8. Employee Benefit Plans (Continued)**

Certain MedStaff employees were covered under a separate benefit plan for 2004 and 2003. The plan allows eligible employees to defer a portion of their annual compensation pursuant to Section 401(k) of the Internal Revenue Code. The plan is a voluntary defined contribution 401(k) profit-sharing plan covering substantially all eligible employees as defined in the plan documents. Effective April 1, 2004, eligible employees who elected to participate in the plan were generally fully vested in any matching contribution after three years of service with the Company. Contributions by the Company, net of forfeitures, under this plan amounted to approximately \$63,000 and \$66,000 for the years ended December 31, 2004 and 2003, respectively.

The Company offers a non-qualified deferred compensation program to certain key employees whereby they may defer a portion of annual compensation for payment upon retirement. The program is unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974. The liability for the deferred compensation is included in other current liabilities and approximated \$658,000 and \$322,000 at December 31, 2004 and 2003, respectively.

**9. Commitments and Contingencies**

The Company has entered into non-cancelable operating lease agreements for the rental of office space and equipment. Certain of these leases include options to renew as well as rent escalation clauses. The rent escalations have been reflected in the table below. Future minimum lease payments associated with these agreements with terms of one year or more are approximately as follows:

Year ending December 31:	
2005	\$ 4,475,000
2006	3,812,000
2007	3,019,000
2008	2,421,000
2009	1,608,000
Thereafter	4,970,000
	\$ 20,305,000

Total operating lease expense from continuing operations included in selling, general, and administrative expenses was approximately \$5,390,000, \$4,662,000 and \$3,045,000 for the years ended December 31, 2004, 2003, and 2002, respectively. Total operating lease expense included in discontinued operations was approximately \$595,000, \$861,000 and \$788,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

The Company's Cross Country TravCorps and Cross Country Nurses, Inc. subsidiaries are the subjects of a class action lawsuit filed in the Superior Court of California in Orange County alleging, among other things, violations of certain sections of the California Labor Code, unfair competition and breach of contract. The lawsuit has not yet been certified by the court as a class action. As a result, the Company is unable at this time to determine its potential exposure. The Company intends to vigorously defend this matter.

Subsequent to December 31, 2004, the Company's MedStaff subsidiary became the subject of a purported class action lawsuit filed on February 18, 2005 in the Superior Court of California in Riverside County. The lawsuit only relates to MedStaff corporate employees. It alleges certain sections of the California Labor Code, the California Business and Professions Code, conversion and accounting, and recovery of unpaid wages and penalties. MedStaff currently has less than 50 corporate employees in California. The plaintiffs, Maureen Petray and Carina Higareda purport to sue on behalf of themselves and all others similarly situated, allege that MedStaff failed, under California law, to provide meal period and rest breaks and pay for those missed meal periods and rest breaks; failed to compensate the employees for all hours worked; failed to compensate the employees for working overtime; and failed to keep appropriate records to keep track of time worked. Plaintiffs seek, among other things, an order enjoining MedStaff from engaging in the practices challenged in the complaint; for an order for full restitution of all monies MedStaff allegedly failed to pay plaintiffs and their purported class; for interest; for certain penalties provided for by the California Labor Code; and for attorneys' fees and costs. The lawsuit is in its very early stages and has not yet been certified by the court as a class action. As a result, the Company is unable to determine its potential exposure, if any, and intends to vigorously defend this matter.

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2004**

**9. Commitments and Contingencies (Continued)**

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

**10. Estimated Fair Value of Financial Instruments**

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate fair value because of their short maturity. The carrying amount of the revolving credit note and term loan approximates fair value because the interest rate is tied to a quoted variable index.

**11. Income Taxes**

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

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Continuing operations:			
Current			
Federal	\$ 5,896,338	\$ 10,344,821	\$ 14,414,257
State	526,027	1,683,362	2,497,777
	<u>6,422,365</u>	<u>12,028,183</u>	<u>16,912,034</u>
Deferred	5,513,405	4,628,964	3,921,244
	<u>11,935,770</u>	<u>16,657,147</u>	<u>20,833,278</u>
Discontinued operations-current			
Tax benefit on loss from discontinued operations	(58,124)	(327,339)	(2,086,944)
Tax expense on gain on disposal	3,072,970	—	—
Discontinued operations-deferred	—	—	—
Tax (benefit) expense from discontinued operations	(371,534)	(28,595)	57,123
Tax benefit on gain on disposal	(136,745)	—	—
Total operating expenses	<u>2,506,567</u>	<u>(355,934)</u>	<u>(2,029,821)</u>
	<u>\$ 14,442,337</u>	<u>\$ 16,301,213</u>	<u>\$ 18,803,457</u>

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

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

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Current deferred tax assets and (liabilities):		
Accrued and prepaid expenses	\$ 4,622,147	\$ 2,201,012
Allowance for doubtful accounts	1,357,644	1,387,460
Other	<u>(1,030,341)</u>	<u>(1,655,171)</u>
	4,949,450	1,933,301
Non-current deferred tax assets and (liabilities):		
Depreciation and amortization	(22,260,406)	(14,829,053)
Identifiable intangibles	(2,735,376)	(2,917,336)
Other	—	96,841
	<u>(24,995,782)</u>	<u>(17,649,548)</u>
Net deferred taxes	<u>\$ (20,046,332)</u>	<u>\$ (15,716,247)</u>

FASB Statement No. 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some of or all of the deferred tax assets will not be realized.

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2004**

**11. Income Taxes (Continued)**

After consideration of all the evidence, both positive and negative, management has determined that a valuation allowance at December 31, 2004 and 2003 is not necessary.

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

	December 31,	
	2004	2003
Tax at U.S. statutory rate	\$ 11,510,793	\$ 15,064,603
State taxes, net of federal benefit	831,525	1,397,245
Non-deductible meals and entertainment	39,593	51,734
Non-deductible other	36,390	6,625
Other	(482,531)	136,940
Income taxes on continuing operations	11,935,770	16,657,147
Benefit from discontinued operations	(429,658)	(355,934)
Expense from gain on disposal	2,936,225	—
Total income tax expense	\$ 14,442,337	\$ 16,301,213

**12. Stockholders' Equity**

On November 3, 2004, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission for the registration of 11,403,455 shares of common stock by three of its existing shareholders. No members of management registered shares pursuant to this registration statement. The Company has and will incur all fees and expenses relating to the registration statement. To date no such shares have been sold.

On November 5, 2002, the Company's Board of Directors authorized a stock repurchase program whereby the Company may purchase up to 1,500,000 of its common shares at an aggregate price not to exceed \$25,000,000. As of December 31, 2004, the Company purchased and retired 1,030,400 shares of its common stock at an average cost of \$13.75 per share pursuant to the current authorization. The cost of such purchases was approximately \$14,170,000. Under this program, the shares may be purchased from time to time on the open market. The repurchase program may be discontinued at any time at the discretion of the Company.

In March 2002, the Company filed a registration statement with the Securities and Exchange Commission for the sale of 9,000,000 shares of common stock by existing shareholders. Additionally, the underwriters exercised the over-allotment option to purchase 700,000 shares from the selling stockholders. The Company did not receive any of the proceeds from the sale of these shares. Costs associated with this secondary offering of \$902,209 are included in non-recurring secondary offering costs in the 2003 and 2002 consolidated statements of income.

**Stock Options**

On December 16, 1999, the Company's Board of Directors approved the 1999 Stock Option Plan and Equity Participation Plan (collectively, the Plans), which was amended and restated on October 25, 2001 and provides for the issuance of incentive stock options (ISOs) and non-qualified stock options to eligible employees and non-employee directors for the purchase of up to 4,398,001 shares of common stock. Non-qualified stock options may also be issued to consultants. The Plans were approved by the security holders at the Company's 2002 Annual Meeting of Stockholders. Under the Plans, the exercise price of options granted is determined by the compensation committee of the Company's Board of Directors. In the case of 10% or more stockholders, the exercise price of the ISOs granted may not be less than 110% of such fair market. Options granted during 2004, 2003, and 2002 under the Amended and Restated 1999 Stock Option Plan generally vest ratably over 4 years. Options granted during 2002 and 2001 under the Amended and Restated 1999 Equity Participation Plan vest 25% on the first anniversary of the date of grant and then vest 12.5% every 6 months thereafter. All options expire on the tenth (or, in the case of a 10% shareholder, the fifth) anniversary of the date of grant.



**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**12. Stockholders' Equity (Continued)**

Changes under these stock option plans for 2004, 2003 and 2002 were as follows:

	December 31, 2004			December 31, 2003			December 31, 2002		
	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Weighted Average Exercise Price
Options outstanding at beginning of year	2,979,403	\$ 7.75-\$37.13	\$13.53	2,974,983	\$ 7.75-\$37.13	\$13.50	3,520,068	\$ 7.75-\$37.13	\$13.00
Granted	88,700	\$15.33-\$18.47	\$17.85	187,747	\$10.38-\$14.50	\$10.66	53,279	\$12.31-\$26.15	\$17.89
Canceled	(431,275)	\$ 7.75-\$37.13	\$18.05	(60,924)	\$ 7.75-\$26.15	\$13.67	(145,443)	\$ 7.75-\$26.15	\$14.74
Exercised	(223,106)	\$ 7.75-\$17.00	\$10.62	(122,403)	\$ 7.75-\$15.50	\$ 8.27	(452,921)	\$ 7.75-\$23.25	\$ 9.72
Options outstanding at end of year	<u>2,413,722</u>	<u>\$ 7.75-\$37.13</u>	<u>\$13.63</u>	<u>2,979,403</u>	<u>\$ 7.75-\$37.13</u>	<u>\$13.53</u>	<u>2,974,983</u>	<u>\$ 7.75-\$37.13</u>	<u>\$13.50</u>
Options exercisable at end of year	<u>2,154,342</u>	<u>\$ 7.75-\$37.13</u>	<u>\$13.49</u>	<u>2,515,785</u>	<u>\$ 7.75-\$37.13</u>	<u>\$13.24</u>	<u>1,856,412</u>	<u>\$ 7.75-\$37.13</u>	<u>\$12.97</u>

The following table represents information about stock options granted in each year:

	Year Ended December 31,		
	2004	2003	2002
Weighted average exercise price of options granted during the year:			
Issued at market price	\$17.85	\$10.66	\$17.89
Issued above market price	N/A	N/A	N/A
Issued below market price	N/A	N/A	N/A
Weighted average fair value of options granted during the year:			
Issued at market price	\$10.46	\$6.21	\$10.71
Issued above market price	N/A	N/A	N/A
Issued below market price	N/A	N/A	N/A

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**12. Stockholders' Equity (Continued)**

The following table describes outstanding options as of December 31, 2004:

<u>Exercise Price</u>	<u>Options Outstanding</u>	<u>Remaining Contractual Life</u>	<u>Options Exercisable</u>
\$ 7.75	535,008	4.96	535,008
10.13	19,455	5.50	19,455
10.38	123,568	8.28	29,858
10.78	7,395	5.79	7,395
11.62	523,463	4.96	523,463
12.05	9,000	8.41	2,250
12.31	20,925	7.61	9,575
12.38	13,496	6.25	11,809
14.50	5,075	8.58	1,325
15.19	11,724	5.50	11,724
15.33	9,950	9.58	0
15.50	534,259	4.96	534,259
16.60	11,000	9.42	0
17.00	211,485	6.82	158,842
18.47	56,200	9.10	0
18.57	25,404	6.25	22,229
19.37	116,871	4.96	116,871
20.26	11,724	5.50	11,724
23.25	116,870	4.96	116,870
24.76	25,404	6.25	22,229
25.32	2,565	5.50	2,565
26.15	9,200	7.23	4,600
30.39	2,567	5.50	2,567
30.95	5,557	6.25	4,862
37.13	5,557	6.25	4,862
<u>\$13.63</u>	<u>2,413,722</u>	<u>5.51</u>	<u>2,154,342</u>

The fair value of options granted used to compute pro forma net income disclosures here and within Note 2 were estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	<u>Year ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Expected dividend yield	0.00 %	0.00 %	0.00 %
Expected volatility	60.00	60.00	60.00
Risk-free interest rate	3.49 %	3.22 %	4.29 %
Expected life	6 years	6 years	6 years

December 31, 2004

**13. Earnings Per Share**

In accordance with the requirements of FASB Statement No. 128, *Earnings Per Share*, basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding (excluding nonvested restricted stock) and diluted earnings per share reflects the dilutive effects of stock options and restricted stock (as calculated utilizing the treasury stock method). Certain shares of common stock that are issuable upon the exercise of options have been excluded from the 2004, 2003 and 2002 per share calculations because their effect would have been anti-dilutive. Such shares amounted to 589,334, 1,375,977, and 429,912 during the years ended December 31, 2004, 2003 and 2002, respectively. For the years ended December 31, 2004, 2003, and 2002, respectively, 585,567, 439,832, and 1,221,407 incremental shares of common stock were included in diluted weighted average shares outstanding.

**14. Interest Rate Swap**

The Company had an interest rate swap agreement (the Agreement) with a financial institution that matured on February 7, 2003. The Company entered into the Agreement to reduce the exposure to adverse fluctuations in floating interest rates on the underlying debt obligation as required by the senior credit facility and not for trading purposes. The interest rate swap agreements specified that the Company would make floating interest rate payments based on the three month U.S. dollar London Interbank Offered Rate (LIBOR), in exchange for fixed interest rate payments of 6.705%, effective January 1, 2001, over the life of the agreement without an exchange of the underlying notional amount of \$45,000,000. Any differences paid or received under the terms of the Agreement were recognized as adjustments to interest expense over the life of the swap, thereby adjusting the effective interest rate on the underlying debt obligation. To test effectiveness of the interest rate swap, the Company compared the present value of the cumulative change in the fair value of the interest rate swap with the present value of the cumulative change in the expected variable interest payments. On February 28, 2003, the maturity date, the Company paid the last payment on the Agreement.

**15. Related Party Transactions**

The Company provides services to hospitals which are affiliated with certain Board of Director members. Revenue related to these transactions amounted to approximately \$8,172,000, \$6,863,000 and \$6,186,000 in 2004, 2003 and 2002, respectively. Accounts receivable due from these hospitals at December 31, 2004 and 2003 were approximately \$760,000 and \$904,000, respectively.

**16. Discontinued Operations**

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

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**16. Discontinued Operations (Continued)**

The following chart details amounts of revenue and pretax profit or loss reported in discontinued operations for the years ended December 31, 2004, 2003, and 2002:

	Year Ended December 31,		
	2004	2003	2002
Revenues	\$ 11,683,690	\$ 14,168,344	\$ 13,843,717
Pretax (loss) profit - CCC Inc.	\$ (257,767)	\$ (340,488)	\$ 1,087,536
Pretax loss - E-Staff	—	(579,238)	(2,191,383)
Gain on sale of JRK and GBC business	3,665,058	—	—
Impairment of net assets - CCC Inc.	(844,649)	—	—
Impairment of net assets - E-Staff	—	—	(4,142,750)
Taxes on discontinued operations - CCC, Inc.	429,658	131,769	(420,876)
Taxes on sale of JRK and GBC business	(2,936,225)	—	—
Taxes on discontinued operations - E-Staff	—	224,165	2,450,697
	<u>\$ 56,075</u>	<u>\$ (563,792)</u>	<u>\$ (3,216,776)</u>

***Cross Country Consulting, Inc.***

The Company's investment philosophy on non-nurse staffing businesses is that the businesses should provide strategic synergy to the Company's core activity and deliver consistent profitability so that the Company does not apply disproportionate management attention to a relatively small component of its business mix. The Company had been evaluating its commitment to its consulting businesses as a result of significant volatility in these businesses in 2003 when the Company was approached by a third party, Mitretek Systems, Inc. (Mitretek), who was interested in expanding its healthcare consulting presence. Mitretek viewed two of the three practices as fits to their strategy and offered to purchase them. On October 4, 2004, the Company sold assets of its JRK and Gill/Balsano consulting practices to Mitretek for \$12,250,000 in cash less a working capital payment of \$1,616,000, in lieu primarily of accounts receivable retained by the Company. The carrying amount of the net assets sold was approximately \$6,962,000 and consisted primarily of goodwill and other intangibles with a carrying amount of approximately \$6,755,000 (\$6,378,000 - goodwill, net of accumulated amortization and \$377,000 - other intangible assets, net of accumulated amortization). The Company recognized a pre-tax gain on this transaction of \$3,665,058 (\$728,833 after taxes) which is included in discontinued operations in the consolidated statement of income for the year ended December 31, 2004. Proceeds from this transaction were used to pay down \$10,400,000 of the term loan portion of the Company's debt.

As of September 30, 2004, in accordance with FASB Statement No. 142 the Company performed an interim impairment test on the reporting unit that included the assets that were sold. The Company determined that no impairment existed for that reporting unit based on the results of the test.

Separately, in the fourth quarter of 2004, the Company's Board of Directors approved a plan to pursue a sale with respect to its Cejka Consulting practice that was not acquired by Mitretek. Cejka Consulting was a part of TravCorps, which was acquired by the Company in December 1999. Cejka Consulting, along with the aforementioned disposed practices and some subsidiary level infrastructure costs comprised the Company's Cross Country Consulting, Inc. (CCC Inc.) subsidiary, which was a component of the Company's other human capital management services business segment. The Company determined that as of December 31, 2004 the CCC Inc. subsidiary met the criteria to report the pending sale as "Assets Held for Sale" and the subsidiary as "Discontinued Operations" in accordance with FASB Statement No. 144. The Company has accounted for the CCC Inc. as such within the consolidated statements of income and cash flows and notes to the consolidated financial statements included in this Form 10-K.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2004

## 16. Discontinued Operations (Continued)

Upon reclassification the Company reallocated goodwill between the remaining Cejka consulting business and the other business included in the same reporting unit for FASB Statement No. 142 purposes. The Company then conducted an assessment of the tangible and intangible net assets of the Cejka Consulting practice as a result of the above reclassification in accordance with FASB Statement No. 144 and FASB Statement No. 142. Based on this assessment, the Company determined that the carrying amount of the net assets as then reflected on the Company's consolidated balance sheet exceeded its estimated fair value. In accordance with the assessment, the Company recorded a pretax charge of approximately \$845,000 to discontinued operations. The charge represents the impairment of goodwill in the amount of \$399,000 and a reduction in value of other tangible assets in the amount of \$446,000. The Company used the most recent offer price as the fair value. The following chart details the major classes of assets held for sale and the comparative amounts classified as held and used in the prior year:

	December 31,	
	2004	2003
Accounts receivable, net	\$ 1,182,702	\$ 730,246
Other current assets	14,049	4,180
Property and equipment, net	69,803	130,024
Total assets	<u>1,266,554</u>	<u>864,450</u>
Valuation allowance as of December 31, 2004	446,054	—
Net assets held for sale	<u>\$ 820,500</u>	<u>\$ 864,450</u>

Liabilities related to assets held for sale were not considered material for separate disclosure and are included in other current liabilities on the consolidated balance sheet as of December 31, 2004. The Company does not anticipate any involvement in the Cejka consulting business subsequent to the sale of the remaining business and expects any related cash outflows to discontinue shortly after the sale is completed.

***E-Staff***

In March 2002, the Company committed itself to a formal plan to dispose of its subsidiary, E-Staff, a Delaware corporation, through a sale of this business. E-Staff was previously included in the Company's other human capital management services segment. The Company had acquired substantially all of the assets of E-Staff, effective July 31, 2000, for \$1,500,000. The asset purchase agreement provided for potential earnout payments of up to \$3,750,000 based on achievement of a defined development milestone and the profits of E-Staff over a three-year period ending July 31, 2003. This contingent consideration was not related to the seller's employment. The Company paid \$500,000 upon achievement of the developmental milestone in the first quarter of 2002. Due to the discontinuance of the E-Staff business, the Company made no additional earnout payments.

E-Staff was an application service provider that had developed an Internet subscription based communication, scheduling, credentialing and training service business for healthcare providers. As an application service provider, E-Staff was to maintain the database of the client's employees on E-Staff's servers. Prospective E-Staff clients were concerned about placing their healthcare employees' names and credentials on servers owned or controlled by one of the nation's largest healthcare staffing companies. Accordingly, the Company decided to sell this subsidiary. Pursuant to FASB Statement No. 144, the consolidated financial statements of the Company were reclassified to reflect the discontinuance of E-Staff. Accordingly, certain costs and expenses have been segregated and reported as discontinued operations in the accompanying statements of income.

December 31, 2004

**16. Discontinued Operations (Continued)**

In September 2002, the Company decided to retain a portion of the E-Staff software and related equipment for internal use. As a result, in September 2002, approximately \$436,000 of related software and equipment were reclassified from assets from discontinued operations, net, to property and equipment, net. These assets and the related depreciation expense have been reclassified to continuing operations for all periods presented in the accompanying consolidated balance sheets and statements of income. These reclassifications did not have a material impact on the Company's consolidated financial position or results of operations. Based on discussions with potential buyers of the E-Staff technology during the third quarter of 2002, the Company evaluated the ongoing value of E-Staff and determined that approximately \$4,143,000 of the carrying amount of the net assets from discontinued operations was impaired. The Company wrote down the assets from discontinued operations to \$302,000, which, when combined with liabilities from discontinued operations of \$168,000 approximated their estimated fair value of approximately \$134,000. Fair value, at that time, was based on the latest offer received for the sale and included the estimated cash flows from the sale of E-Staff to a potential buyer, adjusted for the estimated probability of the sale. The impairment charge of \$2,539,506, net of income tax benefit of \$1,603,244, is included in the accompanying consolidated statements of income as loss from discontinued operations for the year ended December 31, 2002.

As a result of the difficulty encountered in selling the business, the Company abandoned its efforts to sell the E-staff business during the first quarter of 2003 and decided to dispose of the subsidiary by winding down its operations. E-staff operations ceased as of March 31, 2003. The Company determined that approximately \$302,000 of the net carrying amount of the assets from discontinued operations was impaired. This impairment charge was recognized during the first quarter of 2003 and is included in the accompanying consolidated statements of income as loss from discontinued operations for the year ended December 31, 2003. There are no remaining assets or liabilities at December 31, 2003.

**17. Segment Information**

The Company has two reportable operating segments: healthcare staffing and other human capital management services. The healthcare staffing operating segment includes travel staffing, clinical research and trials staffing and per diem staffing. This segment provides temporary staffing services of healthcare professionals primarily to hospitals, laboratories and pharmaceutical and biotechnology companies. The other human capital management services segment includes the combined results of the Company's education and training, physician search and resource management services.

The Company's management evaluates performance of each segment primarily based on revenues and contribution income (which is defined as earnings before interest, income taxes, depreciation, amortization and corporate expenses not specifically identified to a reported segment). The Company's management does not evaluate, manage or measure performance of segments using asset information; accordingly, asset information by segment is not prepared or disclosed. See Note 3 – Goodwill and Other Identifiable Intangible Assets. The accounting policies of the segments are the same as those described in Note 2 – Summary of Significant Accounting Policies. 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.

**Cross Country Healthcare, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2004**

**17. Segment Information (Continued)**

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

	Year Ended December 31,		
	2004	2003(a)	2002(a)
Revenue from unaffiliated customers:			
Healthcare staffing	\$ 612,075,464	\$ 636,734,690	\$ 588,743,378
Other human capital management services	42,035,412	36,367,456	37,365,820
	<u>\$ 654,110,876</u>	<u>\$ 673,102,146</u>	<u>\$ 626,109,198</u>
Contribution income (b):			
Healthcare staffing	\$ 62,035,055	\$ 75,934,407	\$ 81,159,968
Other human capital management services	7,089,343	4,760,637	5,221,668
Unallocated corporate overhead	25,076,651	24,518,853	21,449,824
Depreciation	5,139,984	4,370,857	3,397,394
Amortization	2,344,582	3,470,422	3,083,022
Non-recurring secondary offering costs	—	16,173	886,036
Loss on early extinguishment of debt	—	959,991	—
Interest expense, net	4,024,791	4,317,024	3,732,601
Income from continuing operations before income taxes	<u>\$ 32,538,390</u>	<u>\$ 43,041,724</u>	<u>\$ 53,832,759</u>

- (a) Prior periods have been reclassified to conform to current 2004 presentation, primarily the reclassification of Cross Country Consulting Inc.'s results from operations from continuing operations to discontinued operations. Cross Country Consulting was previously included in the other human capital management services business segment.
- (b) The Company defines contribution income as earnings before interest, income taxes, depreciation, amortization and corporate expenses not specifically identified to a reporting segment. Contribution income is used by management when assessing segment performance and is provided in accordance with FASB No. 131, *Disclosure About Segments of an Enterprise and Related Information*.

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2004**

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

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter(a)</u>
<b>2004</b>				
Revenue from services (b)(c)	\$ 168,866,979	\$ 163,795,063	\$ 161,961,987	\$ 159,486,847
Gross profit (b)(c)	\$ 36,422,841	\$ 36,579,400	\$ 35,341,880	\$ 36,196,304
Income from continuing operations (c)	\$ 4,724,102	\$ 4,928,244	\$ 5,167,294	\$ 5,782,980
Income (loss) from discontinued operations (c)	133,009	169,096	(33,306)	(212,724)
Net income	\$ 4,857,111	\$ 5,097,340	\$ 5,133,988	\$ 5,570,256
Net income (loss) per common share—basic (c):				
Income from continuing operations	\$ 0.15	\$ 0.15	\$ 0.16	\$ 0.18
Discontinued operations	0.00	0.01	(0.00)	(0.01)
Net income	\$ 0.15	\$ 0.16	\$ 0.16	\$ 0.17
Net income (loss) per common share—diluted (c):				
Income from continuing operations	\$ 0.15	\$ 0.15	\$ 0.16	\$ 0.18
Discontinued operations	0.00	0.01	(0.00)	(0.01)
Net income	\$ 0.15	\$ 0.16	\$ 0.16	\$ 0.17
	<u>First Quarter</u>	<u>Second Quarter(d)</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<b>2003</b>				
Revenue from services (b)(c)	\$ 157,045,117	\$ 162,111,720	\$ 181,121,977	\$ 172,823,332
Gross profit (b)(c)	\$ 35,563,821	\$ 37,328,386	\$ 41,604,774	\$ 38,765,602
Income from continuing operations (c)	\$ 7,281,500	\$ 6,680,880	\$ 6,962,093	\$ 5,460,104
(Loss) income from discontinued operations (c)	(230,539)	149,529	(159,159)	(323,623)
Net income	\$ 7,050,961	\$ 6,830,409	\$ 6,802,934	\$ 5,136,481
Net income (loss) per common share—basic (c):				
Income from continuing operations	\$ 0.23	\$ 0.21	\$ 0.22	\$ 0.17
Discontinued operations	(0.01)	0.00	(0.01)	(0.01)
Net income	\$ 0.22	\$ 0.21	\$ 0.21	\$ 0.16
Net income (loss) per common share—diluted (c):				
Income from continuing operations	\$ 0.23	\$ 0.21	\$ 0.21	\$ 0.17
Discontinued operations	(0.01)	0.00	(0.00)	(0.01)
Net income	\$ 0.22	\$ 0.21	\$ 0.21	\$ 0.16

(a) In the fourth quarter of 2004, the Company refined its estimate of incurred but not yet reported claims on its corporate health insurance and, as a result, reversed approximately \$760,000, pretax, of expenses. The policy was self-insured since the beginning of 2004, and as a result, the Company did not have a history of claims until the fourth quarter was completed. Additionally, the Company revised its annual effective tax rate for the full year from 38.5% in the first, second and third quarters of 2004 to 36.7% in the fourth quarter of 2004. The effective tax rate was impacted by certain non-recurring adjustments.

(b) Certain 2004 and 2003 quarterly amounts have been reclassified to conform to 2004 fourth quarter presentation. The quarterly impact of these reclassifications are as follows:

	<u>First Quarter</u>	<u>Second Quarter(c)</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Increase in revenue from services	\$ 169,677	\$ 172,330	\$ 192,370	\$ —
Increase in gross profit	\$ 161,517	\$ 151,512	\$ 186,789	\$ —
<b>2003</b>				
Increase in revenue from services	\$ —	\$ —	\$ 158,581	\$ 182,265
Increase in gross profit	\$ —	\$ 144,146	\$ 153,446	\$ 163,323



**18. Quarterly Financial Data (Unaudited) (Continued)**

- (c) Pursuant to FASB Statement No. 144, the consolidated financial statements of the Company have been reclassified in all periods presented to reflect the discontinued operations of Cross Country Consulting. Discontinued operations in the fourth quarter of 2004 included a \$3,665,058 pretax (\$728,833 after tax) gain relating to the sale of assets of the JRK and GBC businesses to a third party, and impairment charges relating to the valuation of discontinued net assets of approximately \$845,000.
- (d) In the second quarter of 2003 the Company recorded \$960,000 of loss on early extinguishment of debt. Refer to discussion in Note 2 – Summary of Significant Accounting Policies.

**Cross Country Healthcare, Inc.**  
**Valuation and Qualifying Accounts**  
**For the Years Ended December 31, 2004, 2003, and 2002**

<u>Allowance for Doubtful Accounts</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses (a)</u>	<u>Write-offs</u>	<u>Recoveries</u>	<u>Other Changes</u>	<u>Balance at End of Period</u>
Year ended December 31, 2004	\$ 3,613,834	\$ 1,060,291	\$ (963,518)	\$ 91,348	\$ (60,000) (b)	\$ 3,741,955
Year ended December 31, 2003	2,250,047	1,594,020	(949,703)	52,178	667,292 (c)	3,613,834
Year ended December 31, 2002	2,424,865	242,230	(599,332)	105,743	76,541 (d)	2,250,047

(a) Includes charges relating to the consulting businesses, which are included in discontinued operations on the consolidated statements of income, of \$102,991, \$243,706, and \$79,496 for the years ending December 31, 2004, 2003, and 2002, respectively.

(b) Allowance for doubtful accounts for receivables that were reclassified to assets held for sale, net.

(c) Allowance for doubtful accounts for receivables acquired in MedStaff acquisition.

(d) Allowance for doubtful accounts for receivables acquired in NovaPro acquisition.

REAFFIRMATION OF GUARANTEE AND SECURITY DOCUMENTS

Dated as of June 5, 2003

Reference is made to the Third Amended and Restated Credit Agreement dated as of June 5, 2003 (the "Credit Agreement"), among Cross Country Healthcare, Inc., a Delaware corporation (the "Borrower"), the Lenders party thereto, Citigroup Global Markets Inc., as Sole Bookrunner and Joint Lead Arranger, Wachovia Securities LLC, as Joint Lead Arranger, Citicorp USA, Inc., as issuing bank, as swingline lender, as Administrative Agent for the Lenders and as Collateral Agent for the Lenders, Wachovia Bank, National Association, as Syndication Agent, and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as Documentation Agents. Capitalized terms used but not defined herein have the meanings assigned to them in the Credit Agreement.

Each Subsidiary Guarantor, by its signature below, hereby acknowledges notice and receipt of, and consents to the terms of, the Credit Agreement.

Each Subsidiary Guarantor, by its signature below, hereby affirms its Guarantee of the Obligations and (to the extent applicable) the pledge of its assets as Collateral to secure such Obligations, all as provided in the Collateral Documents, the Subsidiary Guarantee Agreement and the Indemnity, Subrogation and Contribution Agreement, as previously executed, and acknowledges and agrees that such Guarantee and, if applicable, pledge continue in full force and effect in respect of, and to secure, the Obligations.

Furthermore, the Borrower hereby affirms that each of the Collateral Documents and the Indemnity, Subrogation and Contribution Agreement previously executed by it, shall continue to be in full force and effect to secure the Obligations.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this reaffirmation of guarantee and security documents to be duly executed by their respective authorized officers as of the day and year first above written.

CROSS COUNTRY HEALTHCARE, INC.,

By: /s/ Emil Hensel

Name: Emil Hensel
Title: Chief Financial Officer

ASSIGNMENT AMERICA, INC.,

By: /s/ Stephen W. Rubin
Name: Stephen W. Rubin

Title: Secretary

CROSS COUNTRY TRAVCORPS, INC.,

By: /s/ Emil Hensel

Name: Emil Hensel
Title: Treasurer

CROSS COUNTRY LOCAL, INC.,

By: /s/ Emil Hensel

Name: Emil Hensel
Title: Chief Operating Officer

NOVAPRO, INC.,

By: /s/ Emil Hensel

Name: Emil Hensel
Title: Treasurer

TVCM, INC.,

By: /s/ Stephen W. Rubin

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Name: Stephen W. Rubin  
Title: Secretary

CC STAFFING, INC.,

By: /s/ Emil Hensel

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Name: Emil Hensel  
Title: President

CROSS COUNTRY CONSULTING, INC.,

By: /s/ Stephen W. Rubin

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Name: Stephen W. Rubin  
Title: Secretary

CEJKA & COMPANY,

By: /s/ Stephen W. Rubin

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Name: Stephen W. Rubin  
Title: Assistant Secretary

CLINFORCE, INC.,

By: /s/ Emil Hensel

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Name: Emil Hensel  
Title: Vice President

CROSS COUNTRY SEMINARS, INC.,

By: /s/ Stephen W. Rubin

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Name: Stephen W. Rubin  
Title: Secretary

E-STAFF, INC.,

By: /s/ Emil Hensel

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Name: Emil Hensel  
Title: Chief Financial Officer

CROSS COUNTRY NURSES, INC.

By: /s/ Stephen W. Rubin

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Name: Stephen W. Rubin  
Title: Secretary

Accepted and Agreed:

CITIGROUP USA, INC., as Collateral Agent,

By: /s/

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Name:  
Title:

SUPPLEMENT TO SUBSIDIARY GUARANTEE AGREEMENT  
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SUPPLEMENT NO. 11 dated as of December 30, 2004, to the SUBSIDIARY GUARANTEE AGREEMENT dated as of December 16, 1999, among each of the subsidiaries listed on Schedule I thereto (each such subsidiary individually, a "SUBSIDIARY GUARANTOR" and collectively, the "SUBSIDIARY GUARANTORS") of CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), and CITICORP USA, INC. ("CITICORP"), as collateral agent (the "COLLATERAL AGENT") for the Obligees (as defined in the Credit Agreement referred to below).

A. Reference is made to (a) the Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION AGENT"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Subsidiary Guarantee Agreement annexed to the Credit Agreement as Exhibit G (as amended, supplemented or otherwise modified from time to time, the "SUBSIDIARY GUARANTEE AGREEMENT").

B. Capitalized terms used and not otherwise defined herein are used with the meanings assigned to such terms in the Subsidiary Guarantee Agreement and the Credit Agreement.

C. The Guarantors have entered into the Subsidiary Guarantee Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.10 of the Credit Agreement, each Subsidiary (other than any Foreign Subsidiary) that was not in existence or not a Subsidiary on the Original Closing Date is required to enter into the Subsidiary Guarantee Agreement as a Subsidiary Guarantor upon becoming a Subsidiary. Section 20 of the Subsidiary Guarantee Agreement provides that additional Subsidiaries may become Subsidiary Guarantors under the Subsidiary Guarantee Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary of the Company

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(the "NEW SUBSIDIARY GUARANTORS") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Guarantor under the Subsidiary Guarantee Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Subsidiary Guarantor agree as follows:

SECTION 1. In accordance with Section 20 of the Subsidiary Guarantee Agreement, the New Subsidiary Guarantor by its signature below becomes a Subsidiary Guarantor under the Subsidiary Guarantee Agreement with the same force and effect as if originally named therein as a Subsidiary Guarantor and the New Subsidiary Guarantor hereby (a) agrees to all the terms and provisions of the Subsidiary Guarantee Agreement applicable to it as a Subsidiary Guarantor thereunder and (b) represents and warrants that the representations and warranties made by it as a Subsidiary Guarantor thereunder are true and correct on and as of the date hereof. Each reference to a "SUBSIDIARY GUARANTOR" or "GUARANTOR" in the Subsidiary Guarantee Agreement shall be deemed to include the New Subsidiary Guarantor. The Subsidiary Guarantee Agreement is hereby incorporated herein by reference.

SECTION 2. The New Subsidiary Guarantor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by each of them and constitutes its legal, valid and binding obligation, enforceable against each of them in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Subsidiary Guarantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Supplement.

SECTION 4. Except as expressly supplemented hereby, the Subsidiary Guarantee Agreement shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Subsidiary Guarantee Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision hereof in a particular

jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 14 of the Subsidiary Guarantee Agreement. All communications and notices hereunder to the New Subsidiary Guarantor shall be given to it at the address set forth under its signature below, with a copy to the Company.

SECTION 8. The New Subsidiary Guarantor agrees to reimburse the Collateral Agent for its out-of-pocket expenses in connection with this Supplement, including the fees, disbursements and other charges of counsel for the Collateral Agent.



IN WITNESS WHEREOF, the New Subsidiary Guarantor and the Collateral Agent have duly executed this Supplement to the Subsidiary Guarantee Agreement as of the day and year first above written.

CROSS COUNTRY CAPITAL, INC.,  
a Delaware corporation,

By /s/ Emil Hensel

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Name: Emil Hensel  
Title: Chairman

Address: Delaware Trust Capital  
Management, Inc.  
300 Delaware Ave., Suite 2016  
Wilmington, DE 19801  
Attn: Darryl Smith

CITICORP USA, INC., as Collateral Agent,

By /s/ Illegible

-----  
Name: Citicorp USA  
Title: Collateral Agent

## SUPPLEMENT TO SECURITY AGREEMENT

SUPPLEMENT NO. 11 (this "SUPPLEMENT") dated as of December 30, 2004, to the SECURITY AGREEMENT dated as of July 29, 1999, as subsequently amended and restated, among CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), and CITICORP USA, INC. ("CITICORP"), as collateral agent (in such capacity, the "COLLATERAL AGENT") for the Obligees (as defined herein).

A. Reference is made to (a) the Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION Agent"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Security Agreement annexed to the Credit Agreement as Exhibit H as amended, supplemented or otherwise modified from time to time (the "SECURITY AGREEMENT").

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Security Agreement and the Credit Agreement.

C. The Grantors have entered into the Security Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Section 7.15 of the Security Agreement provides that additional Subsidiaries may become Grantors under the Security Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "NEW GRANTOR") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Grantor under the Security Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Grantor agree as follows:

SECTION 1. In accordance with Section 7.15 of the Security Agreement, the New Grantor by its signature below becomes a Grantor under the Security Agreement with the same force and effect as if originally named therein as a Grantor and the New Grantor hereby (a) agrees to all the terms and provisions of the Security Agreement applicable to it as a Grantor thereunder and (b) represents and warrants that the

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representations and warranties made by it as a Grantor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Grantor, as security for the payment and performance in full of the Obligations (as defined in the Credit Agreement), does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Obligees, their successors and assigns, a security interest in and lien on all of the New Grantor's right, title and interest in and to the Collateral (as defined in the Security Agreement) of the New Grantor. Each reference to a "GRANTOR" in the Security Agreement shall be deemed to include the New Grantor. The Security Agreement is hereby incorporated herein by reference.

SECTION 2. The New Grantor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Grantor and the Collateral Agent.

Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. The New Grantor hereby represents and warrants that (a) set forth on Schedule I attached hereto is a true and correct schedule of the location of any and all Collateral of it and a listing of any and all Intellectual Property now owned by the New Grantor and (b) the true and correct location of the chief executive office of the New Grantor is set forth under its signature hereto.

SECTION 5. Except as expressly supplemented hereby, the Security Agreement shall remain in full force and effect. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Security Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties hereto shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 7.01 of the Security Agreement. All communications and notices hereunder to the New Grantor shall be given to it in care of the Borrower.

SECTION 8. The New Grantor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Grantor and the Collateral Agent have duly executed this Supplement to the Security Agreement as of the day and year first above written.

CROSS COUNTRY CAPITAL, INC.,  
a Delaware corporation,

By /s/ Emil Hensel

-----  
Name: Emil Hensel  
Title: Chairman

Address: Delaware Trust Capital Management,  
Inc.  
300 Delaware Avenue, Suite 2016  
Wilmington, DE 19801  
Attn: Darryl Smith

CITICORP USA, INC., as Collateral Agent,

By /s/ Illegible

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Name: Citicorp USA  
Title: Collateral Agent

SCHEDULE I  
to Supplement No. 11  
to the Security Agreement

LOCATION OF COLLATERAL

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1. Location of Collateral

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Delaware Trust Capital Management, Inc.  
300 Delaware Avenue, Suite 2016  
Wilmington, DE 19801

2. Chief Executive Office

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Delaware Trust Capital Management, Inc.  
300 Delaware Avenue, Suite 2016  
Wilmington, DE 19801

## SUPPLEMENT TO PLEDGE AGREEMENT

SUPPLEMENT NO. 11 (this "SUPPLEMENT") dated as of December 30, 2004, to the PLEDGE AGREEMENT dated as of July 29, 1999, as subsequently amended and restated, among CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), and CITICORP USA, INC. ("CITICORP"), as collateral agent (in such capacity, the "COLLATERAL AGENT") for the Obligees (as defined in the Credit Agreement referred to below).

A. Reference is made to (a) the Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION AGENT"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Pledge Agreement annexed to the Credit Agreement as Exhibit I (as amended, supplemented or otherwise modified from time to time, the "PLEDGE AGREEMENT"), among the Guarantors and the Collateral Agent.

B. Capitalized terms used herein and not otherwise defined herein are used with the meanings assigned to such terms in the Credit Agreement and the Pledge Agreement.

C. The Pledgors have entered into the Pledge Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.10 of the Credit Agreement, each Subsidiary (other than a Foreign Subsidiary) that was not in existence or not a Subsidiary on the Original Closing Date is required to enter into the Pledge Agreement as a Subsidiary Pledgor upon becoming a Subsidiary if such Subsidiary owns or possesses property of a type that would be considered Collateral under the Pledge Agreement. Section 23 of the Pledge Agreement provides that such Subsidiaries may become Subsidiary Pledgors under the Pledge Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "NEW PLEDGOR") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Pledgor under the Pledge Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

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Accordingly, the Collateral Agent and the New Pledgor agree as follows:

SECTION 1. In accordance with Section 23 of the Pledge Agreement, the New Pledgor by its signature below becomes a Pledgor under the Pledge Agreement with the same force and effect as if originally named therein as a Pledgor and the New Pledgor hereby agrees (a) to all the terms and provisions of the Pledge Agreement applicable to it as a Pledgor thereunder and (b) represents and warrants that the representations and warranties made by it as a Pledgor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Pledgor, as security for the payment and performance in full of the Obligations, does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Obligees, their successors and assigns, a security interest in and lien on all of the New Pledgor's right, title and interest in and to the Collateral of the New Pledgor. Each reference to a "Subsidiary Pledgor" or a "Pledgor" in the Pledge Agreement shall be deemed to include the New Pledgor. The Pledge Agreement is hereby incorporated herein by reference. Schedule I attached hereto lists all of the issued and outstanding equity and debt interests of the New Pledgor.

SECTION 2. Schedule II to the Pledge Agreement is hereby amended and restated to read in its entirety as set forth in Annex A hereto.

SECTION 3. The New Pledgor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized,

executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 4. This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Pledgor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 5. The New Pledgor hereby represents and warrants that set forth on Schedule I attached hereto is a true and correct schedule of all its Pledged Securities.

SECTION 6. Except as expressly supplemented hereby, the Pledge Agreement shall remain in full force and effect.

SECTION 7. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 8. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, neither party



hereto shall be required to comply with such provision for so long as such provision is held to be invalid, illegal or unenforceable, but the validity, legality and enforceability of the remaining provisions contained herein and in the Pledge Agreement shall not in any way be affected or impaired. The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9. All communications and notices hereunder shall be in writing and given as provided in Section 14 of the Pledge Agreement. All communications and notices hereunder to the New Pledgor shall be given to it in care of the Borrower.

SECTION 10. The New Pledgor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Pledgor and the Collateral Agent have duly executed this Supplement to the Pledge Agreement as of the day and year first above written.

CROSS COUNTRY CAPITAL, INC.,  
a Delaware corporation,

By /s/ Emil Hensel

-----  
Name: Emil Hensel  
Title: Chairman

Address: Delaware Trust Capital  
Management, Inc.  
300 Delaware Ave., Suite 2016  
Wilmington, DE 19801  
Attn: Darryl Smith

CITICORP USA, INC., as Collateral Agent,

By /s/ Illegible

-----  
Name: Citicorp USA  
Title: Collateral Agent

Schedule I to  
Supplement No. 11  
to the Pledge Agreement

Pledged Securities of the New Pledgor  
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EQUITY INTERESTS AND RIGHTS

Issuer -----	Number of Certificate -----	Registered Owner -----	Number and Class of Shares -----	Percentage of Shares -----
Cross Country Capitol, Inc.	1	Cross Country Healthcare, Inc.	3,000 shares of Common Stock	100%

DEBT SECURITIES

Issuer -----	Principal Amount -----	Date of Note -----	Maturity Date -----
Cross Country Nurses, Inc.	\$84,000,000	June 5, 2003	June 4, 2009

EQUITY INTERESTS AND RIGHTS

Pledgor	Issuer	No. of Certificate	Registered Owner	No. and Class of Shares	Percentage of Shares
Cross Country Healthcare, Inc.	TVCM, Inc.	105	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	CC Staffing, Inc.	2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cejka & Company	4	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country Education, Inc.	C2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	ClinForce, Inc.	4	Cross Country Healthcare, Inc.	10 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country TravCorps, Inc.	C1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	NovaPro, Inc.	1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country Consulting, Inc.	C1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Assignment America, Inc.	1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	MedStaff, Inc., fka Cross Country Nurses, Inc.	2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%

Annex A  
Schedule II to the  
Pledge Agreement

Cross Country Healthcare, Inc.	Cross Country Local, Inc.	C2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country Capital, Inc.	1	Cross Country Healthcare, Inc.	3,000 shares of Common Stock	100%

DEBT SECURITIES

Pledgor	Issuer	Principal Amount	Date of Note	Maturity Date
Cross Country Capital, Inc.	Cross Country Nurses, Inc.	\$84,000,000	June 5, 2003	June 4, 2009

SUPPLEMENT TO INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT  
-----

SUPPLEMENT NO. 11 (this "SUPPLEMENT") dated as of December 30, 2004, to the INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT dated as of December 16, 1999, among CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), each subsidiary of the Borrower listed on Schedule I thereto (the "SUBSIDIARY GUARANTORS" or, the "GUARANTORS") and CITICORP USA, INC. ("CITICORP"), as collateral agent (the "COLLATERAL AGENT") for the Obligees (as defined in the Credit Agreement referred to below).

A. Reference is made to Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION AGENT"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Indemnity, Subrogation and Contribution Agreement annexed to the Credit Agreement as Exhibit J (as amended, supplemented or otherwise modified from time to time, the "INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT") and the Collateral Documents referred to in the Credit Agreement.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Indemnity, Subrogation and Contribution Agreement and the Credit Agreement.

C. The Borrower and the Guarantors have entered into the Indemnity, Subrogation and Contribution Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.10 of the Credit Agreement, each Subsidiary (other than a Foreign Subsidiary) that was not in existence or not such a Subsidiary on the Original Closing Date is required to enter into the Indemnity, Subrogation and Contribution Agreement as a Subsidiary Guarantor upon becoming a Subsidiary. Section 12 of the Indemnity, Subrogation and Contribution Agreement provides that additional Subsidiaries may become Subsidiary Guarantors under the Indemnity, Subrogation and Contribution Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "NEW

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GUARANTOR") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Guarantor under the Indemnity, Subrogation and Contribution Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Guarantor agree as follows:

SECTION 1. In accordance with Section 12 of the Indemnity, Subrogation and Contribution Agreement, the New Guarantor by its signature below becomes a Subsidiary Guarantor under the Indemnity, Subrogation and Contribution Agreement with the same force and effect as if originally named therein as a Subsidiary Guarantor and the New Guarantor hereby agrees to all the terms and provisions of the Indemnity, Subrogation and Contribution Agreement applicable to it as a Subsidiary Guarantor thereunder. Each reference to a "Guarantor" in the Indemnity, Subrogation and Contribution Agreement shall be deemed to include the New Guarantor. The Indemnity, Subrogation and Contribution Agreement is hereby incorporated herein by reference.

SECTION 2. The New Guarantor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Guarantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. Except as expressly supplemented hereby, the Indemnity, Subrogation and Contribution Agreement shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, neither party hereto shall be required to comply with such provision for so long as such provision is held to be invalid, illegal or unenforceable, but the validity, legality and enforceability of the remaining provisions contained herein and in the Indemnity, Subrogation and Contribution Agreement shall not in any way be affected or impaired. The parties hereto

shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 7 of the Indemnity, Subrogation and Contribution Agreement. All communications and notices hereunder to the New Guarantor shall be given to it at the address set forth under its signature.

SECTION 8. The New Guarantor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.



IN WITNESS WHEREOF, the New Guarantor and the Collateral Agent have duly executed this Supplement to the Indemnity, Subrogation and Contribution Agreement as of the day and year first above written.

CROSS COUNTRY CAPITAL, INC.,  
a Delaware corporation,

By /s/ Emil Hensel

-----  
Name: Emil Hensel  
Title: Chairman

Address: Delaware Trust Capital  
Management, Inc.  
300 Delaware Ave., Suite 2016  
Wilmington, DE 19801  
Attn: Darryl Smith

CITICORP USA, INC., as Collateral Agent,

By /s/ Illegible

-----  
Name: Citicorp USA  
Title: Collateral Agent

SUPPLEMENT TO SUBSIDIARY GUARANTEE AGREEMENT  
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SUPPLEMENT NO. 12 dated as of February 7, 2005, to the SUBSIDIARY GUARANTEE AGREEMENT dated as of December 16, 1999, among each of the subsidiaries listed on Schedule I thereto (each such subsidiary individually, a "SUBSIDIARY GUARANTOR" and collectively, the "SUBSIDIARY GUARANTORS") of CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), and CITICORP USA, INC. ("CITICORP"), as collateral agent (the "COLLATERAL AGENT") for the Obligees (as defined in the Credit Agreement referred to below).

A. Reference is made to (a) the Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION Agent"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Subsidiary Guarantee Agreement annexed to the Credit Agreement as Exhibit G (as amended, supplemented or otherwise modified from time to time, the "SUBSIDIARY GUARANTEE AGREEMENT").

B. Capitalized terms used and not otherwise defined herein are used with the meanings assigned to such terms in the Subsidiary Guarantee Agreement and the Credit Agreement.

C. The Guarantors have entered into the Subsidiary Guarantee Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.10 of the Credit Agreement, each Subsidiary (other than any Foreign Subsidiary) that was not in existence or not a Subsidiary on the Original Closing Date is required to enter into the Subsidiary Guarantee Agreement as a Subsidiary Guarantor upon becoming a Subsidiary. Section 20 of the Subsidiary Guarantee Agreement provides that additional Subsidiaries may become Subsidiary Guarantors under the Subsidiary Guarantee Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary of the Company

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(the "NEW SUBSIDIARY GUARANTORS") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Guarantor under the Subsidiary Guarantee Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Subsidiary Guarantor agree as follows:

SECTION 1. In accordance with Section 20 of the Subsidiary Guarantee Agreement, the New Subsidiary Guarantor by its signature below becomes a Subsidiary Guarantor under the Subsidiary Guarantee Agreement with the same force and effect as if originally named therein as a Subsidiary Guarantor and the New Subsidiary Guarantor hereby (a) agrees to all the terms and provisions of the Subsidiary Guarantee Agreement applicable to it as a Subsidiary Guarantor thereunder and (b) represents and warrants that the representations and warranties made by it as a Subsidiary Guarantor thereunder are true and correct on and as of the date hereof. Each reference to a "SUBSIDIARY GUARANTOR" or "Guarantor" in the Subsidiary Guarantee Agreement shall be deemed to include the New Subsidiary Guarantor. The Subsidiary Guarantee Agreement is hereby incorporated herein by reference.

SECTION 2. The New Subsidiary Guarantor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by each of them and constitutes its legal, valid and binding obligation, enforceable against each of them in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Subsidiary Guarantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Supplement.

SECTION 4. Except as expressly supplemented hereby, the Subsidiary Guarantee Agreement shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Subsidiary Guarantee Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision hereof in a particular

jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 14 of the Subsidiary Guarantee Agreement. All communications and notices hereunder to the New Subsidiary Guarantor shall be given to it at the address set forth under its signature below, with a copy to the Company.

SECTION 8. The New Subsidiary Guarantor agrees to reimburse the Collateral Agent for its out-of-pocket expenses in connection with this Supplement, including the fees, disbursements and other charges of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Subsidiary Guarantor and the Collateral Agent have duly executed this Supplement to the Subsidiary Guarantee Agreement as of the day and year first above written.

MCVT, INC., a Delaware corporation,

By /s/ Susan Ball

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Name: Susan Ball  
Title: Assistant Secretary

Address: 6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

CITICORP USA, INC., as Collateral Agent,

By /s/ Allen Fisher

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Name: Allen Fisher  
Title: Vice President

## SUPPLEMENT TO SECURITY AGREEMENT

SUPPLEMENT NO. 12 (this "SUPPLEMENT") dated as of February 7, 2005, to the SECURITY AGREEMENT dated as of July 29, 1999, as subsequently amended and restated, among CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), and CITICORP USA, INC. ("CITICORP"), as collateral agent (in such capacity, the "COLLATERAL AGENT") for the Obligees (as defined herein).

A. Reference is made to (a) the Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION Agent"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Security Agreement annexed to the Credit Agreement as Exhibit H as amended, supplemented or otherwise modified from time to time (the "SECURITY AGREEMENT").

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Security Agreement and the Credit Agreement.

C. The Grantors have entered into the Security Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Section 7.15 of the Security Agreement provides that additional Subsidiaries may become Grantors under the Security Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "NEW GRANTOR") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Grantor under the Security Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Grantor agree as follows:

SECTION 1. In accordance with Section 7.15 of the Security Agreement, the New Grantor by its signature below becomes a Grantor under the Security Agreement with the same force and effect as if originally named therein as a Grantor and the New Grantor hereby (a) agrees to all the terms and provisions of the Security Agreement applicable to it as a Grantor thereunder and (b) represents and warrants that the

representations and warranties made by it as a Grantor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Grantor, as security for the payment and performance in full of the Obligations (as defined in the Credit Agreement), does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Obligees, their successors and assigns, a security interest in and lien on all of the New Grantor's right, title and interest in and to the Collateral (as defined in the Security Agreement) of the New Grantor. Each reference to a "GRANTOR" in the Security Agreement shall be deemed to include the New Grantor. The Security Agreement is hereby incorporated herein by reference.

SECTION 2. The New Grantor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Grantor and the Collateral Agent.

Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. The New Grantor hereby represents and warrants that (a) set forth on Schedule I attached hereto is a true and correct schedule of the location of any and all Collateral of it and a listing of any and all Intellectual Property now owned by the New Grantor and (b) the true and correct location of the chief executive office of the New Grantor is set forth under its signature hereto.

SECTION 5. Except as expressly supplemented hereby, the Security Agreement shall remain in full force and effect. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Security Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties hereto shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 7.01 of the Security Agreement. All communications and notices hereunder to the New Grantor shall be given to it in care of the Borrower.

SECTION 8. The New Grantor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.



IN WITNESS WHEREOF, the New Grantor and the Collateral Agent have duly executed this Supplement to the Security Agreement as of the day and year first above written.

MCVT, INC., a Delaware corporation,

By /s/ Susan Ball

-----  
Name: Susan Ball  
Title: Assistant Secretary

Address: 6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

CITICORP USA, INC., as Collateral Agent,

By /s/ Allen Fisher

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Name: Allen Fisher  
Title: Vice President

SCHEDULE I  
to Supplement No. 12  
to the Security Agreement

LOCATION OF COLLATERAL

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1. Location of Collateral

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6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

2. Chief Executive Office

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6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

INTELLECTUAL PROPERTY

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## SUPPLEMENT TO PLEDGE AGREEMENT

SUPPLEMENT NO. 12 (this "SUPPLEMENT") dated as of February 7, 2005, to the PLEDGE AGREEMENT dated as of July 29, 1999, as subsequently amended and restated, among CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), and CITICORP USA, INC. ("CITICORP"), as collateral agent (in such capacity, the "COLLATERAL AGENT") for the Obligees (as defined in the Credit Agreement referred to below).

A. Reference is made to (a) the Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION AGENT"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Pledge Agreement annexed to the Credit Agreement as Exhibit I (as amended, supplemented or otherwise modified from time to time, the "PLEDGE AGREEMENT"), among the Guarantors and the Collateral Agent.

B. Capitalized terms used herein and not otherwise defined herein are used with the meanings assigned to such terms in the Credit Agreement and the Pledge Agreement.

C. The Pledgors have entered into the Pledge Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.10 of the Credit Agreement, each Subsidiary (other than a Foreign Subsidiary) that was not in existence or not a Subsidiary on the Original Closing Date is required to enter into the Pledge Agreement as a Subsidiary Pledgor upon becoming a Subsidiary if such Subsidiary owns or possesses property of a type that would be considered Collateral under the Pledge Agreement. Section 23 of the Pledge Agreement provides that such Subsidiaries may become Subsidiary Pledgors under the Pledge Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "NEW PLEDGOR") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Pledgor under the Pledge Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

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Accordingly, the Collateral Agent and the New Pledgor agree as follows:

SECTION 1. In accordance with Section 23 of the Pledge Agreement, the New Pledgor by its signature below becomes a Pledgor under the Pledge Agreement with the same force and effect as if originally named therein as a Pledgor and the New Pledgor hereby agrees (a) to all the terms and provisions of the Pledge Agreement applicable to it as a Pledgor thereunder and (b) represents and warrants that the representations and warranties made by it as a Pledgor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Pledgor, as security for the payment and performance in full of the Obligations, does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Obligees, their successors and assigns, a security interest in and lien on all of the New Pledgor's right, title and interest in and to the Collateral of the New Pledgor. Each reference to a "Subsidiary Pledgor" or a "Pledgor" in the Pledge Agreement shall be deemed to include the New Pledgor. The Pledge Agreement is hereby incorporated herein by reference. Schedule I attached hereto lists all of the issued and outstanding equity and debt interests of the New Pledgor.

SECTION 2. Schedule II to the Pledge Agreement is hereby amended and restated to read in its entirety as set forth in Annex A hereto.

SECTION 3. The New Pledgor represents and warrants to the

Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 4. This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Pledgor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 5. The New Pledgor hereby represents and warrants that set forth on Schedule I attached hereto is a true and correct schedule of all its Pledged Securities.

SECTION 6. Except as expressly supplemented hereby, the Pledge Agreement shall remain in full force and effect.

SECTION 7. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 8. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, neither party

hereto shall be required to comply with such provision for so long as such provision is held to be invalid, illegal or unenforceable, but the validity, legality and enforceability of the remaining provisions contained herein and in the Pledge Agreement shall not in any way be affected or impaired. The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9. All communications and notices hereunder shall be in writing and given as provided in Section 14 of the Pledge Agreement. All communications and notices hereunder to the New Pledgor shall be given to it in care of the Borrower.

SECTION 10. The New Pledgor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Pledgor and the Collateral Agent have duly executed this Supplement to the Pledge Agreement as of the day and year first above written.

MCVT, INC., a Delaware corporation,

By /s/ Susan Ball

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Name: Susan Ball  
Title: Assistant Secretary

Address: 6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

CITICORP USA, INC., as Collateral Agent,

By /s/ Allen Fisher

-----  
Name: Allen Fisher  
Title: Vice President

Schedule I to  
Supplement No. 12  
to the Pledge Agreement

Pledged Securities of the New Pledgor  
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EQUITY INTERESTS AND RIGHTS

Issuer -----	Number of Certificate -----	Registered Owner -----	Number and Class of Shares -----	Percentage of Shares -----
MCVT, Inc.	001	Cross Country Healthcare, Inc.	100/Common	100%

DEBT SECURITIES

Issuer -----	Principal Amount -----	Date of Note -----	Maturity Date -----
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Annex A  
Schedule II to the  
Pledge Agreement

EQUITY INTERESTS AND RIGHTS

Pledgor	Issuer	No. of Certificate	Registered Owner	No. and Class of Shares	Percentage of Shares
Cross Country Healthcare, Inc.	TVCM, Inc.	105	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	CC Staffing, Inc.	2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cejka & Company	4	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country Education, Inc.	C2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	ClinForce, Inc.	4	Cross Country Healthcare, Inc.	10 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country TravCorps, Inc.	C1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	NovaPro, Inc.	1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country Consulting, Inc.	C1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Assignment America, Inc.	1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	MedStaff, Inc., fka Cross Country Nurses, Inc.	2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%



Annex A  
Schedule II to the  
Pledge Agreement

Cross Country Healthcare, Inc.	Cross Country Local, Inc.	C2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country Capital, Inc.	1	Cross Country Healthcare, Inc.	3,000 shares of Common Stock	100%
Cross Country Healthcare, Inc.	MCVT, Inc.	1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%

DEBT SECURITIES

Pledgor	Issuer	Principal Amount	Date of Note	Maturity Date
Cross Country Capital, Inc.	MedStaff, Inc., fka Cross Country Nurses, Inc.	\$84,000,000	June 5, 2003	June 4, 2009

SUPPLEMENT TO INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT  
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SUPPLEMENT NO. 12 (this "SUPPLEMENT") dated as of February 7, 2005, to the INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT dated as of December 16, 1999, among CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), each subsidiary of the Borrower listed on Schedule I thereto (the "SUBSIDIARY GUARANTORS" or, the "GUARANTORS") and CITICORP USA, INC. ("CITICORP"), as collateral agent (the "COLLATERAL AGENT") for the Obligees (as defined in the Credit Agreement referred to below).

A. Reference is made to Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION AGENT"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Indemnity, Subrogation and Contribution Agreement annexed to the Credit Agreement as Exhibit J (as amended, supplemented or otherwise modified from time to time, the "INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT") and the Collateral Documents referred to in the Credit Agreement.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Indemnity, Subrogation and Contribution Agreement and the Credit Agreement.

C. The Borrower and the Guarantors have entered into the Indemnity, Subrogation and Contribution Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.10 of the Credit Agreement, each Subsidiary (other than a Foreign Subsidiary) that was not in existence or not such a Subsidiary on the Original Closing Date is required to enter into the Indemnity, Subrogation and Contribution Agreement as a Subsidiary Guarantor upon becoming a Subsidiary. Section 12 of the Indemnity, Subrogation and Contribution Agreement provides that additional Subsidiaries may become Subsidiary Guarantors under the Indemnity, Subrogation and Contribution Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "NEW

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GUARANTOR") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Guarantor under the Indemnity, Subrogation and Contribution Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Guarantor agree as follows:

SECTION 1. In accordance with Section 12 of the Indemnity, Subrogation and Contribution Agreement, the New Guarantor by its signature below becomes a Subsidiary Guarantor under the Indemnity, Subrogation and Contribution Agreement with the same force and effect as if originally named therein as a Subsidiary Guarantor and the New Guarantor hereby agrees to all the terms and provisions of the Indemnity, Subrogation and Contribution Agreement applicable to it as a Subsidiary Guarantor thereunder. Each reference to a "Guarantor" in the Indemnity, Subrogation and Contribution Agreement shall be deemed to include the New Guarantor. The Indemnity, Subrogation and Contribution Agreement is hereby incorporated herein by reference.

SECTION 2. The New Guarantor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Guarantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. Except as expressly supplemented hereby, the Indemnity, Subrogation and Contribution Agreement shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, neither party hereto shall be required to comply with such provision for so long as such provision is held to be invalid, illegal or unenforceable, but the validity, legality and enforceability of the remaining provisions contained herein and in the Indemnity, Subrogation and Contribution Agreement shall not in any way be affected or impaired. The parties hereto

shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 7 of the Indemnity, Subrogation and Contribution Agreement. All communications and notices hereunder to the New Guarantor shall be given to it at the address set forth under its signature.

SECTION 8. The New Guarantor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Guarantor and the Collateral Agent have duly executed this Supplement to the Indemnity, Subrogation and Contribution Agreement as of the day and year first above written.

MCVT, INC., a Delaware corporation,

By /s/ Susan Ball

-----  
Name: Susan Ball  
Title: Assistant Secretary

Address: 6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

CITICORP USA, INC., as Collateral Agent,

By /s/ Allen Fisher

-----  
Name: Allen Fisher  
Title: Vice President

## SUPPLEMENT TO SUBSIDIARY GUARANTEE AGREEMENT

SUPPLEMENT NO. 13 dated as of February 7, 2005, to the SUBSIDIARY GUARANTEE AGREEMENT dated as of December 16, 1999, among each of the subsidiaries listed on Schedule I thereto (each such subsidiary individually, a "SUBSIDIARY GUARANTOR" and collectively, the "SUBSIDIARY GUARANTORS") of CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), and CITICORP USA, INC. ("CITICORP"), as collateral agent (the "COLLATERAL AGENT") for the Obligees (as defined in the Credit Agreement referred to below).

A. Reference is made to (a) the Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION AGENT"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Subsidiary Guarantee Agreement annexed to the Credit Agreement as Exhibit G (as amended, supplemented or otherwise modified from time to time, the "SUBSIDIARY GUARANTEE AGREEMENT").

B. Capitalized terms used and not otherwise defined herein are used with the meanings assigned to such terms in the Subsidiary Guarantee Agreement and the Credit Agreement.

C. The Guarantors have entered into the Subsidiary Guarantee Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.10 of the Credit Agreement, each Subsidiary (other than any Foreign Subsidiary) that was not in existence or not a Subsidiary on the Original Closing Date is required to enter into the Subsidiary Guarantee Agreement as a Subsidiary Guarantor upon becoming a Subsidiary. Section 20 of the Subsidiary Guarantee Agreement provides that additional Subsidiaries may become Subsidiary Guarantors under the Subsidiary Guarantee Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary of the Company

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(the "NEW SUBSIDIARY GUARANTORS") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Guarantor under the Subsidiary Guarantee Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Subsidiary Guarantor agree as follows:

SECTION 1. In accordance with Section 20 of the Subsidiary Guarantee Agreement, the New Subsidiary Guarantor by its signature below becomes a Subsidiary Guarantor under the Subsidiary Guarantee Agreement with the same force and effect as if originally named therein as a Subsidiary Guarantor and the New Subsidiary Guarantor hereby (a) agrees to all the terms and provisions of the Subsidiary Guarantee Agreement applicable to it as a Subsidiary Guarantor thereunder and (b) represents and warrants that the representations and warranties made by it as a Subsidiary Guarantor thereunder are true and correct on and as of the date hereof. Each reference to a "SUBSIDIARY GUARANTOR" or "Guarantor" in the Subsidiary Guarantee Agreement shall be deemed to include the New Subsidiary Guarantor. The Subsidiary Guarantee Agreement is hereby incorporated herein by reference.

SECTION 2. The New Subsidiary Guarantor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by each of them and constitutes its legal, valid and binding obligation, enforceable against each of them in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Subsidiary Guarantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Supplement.

SECTION 4. Except as expressly supplemented hereby, the Subsidiary Guarantee Agreement shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Subsidiary Guarantee Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision hereof in a particular

jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 14 of the Subsidiary Guarantee Agreement. All communications and notices hereunder to the New Subsidiary Guarantor shall be given to it at the address set forth under its signature below, with a copy to the Company.

SECTION 8. The New Subsidiary Guarantor agrees to reimburse the Collateral Agent for its out-of-pocket expenses in connection with this Supplement, including the fees, disbursements and other charges of counsel for the Collateral Agent.



IN WITNESS WHEREOF, the New Subsidiary Guarantor and the Collateral Agent have duly executed this Supplement to the Subsidiary Guarantee Agreement as of the day and year first above written.

HEALTHSTAFFERS, INC.,  
a Delaware corporation,

By /s/ Susan Ball

-----  
Name: Susan Ball  
Title: Assistant Secretary

Address: 6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

CITICORP USA, INC., as Collateral Agent,  
By /s/ Allen Fisher

-----  
Name: Allen Fisher  
Title: Vice President

## SUPPLEMENT TO SECURITY AGREEMENT

SUPPLEMENT NO. 13 (this "SUPPLEMENT") dated as of February 7, 2005, to the SECURITY AGREEMENT dated as of July 29, 1999, as subsequently amended and restated, among CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), and CITICORP USA, INC. ("CITICORP"), as collateral agent (in such capacity, the "COLLATERAL AGENT") for the Obligees (as defined herein).

A. Reference is made to (a) the Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION AGENT"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Security Agreement annexed to the Credit Agreement as Exhibit H as amended, supplemented or otherwise modified from time to time (the "SECURITY AGREEMENT").

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Security Agreement and the Credit Agreement.

C. The Grantors have entered into the Security Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Section 7.15 of the Security Agreement provides that additional Subsidiaries may become Grantors under the Security Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "NEW GRANTOR") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Grantor under the Security Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Grantor agree as follows:

SECTION 1. In accordance with Section 7.15 of the Security Agreement, the New Grantor by its signature below becomes a Grantor under the Security Agreement with the same force and effect as if originally named therein as a Grantor and the New Grantor hereby (a) agrees to all the terms and provisions of the Security Agreement applicable to it as a Grantor thereunder and (b) represents and warrants that the

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representations and warranties made by it as a Grantor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Grantor, as security for the payment and performance in full of the Obligations (as defined in the Credit Agreement), does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Obligees, their successors and assigns, a security interest in and lien on all of the New Grantor's right, title and interest in and to the Collateral (as defined in the Security Agreement) of the New Grantor. Each reference to a "GRANTOR" in the Security Agreement shall be deemed to include the New Grantor. The Security Agreement is hereby incorporated herein by reference.

SECTION 2. The New Grantor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral

Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Grantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. The New Grantor hereby represents and warrants that (a) set forth on Schedule I attached hereto is a true and correct schedule of the location of any and all Collateral of it and a listing of any and all Intellectual Property now owned by the New Grantor and (b) the true and correct location of the chief executive office of the New Grantor is set forth under its signature hereto.

SECTION 5. Except as expressly supplemented hereby, the Security Agreement shall remain in full force and effect. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Security Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties hereto shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 7.01 of the Security Agreement. All communications and notices hereunder to the New Grantor shall be given to it in care of the Borrower.

SECTION 8. The New Grantor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Grantor and the Collateral Agent have duly executed this Supplement to the Security Agreement as of the day and year first above written.

HEALTHSTAFFERS, INC.,  
a Delaware corporation,

By /s/ Susan Ball

-----  
Name: Susan Ball  
Title: Assistant Secretary

Address: 6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

CITICORP USA, INC., as Collateral Agent,

By /s/ Allen Fisher

-----  
Name: Allen Fisher  
Title: Vice President

SCHEDULE I  
to Supplement No. 13  
to the Security Agreement

LOCATION OF COLLATERAL

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1. Location of Collateral

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6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

2. Chief Executive Office

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6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

INTELLECTUAL PROPERTY

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## SUPPLEMENT TO PLEDGE AGREEMENT

SUPPLEMENT NO. 13 (this "SUPPLEMENT") dated as of February 7, 2005, to the PLEDGE AGREEMENT dated as of July 29, 1999, as subsequently amended and restated, among CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), and CITICORP USA, INC. ("CITICORP"), as collateral agent (in such capacity, the "COLLATERAL AGENT") for the Obligees (as defined in the Credit Agreement referred to below).

A. Reference is made to (a) the Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION AGENT"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Pledge Agreement annexed to the Credit Agreement as Exhibit I (as amended, supplemented or otherwise modified from time to time, the "PLEDGE AGREEMENT"), among the Guarantors and the Collateral Agent.

B. Capitalized terms used herein and not otherwise defined herein are used with the meanings assigned to such terms in the Credit Agreement and the Pledge Agreement.

C. The Pledgors have entered into the Pledge Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.10 of the Credit Agreement, each Subsidiary (other than a Foreign Subsidiary) that was not in existence or not a Subsidiary on the Original Closing Date is required to enter into the Pledge Agreement as a Subsidiary Pledgor upon becoming a Subsidiary if such Subsidiary owns or possesses property of a type that would be considered Collateral under the Pledge Agreement. Section 23 of the Pledge Agreement provides that such Subsidiaries may become Subsidiary Pledgors under the Pledge Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "NEW PLEDGOR") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Pledgor under the Pledge Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

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Accordingly, the Collateral Agent and the New Pledgor agree as follows:

SECTION 1. In accordance with Section 23 of the Pledge Agreement, the New Pledgor by its signature below becomes a Pledgor under the Pledge Agreement with the same force and effect as if originally named therein as a Pledgor and the New Pledgor hereby agrees (a) to all the terms and provisions of the Pledge Agreement applicable to it as a Pledgor thereunder and (b) represents and warrants that the representations and warranties made by it as a Pledgor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Pledgor, as security for the payment and performance in full of the Obligations, does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Obligees, their successors and assigns, a security interest in and lien on all of the New Pledgor's right, title and interest in and to the Collateral of the New Pledgor. Each reference to a "Subsidiary Pledgor" or a "Pledgor" in the Pledge Agreement shall be deemed to include the New Pledgor. The Pledge Agreement is hereby incorporated herein by reference. Schedule I attached hereto lists all of the issued and outstanding equity and debt interests of the New Pledgor.

SECTION 2. Schedule II to the Pledge Agreement is hereby amended and restated to read in its entirety as set forth in Annex A hereto.

SECTION 3. The New Pledgor represents and warrants to the

Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 4. This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Pledgor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 5. The New Pledgor hereby represents and warrants that set forth on Schedule I attached hereto is a true and correct schedule of all its Pledged Securities.

SECTION 6. Except as expressly supplemented hereby, the Pledge Agreement shall remain in full force and effect.

SECTION 7. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 8. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, neither party



hereto shall be required to comply with such provision for so long as such provision is held to be invalid, illegal or unenforceable, but the validity, legality and enforceability of the remaining provisions contained herein and in the Pledge Agreement shall not in any way be affected or impaired. The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9. All communications and notices hereunder shall be in writing and given as provided in Section 14 of the Pledge Agreement. All communications and notices hereunder to the New Pledgor shall be given to it in care of the Borrower.

SECTION 10. The New Pledgor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Pledgor and the Collateral Agent have duly executed this Supplement to the Pledge Agreement as of the day and year first above written.

HEALTHSTAFFERS, INC.,  
a Delaware corporation,

By /s/ Susan Ball

-----  
Name: Susan Ball  
Title: Assistant Secretary

Address: 6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

CITICORP USA, INC., as Collateral Agent,

By /s/ Allen Fisher

-----  
Name: Allen Fisher  
Title: Vice President

Schedule I to  
Supplement No. 13  
to the Pledge Agreement

Pledged Securities of the New Pledgor  
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EQUITY INTERESTS AND RIGHTS

Issuer -----	Number of Certificate -----	Registered Owner -----	Number and Class of Shares -----	Percentage of Shares -----
Healthstaffers, Inc.	001	Cross Country Healthcare, Inc.	100/Common	100%

DEBT SECURITIES

Issuer -----	Principal Amount -----	Date of Note -----	Maturity Date -----
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Annex A  
Schedule II to the  
Pledge Agreement

EQUITY INTERESTS AND RIGHTS

Pledgor	Issuer	No. of Certificate	Registered Owner	No. and Class of Shares	Percentage of Shares
Cross Country Healthcare, Inc.	TVCM, Inc.	105	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	CC Staffing, Inc.	2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cejka & Company	4	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country Education, Inc.	C2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	ClinForce, Inc.	4	Cross Country Healthcare, Inc.	10 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country TravCorps, Inc.	C1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	NovaPro, Inc.	1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country Consulting, Inc.	C1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Assignment America, Inc.	1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	MedStaff, Inc., fka Cross Country Nurses, Inc.	2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%

Annex A  
Schedule II to the  
Pledge Agreement

Cross Country Healthcare, Inc.	Cross Country Local, Inc.	C2	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	Cross Country Capital, Inc.	1	Cross Country Healthcare, Inc.	3,000 shares of Common Stock	100%
Cross Country Healthcare, Inc.	MCVT, Inc.	1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%
Cross Country Healthcare, Inc.	HEALTHSTAFFERS, Inc.	1	Cross Country Healthcare, Inc.	100 shares of Common Stock	100%

DEBT SECURITIES

Pledgor	Issuer	Principal Amount	Date of Note	Maturity Date
Cross Country Capital, Inc.	MedStaff, Inc., fka Cross Country Nurses, Inc.	\$84,000,000	June 5, 2003	June 4, 2009

SUPPLEMENT TO INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT  
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SUPPLEMENT NO. 13 (this "SUPPLEMENT") dated as of February 7, 2005, to the INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT dated as of December 16, 1999, among CROSS COUNTRY HEALTHCARE, INC. (f/k/a Cross Country, Inc.), a Delaware corporation (the "BORROWER"), each subsidiary of the Borrower listed on Schedule I thereto (the "SUBSIDIARY GUARANTORS" or, the "GUARANTORS") and CITICORP USA, INC. ("CITICORP"), as collateral agent (the "COLLATERAL AGENT") for the Obligees (as defined in the Credit Agreement referred to below).

A. Reference is made to Credit Agreement dated as of July 29, 1999, as amended and restated as of December 16, 1999, March 16, 2001 and June 5, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the Lenders (as defined in Article I thereof), Citigroup Global Markets Inc., as sole bookrunner and joint lead arranger, Wachovia Securities LLC, as joint lead arranger (together with Citigroup Global Markets Inc., in such capacity, the "ARRANGERS"), Citicorp USA, Inc., as issuing bank (in such capacity, the "ISSUING BANK"), as swingline lender (in such capacity, the "SWINGLINE LENDER"), as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent for the Lenders (in such capacity the "COLLATERAL AGENT"), Wachovia Bank, National Association, as syndication agent (the "SYNDICATION AGENT"), and General Electric Capital Corporation, Key Corporate Capital Inc., LaSalle Bank N.A. and SunTrust Bank, as documentation agents (the "DOCUMENTATION AGENTS") and (b) the form of Indemnity, Subrogation and Contribution Agreement annexed to the Credit Agreement as Exhibit J (as amended, supplemented or otherwise modified from time to time, the "INDEMNITY, SUBROGATION AND CONTRIBUTION AGREEMENT") and the Collateral Documents referred to in the Credit Agreement.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Indemnity, Subrogation and Contribution Agreement and the Credit Agreement.

C. The Borrower and the Guarantors have entered into the Indemnity, Subrogation and Contribution Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.10 of the Credit Agreement, each Subsidiary (other than a Foreign Subsidiary) that was not in existence or not such a Subsidiary on the Original Closing Date is required to enter into the Indemnity, Subrogation and Contribution Agreement as a Subsidiary Guarantor upon becoming a Subsidiary. Section 12 of the Indemnity, Subrogation and Contribution Agreement provides that additional Subsidiaries may become Subsidiary Guarantors under the Indemnity, Subrogation and Contribution Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "NEW

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GUARANTOR") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Guarantor under the Indemnity, Subrogation and Contribution Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Guarantor agree as follows:

SECTION 1. In accordance with Section 12 of the Indemnity, Subrogation and Contribution Agreement, the New Guarantor by its signature below becomes a Subsidiary Guarantor under the Indemnity, Subrogation and Contribution Agreement with the same force and effect as if originally named therein as a Subsidiary Guarantor and the New Guarantor hereby agrees to all the terms and provisions of the Indemnity, Subrogation and Contribution Agreement applicable to it as a Subsidiary Guarantor thereunder. Each reference to a "Guarantor" in the Indemnity, Subrogation and Contribution Agreement shall be deemed to include the New Guarantor. The Indemnity, Subrogation and Contribution Agreement is hereby incorporated herein by reference.

SECTION 2. The New Guarantor represents and warrants to the Collateral Agent and the other Obligees that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Guarantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. Except as expressly supplemented hereby, the Indemnity, Subrogation and Contribution Agreement shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, neither party hereto shall be required to comply with such provision for so long as such provision is held to be invalid, illegal or unenforceable, but the validity, legality and enforceability of the remaining provisions contained herein and in the Indemnity, Subrogation and Contribution Agreement shall not in any way be affected or impaired. The parties hereto

shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 7 of the Indemnity, Subrogation and Contribution Agreement. All communications and notices hereunder to the New Guarantor shall be given to it at the address set forth under its signature.

SECTION 8. The New Guarantor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.



IN WITNESS WHEREOF, the New Guarantor and the Collateral Agent have duly executed this Supplement to the Indemnity, Subrogation and Contribution Agreement as of the day and year first above written.

HEALTHSTAFFERS, INC.,  
a Delaware corporation,

By /s/ Susan Ball

-----  
Name: Susan Ball  
Title: Assistant Secretary

Address: 6551 Park of Commerce Blvd, N.W.  
Boca Raton, Florida 33487

CITICORP USA, INC., as Collateral Agent,

By /s/ Allen Fisher

-----  
Name: Allen Fisher  
Title: Vice President

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT ("Amendment") to the standard office lease is made and entered into as of this 11th day of December 2001, by and between CLAYTON INVESTORS ASSOCIATES, LLC, a Delaware limited liability company, herein referred to as Landlord, and CEJKA & COMPANY, a Delaware corporation, herein referred to as Tenant.

WHEREAS, Landlord and Tenant entered that certain office Lease dated October 1, 1998 (the "Lease") wherein Landlord leased to Tenant Suites 300, 400, 700 & 704, in the 222 Building located at 222 South Central Avenue, Clayton, Missouri; hereinafter referred to as the "Premises," and

WHEREAS, Landlord and Tenant each agree to amend said Lease as herein provided;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, it is agreed as follows:

1. The Lease is hereby extended to expire November 30, 2008.
2. Effective April 1, 2002, Suite 300 will be deleted from the Leased Premises and Tenant's pro rata share shall be reduced to 16.05%.
3. Effective April 1, 2002, the monthly rent as outlined in Article 1.10 will be amended as follows:
 

April 1, 2002 - June 30, 2002:	\$27,186.00 per month
July 1, 2002 - November 30, 2002:	\$31,000.00 per month
December 1, 2002 - November 30, 2003:	\$31,190.00 per month
December 1, 2003 - November 30, 2006:	\$34,232.00 per month
December 1, 2006 - November 30, 2008:	\$36,799.00 per month
4. Provided Tenant is not in default of this Lease, Landlord agrees to invest an allowance of up to \$50,000.00 toward the cost of improvements made within the Premises during the period from December 1, 2003 through March 31, 2004 after which time Landlord's obligations to fund such monies shall cease. All improvements must be performed by Landlord, include Landlord's fees for supervision and contingency and shall have Landlord's prior approval.
5. The Name of the Broker representing the Landlord for this Amendment is Insignia/ESG, Inc. Tenant warrants that Tenant has not obligated the Landlord for any finders, brokers or other agent's fees in connection with this Amendment.
6. Except as provided for herein, all other terms and conditions, covenants and agreements of said lease as amended shall continue to bind the parties and are hereby ratified and confirmed by the parties.

IN WITNESS WHEREOF, the parties have executed this Amendment on the day and year set forth above.

Landlord:	Tenant
CLAYTON INVESTORS ASSOCIATES, LLC	CEJKA & COMPANY

By: IJPCG, Inc.  
A Delaware corporation  
Its: Agent

By: /s/ Tom Molina  
-----  
Name: Tom Molina  
Title: Vice President

By: /s/Carol D.Westfall  
-----  
Name: Carol D. Westfall  
Title: Secretary

LEASE AMENDMENT # 1

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Agreement, made as of the 22nd day of December, 1999, by and between Newtown Street Road Associates, a Pennsylvania Limited Partnership having its principal place of business at Fifth Floor, Two Bala Plaza Office Building, Bala Cynwyd, Pennsylvania, C/O Arthur J. Kania ( "Landlord") and Medstaff, Inc., a Pennsylvania Corporation doing business in the Commonwealth of Pennsylvania and having its executive offices at Benson Building # 2 (The Medstaff Building), 297 South Newtown Street Road, Newtown Square, Pennsylvania ("Tenant").

WITNESSETH

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WHEREAS, Landlord and Tenant have entered into a lease of 17,500 square feet in the building known as Benson Building # 2 (The Medstaff Building), 297 South Newtown Street Road, Newtown Square, Pennsylvania, which lease commenced January 1, 1999, and expires July 31, 2004.

WHEREAS, Landlord and Tenant desire to extend this lease in the respects hereinafter set forth.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, and intending to be legally bound hereby the parties hereto agree as follows:

- 1. Landlord and Tenant hereby agree to extend the term of the lease by three months beginning August 1, 2004, and extending until October 30, 2004.
- 2. Without prior notice or demand, Tenant agrees to pay monthly base rent of \$27,171.92 on the first day of each month of the extended term, August 1, 2004, through October 30, 2004.

Tenant shall continue to provide its electric, utility, and janitorial service during the extended term pursuant to the Lease.

Except as expressly modified by this Agreement, the Lease is hereby ratified, confirmed, and continued in full force and effect, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, legal representatives, successors, and assigns.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

By: /s/ Arthur Kania

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Newtown Street Road Associates

By: /s/ William Davis

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Medstaff, Inc.

## LEASE AMENDMENT # 2

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Agreement, made as of the 21st day of June 2001, by and between Newtown Street Road Associates, a Pennsylvania Limited Partnership, having its principal place of business at Two Bala Plaza Office Building, Bala Cynwyd, Pennsylvania. ("Landlord") and Medstaff, Inc. doing business in the Commonwealth of Pennsylvania and having its executive offices at The Medstaff Building, 297 South Newtown Street Road. Newtown Square, Pennsylvania ("Tenant").

## WITNESSETH

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WHEREAS, Landlord and Tenant have entered into a lease for the entire building known as The Medstaff Building, 297 South Newtown Street Road, Newtown Square, Pennsylvania, which lease commenced August 1, 1998, and expires July 30, 2004, and which lease was extended under an Amendment #1 dated December 22, 1999, for three months beginning August 1, 2004, to October 31, 2004.

WHEREAS, Landlord and Tenant desire to extend this lease and its amendments in the respects hereinafter set forth.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Landlord and Tenant hereby agree to extend the term of this lease beginning November 1, 2004, and extending until July 31, 2006.
2. Tenant agrees to pay monthly base rent on the first day of each month without prior notice or demand pursuant to the following Rent Schedule during the extension period.

Period	Monthly Payment
-----	-----
11/01/04-7/31/05	\$30,049.99
8/01/05-7/31/06	\$30,951.49

3. Tenant shall pay directly to Peco for Tenant's consumption of electric utilities as separately metered by Peco in Tenant's name.
4. Tenant shall provide janitorial services including light bulb replacement, walkway salt /snow shoveling, toilet plunging, and exterior trash pick-up during the term of the Lease.
5. Except as expressly modified by this Agreement, the Lease is hereby ratified, confirmed, and continued in full force and effect.
6. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, legal representatives, successors, and assigns.
7. Landlord, at its own expense will improve common area bathrooms with new fixtures, cabinets, paint, to bring to a new fresh appearance.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first written above.

Newtown Street Road Associates

Medstaff, Inc.

By: /s/ Arthur Kania

By: /s/ William Davis

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LEASE AGREEMENT  
 BETWEEN  
 CORPOREX KEY LIMITED PARTNERSHIP NO. 8  
 LANDLORD  
 AND  
 CROSS COUNTRY SEMINARS, INC.  
 TENANT

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LEASE AGREEMENT  
CORPOREX BUSINESS PARK  
NASHVILLE, TENNESSEE

THIS LEASE AGREEMENT, hereinafter known as the "Lease," entered into effect this 28th day of August, 2003, at Corporex Business Park, Nashville Tennessee between CORPOREX KEY LIMITED PARTNERSHIP NO. 8, a Kentucky Limited Partnership, which has a place of business at 100 E. RiverCenter Boulevard, Suite 1100 Covington, Kentucky 41011-1602, hereinafter known as "Landlord," and Cross Country Seminars, Inc., a Delaware corporation, whose principal place of business is 1645 Murfreesboro Road, Suite J, Nashville, Tennessee 37217 hereinafter known as "Tenant."

WITNESSETH:

In consideration of the rent hereafter reserved and the covenants herein contained, each party to this Lease hereby agrees:

(1) PREMISES:

-----

Landlord does hereby lease and demise to the Tenant and Tenant does hereby take and rent from Landlord, the following Leased Premises:

Approximately Nine Thousand Seventy (9,070) square feet of the first floor of Corporex Business Park, Building "A," located at 1645 Murfreesboro Road, Suite J, Nashville, Tennessee 37217. That portion which is leased to Tenant is designated in red on the floor plan attached as Exhibit "A" and is hereinafter known as the "Leased Premises." The entire building, of which the Leased Premises form a part, is hereinafter known as the "Building." The Building, and other buildings which comprise Corporex Business Park, are situated upon a tract of land hereinafter known as the "Developed Parcel," which is more particularly described in Exhibit "B."

(2) NON-EXCLUSIVE PARKING:

-----

Landlord hereby grants to Tenant the right to use the off street parking located on the Developed Parcel surrounding the Building in a manner conducive to good business practice whereby Tenant uses parking spaces at no charge on a non-exclusive basis in common with other tenants of the Building. Such parking, in conjunction with the visitors parking area, shall be for the use of the Tenant's officers, agents, employees, and visitors on a non-reserved basis. Tenant's use of parking for employees and guests shall not exceed four (4) parking spaces per 1,000 square feet of rented area. Landlord reserves the right, however, to designate, for the specific account of Tenant, specific parking areas or spaces within the Developed Parcel.

If the Landlord designates a portion of the parking area for employee parking, employees of the Tenant shall use that portion of the parking area, thereby leaving the remaining parking spaces in the parking area open for visitor in and out traffic.

(3) TERM:  
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The term of this Lease shall be for Forty-Eight (48) months beginning September 1, 2003, and ending on August 31, 2007, subject however to the terms of Paragraph (4) and further subject to any of the conditions or covenants of this Lease or pursuant to law.

(4) CONDITIONS OF AND IMPROVEMENTS TO LEASED PREMISES:  
-----

Immediately upon execution of this Lease, Landlord shall commence any alterations or improvements to the Leased Premises indicated on Exhibit "C." Landlord shall proceed diligently with said work and use its best efforts to complete same by September 1, 2003, if this Lease is fully executed by August 16, 2003; but, if the alterations or improvements are not substantially completed or the Leased Premises be not available for occupancy by said date, Tenant shall have no claim against Landlord due to such delay, excepting only that the term of this Lease shall not commence until the Leased Premises are deemed to be available to Tenant, and the term shall expire forty eight months thereafter. The Leased Premises shall be deemed to be available to Tenant at the earlier of the time when: Tenant accepts premises "As Is."

(a) the alterations or improvements to be made by Landlord are substantially completed (notwithstanding the necessity of punch list or minor repairs and adjustments still to be made by the Landlord or notwithstanding the Tenant has not completed installation and/or connection of its fixtures and/or equipment); or,

(b) the Tenant actually occupies the Leased Premises.

Immediately after the actual commencement date of this Lease has been determined, if at variance with Paragraph (3), Landlord and Tenant shall execute a written instrument fixing the commencement and termination dates of this Lease.

Tenants taking possession shall be conclusive evidence that Leased Premises were then in good order and satisfactory condition, except for the completion of punch list items, if any.

Notwithstanding anything else to the contrary in this Paragraph (4), if Landlord is not able to complete alterations or improvements to the Leased Premises due to delays caused by Tenant, its employees, agents or contractors, the term of this Lease shall not be delayed, but shall commence according to Paragraph (3).



(5) OCCUPANCY PRIOR TO TERM

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If permitted by law, landlord may allow Tenant to occupy the Leased Premises prior to the commencement of the term stated in Paragraph 3. If Tenant occupies the Leased Premises on a day other than the first day of the month, the Monthly Base Rent provided for in Paragraph 8 and the Additional Rent provided for in Paragraph 10 shall be adjusted and prorated so the Tenant shall only pay rent for the actual number of days in the month. Tenant shall also comply with all other terms and provisions of this Lease in the same manner as if the term had, in fact commenced.

(6) CONTINUANCE OF OCCUPANCY:

-----  
It is further agreed by Landlord and Tenant that Tenant shall physically occupy the Leased Premises during the entire original term and renewal term, if any, inasmuch as Tenant's continued occupancy of the Leased Premises and the regular conduct of its business therein are of utmost importance to the Landlord in the renewal of other leases in the Building, in the renting of vacant space to other tenants and in the maintenance of the character and quality of the Building. Thus should Tenant move out of the Leased Premises prior to its lease expiration without the consent of Landlord, the Tenant shall have breached its lease obligation herein and in such case Landlord may exercise any and all remedies for default provided by this Lease or by law.

(7) SECURITY DEPOSIT:

-----  
Tenant shall deposit with Landlord upon execution hereof the sum of three thousand two hundred twenty six and 44/100 Dollars (\$3,226.44), which has been previously deposited with Landlord and will be transferred to this Lease, as security for Tenant's faithful performance of Tenant's obligations hereunder. If Tenant fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Landlord may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Landlord may become obligated by reason of Tenant's default, or to compensate Landlord for any loss or damage which Landlord may suffer thereby. If Landlord so uses or applies all or any portion of said deposit, Tenant shall within ten (10) days after written demand therefor deposit cash with Landlord in an amount sufficient to restore said deposit to the full amount previously stated. Said Security Deposit shall not earn interest thereon for the benefit of Tenant. No trust relationship is created herein between Landlord and Tenant with respect to said Security Deposit.

In the event that Tenant performs all of its obligations hereunder, said Security Deposit (or so much thereof as has not been used up and applied by Landlord as provided above) shall be returned to Tenant after the termination of this Lease, and after an inspection by Landlord establishing that Tenant vacated the Leased

Premises in substantially the same condition in which it was received by Tenant, ordinary wear and tear excepted. The Security Deposit, which is returned to Tenant, may, at Landlord's option, be returned to the last assignee, if any, of Tenant's interest hereunder.

(8) BASE RENT:  
-----

(a) As annual base rent for the use and occupancy of the Leased Premises during the initial term, Tenant shall pay to Landlord rent pursuant to the schedule attached as Exhibit "D."

The annual base rent is to be payable in equal monthly installments, ("monthly base rent") in advance on the first day of each and every month during the initial or extended term of this Lease, except that Tenant shall pay the first installment of monthly base rent upon the execution of this Lease.

(b) Tenant agrees to pay as supplemental base rent for the use of said Leased Premises an amount equal to ten percent (10%) of any monthly base rent payment which is not received by Landlord within five (5) days of the date said monthly base rent is due. Said supplemental base rent shall be in addition to any other amounts due under this Lease.

(c) If this Lease commences on a day other than the first day of the month, the first and last monthly installments of rent provided for in Paragraph (8)(a) shall be adjusted and prorated so that Tenant shall only pay rent for the actual number of days in the first and last months of said term; but for all other months, Tenant shall pay the full monthly installment on the first day of each and every month.

(d) Rent shall be mailed by Tenant to Landlord at Landlord's principal place of business or at such other place as Landlord may designate in writing. Rent shall be payable promptly without deduction or set off or prior demand thereof by Landlord. All payments shall be in U.S. dollars, in cash or by check, all checks subject to collection.

(9) ESCALATION OF BASE RENT:  
-----

(a) At the beginning of and for each Lease Year, as hereinafter defined, commencing with the first month of the second Lease Year, the annual base rent (and the corresponding monthly base rent as defined in Paragraph (8)(a) and set forth in Exhibit "D") shall be adjusted.

(b) As used herein, the term "Lease Year" means the one year period of time commencing on the first day of the term of this Lease, and each subsequent anniversary of the first day of the term of this Lease, and terminating at midnight of the day preceding the next following anniversary of the first day of the term of

this Lease; provided, however, that a different Lease Year may be defined in Exhibit "D."

(10) ADDITIONAL RENT:  
-----

In addition to the amounts imposed in Paragraphs (8) and (9), Tenant agrees to pay as additional rent for each month during the term of this Lease, the amounts required by Paragraphs (11), (12) and (13).

(11) MAINTENANCE OF COMMON AREAS; UTILITIES:  
-----

(a) Landlord shall arrange to keep the exterior parking lot, driveways, and sidewalks in good condition and repair, clean and free from snow, ice, rubbish and other obstructions; provide water and arrange for trash removal; arrange periodically for grass cutting, landscaping and yard maintenance; and arrange for illumination of the parking lot, grounds, and common exterior Building signs serving the Developed Parcel. Landlord shall also pay property management fees, licenses, permits, inspection fees, and the cost of all labor, contracted labor, materials and other services paid or incurred by Landlord in the operation and maintenance of the Building and Developed Parcel.

(b) For each calendar year Tenant shall reimburse Landlord for 9.07%, nine and seven one hundredths percent (hereafter, its "Pro Rata Share") of the cost of the services enumerated in Paragraph (11)(a). In the event Tenant has advanced to Landlord sums in excess of Tenant's Pro Rata Share, Landlord shall rebate Tenant for the difference.

In the event Tenant has advanced to Landlord less than Tenant's Pro Rata Share, Tenant shall pay to Landlord, upon receipt of an invoice, the difference between the Tenant's advances for the calendar year and the amount of Tenant's Pro Rata Share.

(c) Tenant shall pay for all utilities consumed in the Leased Premises. Landlord, at Tenant's expense, shall install separate meters for natural gas (if available) and electricity. Notwithstanding Subparagraph (11)(a), Landlord reserves the right to install a water meter, at Tenant's expense, for the purpose of separately charging Tenant for water used in the Leased Premises.

(12) TAXES AND ASSESSMENTS:  
-----

For each calendar year, Tenant shall reimburse Landlord for its Pro Rata Share of all real estate taxes and assessments levied or charged against the Building and the Developed Parcel, in the event Tenant has advanced to Landlord sums in excess of Tenant's Pro Rata Share, Landlord shall rebate Tenant for the difference. In the event Tenant has advanced to Landlord less than Tenant's Pro Rata Share, Tenant shall pay to Landlord, upon receipt of an invoice, the difference between

the Tenant's advances for the calendar year and the amount of Tenant's Pro Rata Share.

All personal property taxes charged or levied against Tenant's furniture, fixtures and equipment in the Leased Premises shall be paid by Tenant.

(13) INSURANCE:  
-----

(a) Landlord shall keep the Building insured against loss by fire or other casualty with extended coverage in an amount determined by the Landlord, and said policies shall include a standard waiver of subrogation clause against Tenant.

In the event the cost of premiums on Landlord's fire and extended insurance increases due to the hazardous nature of the use and occupancy by Tenant of the Leased Premises, then the entire increase in insurance cost shall be paid by Tenant in a lump sum upon receipt of invoice from the Landlord.

(b) Landlord shall at all times maintain public liability insurance for the common areas and the exterior of the Building as well as the sidewalks and the parking lot of the Developed Parcel.

(c) For each calendar year, Tenant shall reimburse Landlord for its Pro Rata Share of Landlord's insurance premiums, in the event Tenant has advanced to Landlord sums in excess of Tenant's Pro Rata Share, Landlord shall rebate Tenant for the difference.

In the event Tenant has advanced to Landlord less than Tenant's Pro Rata Share, Tenant shall pay to Landlord, upon receipt of an invoice, the difference between the Tenant's advances for the calendar year and the amount of Tenant's Pro Rata Share.

(d) The Tenant covenants and agrees that it will, at all times during the term hereof, at its own expense, carry and keep in full force and effect in companies satisfactory to Landlord, public liability insurance in form satisfactory to Landlord, with limits of (a) at least ONE MILLION DOLLARS (\$1,000,000.00) for injury, including death, to any one person, and (b) at least ONE MILLION DOLLARS (\$1,000,000.00) for injury, including death in any one casualty, and (c) at least ONE MILLION DOLLARS (\$ 1,000,000.00) for property damage coverage. Landlord may increase the above limits to such greater amounts of insurance coverage as Landlord may from time to time reasonably require. Tenant shall also, at its own expense, carry plate glass insurance on the Leased Premises. All such policies shall name the Landlord and the Tenant as parties insured, and shall contain a provision that the same may not be canceled or changed without giving to the Landlord at least thirty (30) days written notice prior to expiration or cancellation of any such policy. Tenant shall furnish to Landlord a certified copy of each policy.

(e) All property in the Leased Premises, in the Building or on the Developed Parcel, belonging to Tenant, its agents, employees or invitees or to any other person, shall be there at the risk of Tenant or such other person only, and Landlord shall not be liable for damage thereto or theft, misappropriation, or loss thereof.

In furtherance of this provision, Tenant shall at all times and at its expense maintain insurance against loss by fire or other casualty with extended coverage on its furniture, fixtures, inventory, equipment, supplies and personal property, in an amount determined by Tenant; said policies shall include a standard waiver of subrogation clause against Landlord.

(f) Landlord, its agents and employees shall not be liable for injury to person or damage to property sustained by Tenant, by any occupant of the Leased Premises, the Building or the Developed Parcel, or by any other person, occurring or resulting directly or indirectly from any existing or future condition, defect, matter, or thing in the Leased Premises, in the Building or on the Developed Parcel or from equipment or appurtenances therein or from accident or from any occurrence, act, or from negligence or omission of any Tenant, occupant: or any other person; but nothing in this Subparagraph (f) shall be deemed to relieve Landlord from liability for damages for bodily injuries to any person caused by or resulting from the negligence of Landlord, its agents or employees.

(14) FIRE OR OTHER CASUALTY:

-----

Should the Leased Premises be damaged or destroyed by any cause and such damage or destruction be of such a nature that it may be repaired or restored within a period of one hundred twenty (120) days after the occurrence, then this Lease shall not terminate, but it shall be the obligation of Landlord to repair or restore the Leased Premises as nearly as possible to its condition prior to such damage or destruction, and the Landlord shall proceed promptly to make such repairs or restoration; provided, however, that such repairs or restoration can be made by Landlord for an amount not in excess of the amount recovered by Landlord on the fire and extended insurance. There shall be an equitable abatement of rent during the period that the Leased Premises may be wholly or partially unavailable for use by Tenant for the operation of its business.

Should the damage or destruction be of a character that will not permit repair or restoration of the Leased Premises within the one hundred twenty (120) days after the occurrence thereof, or if the cost of such repair or restoration exceeds Landlord's insurance recovery, either Landlord or Tenant shall have the privilege of canceling the unexpired term of this Lease upon giving written notice to the other within forty five (45) days after such destruction.

(15) USE OF LEASED PREMISES:  
-----

(a) Tenant shall use and occupy the Leased Premises for offices use and for no other purpose except Cross Country Seminar, Inc.'s business use.

(b) The Leased Premises, in its state existing on the date that the Lease term commences, but without regard to the use of which Tenant will use the Leased Premises, do not violate any covenant or restrictions of record,, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date.

(c) The Tenant hereby covenants and agrees as follows:

(i) To comply with all Federal, State, County and City laws, ordinances, rules and regulations affecting the use or occupancy of the Leased Premises by Tenant or the business at any time transacted by the Tenant;

(ii) Not to use the Leased Premises for any disorderly or unlawful purpose or use inconsistent with applicable zoning;

(iii) To obtain from appropriate governmental agencies at the Tenant's expense any and all permits, licenses, and the like, required to permit Tenant to occupy the Leased Premises and to be at all times in compliance with such permits, licenses, and the like, and all applicable governmental ordinances and regulations;

(iv) To keep the Leased Premises clean and free from rubbish and to keep the windows and signs neat, clean, and in good order, all at Tenant's sole expense; or Landlord at its sole discretion shall have the right to perform these maintenance items and Tenant agrees to reimburse Landlord for its costs;

(v) Not to store any material, trash or refuse of any nature whatever within the Leased Premises or on the exterior of the Leased Premises or Developed Parcel nor to erect any screen or fence without the prior written consent of Landlord;

(vi) To refrain from keeping gasoline, other inflammable material, any explosives or any other hazardous substance within the Leased Premises or on the Developed Parcel, or from doing any act or thing which may make void or voidable the Landlord's insurance against fire, and to conform to all rules or regulations from time to time established by the appropriate insurance rating organization;

(vii) To comply with all the Rules and Regulations which have been adopted by Landlord, attached as Exhibit "F," (or which may be hereafter adopted by Landlord) for the protection and welfare of the Building, the Developed Parcel and other tenants.

(16) REPAIRS:  
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(a) Tenant Repairs  
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Tenant agrees that during the full term of this Lease or any renewal thereof, it will, at its own expense, keep the interior of the Leased Premises in good condition and shall not let the Leased Premises and equipment, fall out of repair, and that it will maintain the Leased Premises and equipment, and make repairs promptly as they become necessary. At commencement of this Lease, Landlord shall supply the Leased Premises with the required lamps, bulbs, ballasts, and starters, but replacements thereof shall be at Tenant's expense.

Interior maintenance shall be deemed to include, but shall not be limited to, repairs or replacements required for windows, doors, floors, interior walls, ceilings, painting and decorating, and repairs to heating, air conditioning, plumbing and electrical fixtures, and equipment. Tenant shall change the filters in the ventilation system on regular intervals. Notwithstanding, the provisions of this Subparagraph(16)(a), Tenant shall not be obliged to make such repairs as are necessitated by fire or other perils provided for by extended coverage clauses (whether or not caused by the active or passive negligence of the Tenant) for which damage or loss insurance is carried by the Landlord.

Tenant accepts all equipment "as is". Tenant shall at all times after commencement of Tenant's business operations at the Demised Premises maintain, at Tenant's sole cost and expense, a service contract with a reputable heating, ventilating and air conditioning service and repair firm for the provision of such service and repairs to the Demised Premises, which shall provide that such contract may not be canceled, materially changed or not renewed without at least thirty (30) days advance written notice to Landlord at the address in the manner set forth in Section 25 of the Prime Lease. A copy of such contract shall be deposited promptly upon commencement of Tenant's obligation to procure same, and a copy of each replacement thereof shall be deposited with Landlord promptly upon Tenant's execution of same.

(b) Landlord Repairs  
-----

Landlord agrees that during the full term of this Lease, it will, at its own expense, keep the exterior structural parts and roof of the Building in good condition and repair and that it will make such repairs promptly as they become necessary. Exterior repairs shall be deemed to include exterior walls, roof, gutters, downspouts, and plumbing outside the Building. Landlord shall make such interior repairs and replacements as are necessitated by fire or perils provided for by extended coverage clauses (whether or not caused by the active or passive negligence of the Tenant) for which damage or loss insurance is carried by the Landlord and for which insurance proceeds are recovered, including interior decorating caused by such fire or other perils.

It is the intent of Landlord to stop the water infiltration into existing space and Landlord will complete such work by no later than September 15, 2003. This work will include sealing the building face below grade in the planter bed with an applied waterproofing. The two masonry cracks will be cleaned and caulked and the window units at the rear of the building will be caulked and sealed. In the event the repairs do not stop the infiltration of water by December 31, 2003, to the reasonable satisfaction of an engineer, whom Landlord and Tenant will select as a condition of this Lease, then Tenant shall have the one time right to terminate this lease, with ninety (90) days advance written notice. This termination right shall expire on December 31, 2003.

(17) ALTERATIONS:  
-----

No alterations, modifications, additions or installations to the Leased Premises shall be made unless the Landlord shall first have given written approval of the plans and specifications thereof, and shall have been protected, to the Landlord's satisfaction, against any cost or damage incident thereto. Prior to any approved construction, Tenant shall first have secured all necessary building and other permits. Tenant agrees to make such alterations, modifications, additions or installations to the Leased Premises as may be required by building, OSHA, or other applicable regulations or local codes in the jurisdiction in which the Leased Premises are located. All such alterations, modifications, additions, or installations, when made, shall become, unless the Landlord elects otherwise as provided in Paragraph (16) hereof, the property of the Landlord and shall remain upon and be surrendered with said Leased Premises as a part thereof at the end of the term of this Lease.

(18) FIXTURES AND UNAUTHORIZED USE OF PREMISES:  
-----

Tenant shall not without Landlord's prior written consent attach any fixtures in or to the Leased Premises or change, alter, or make additions to the Leased Premises nor permit any annoying sound device, install any additional locks, overload any floor, or deface the Leased Premises. Any attached fixtures or any alterations, additions, or improvements made or attached by Tenant shall on the expiration or termination of this Lease, if requested by Landlord, be promptly removed at Tenant's expense, and the Leased Premises restored by Tenant at its expense to its original condition, ordinary wear and tear excepted. Any such fixture, alteration, addition and/or improvement not requested to be moved shall remain on the Leased Premises and shall become and remain the property of Landlord. All Tenant's fixtures, installations, and personal property not removed from the Leased Premises upon expiration or termination and not required by Landlord to have been removed as provided in this Paragraph shall be conclusively presumed to have been abandoned by Tenant, and title thereto shall pass to Landlord under this Lease as by a bill of sale.



(19) WINDOW COVERINGS AND SIGNAGE:  
-----

Tenant shall, at its own expense but subject to Landlord's prior written approval, provide mini blinds on all windows in Tenant's office area.

Landlord shall, at Tenant's expense, install signage identifying Tenant's occupancy. Signage shall meet Landlord's standard specification for Tenant signage, in order to provide harmony of the Building as to the exterior and interior appearances and also for safety and fire hazard purposes.

Tenant shall not install signs in the windows of the Leased Premises or on any other part of the Building or Developed Parcel without first securing Landlord's written consent. Any such signage permitted shall meet Landlord's standard specification for Tenant signage. Any signs installed by Tenant with Landlord's permission shall be removed by Tenant at the expiration of this Lease, at its expense, and the Leased Premises shall be restored by Tenant.

(20) INTERRUPTION OF SERVICE:  
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Landlord does not warrant that any services to be provided by Landlord will be free from interruption due to causes beyond Landlord's reasonable control. Temporary interruption of services or unavoidable delay in the making of repairs shall not be deemed an eviction or disturbance of Tenant's use and possession nor render Landlord liable to Tenant for damage by abatement of rent or otherwise nor relieve Tenant from performance of its obligations under this Lease.

(21) INDEMNIFICATION:  
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Tenant shall pay all loss or damage occasioned by or growing out of the use and occupancy of the Leased Premises by Tenant, its agents, and employees, and Tenant will indemnify, protect, and save Landlord harmless from and against any loss or liability thereby or therefore and from and against any expense, cost, and attorney fees incurred in connection with any such claim.

(22) WARRANTY OF QUIET ENJOYMENT:  
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Tenant, upon paying the rents and keeping and performing the covenants of this Lease to be performed by Tenant, shall peacefully and quietly hold, occupy, and enjoy said Leased Premises during said term or any renewal thereof.

(23) ASSIGNMENT AND SUBLETTING:  
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Tenant shall not assign, mortgage or encumber this Lease nor sublet or permit the Leased Premises or any part thereof to be used by others, without the prior written consent of Landlord in each instance. The consent by Landlord to an assignment or subletting shall not be construed to relieve Tenant from obtaining the consent

of the Landlord to any further assignment or subletting. The consent by Landlord will not be given unless: a) the subtenant or assignee assumes the Tenant's obligations under this Lease; and b) Tenant remains liable for all its obligations under this Lease, including extensions or renewals provided for herein. Nor will consent be given if Tenant is in default under this Lease. Tenant shall notify Landlord of the name of each proposed assignee or subtenant and shall provide information to Landlord pursuant to the financial standing of the proposed assignee or subtenant and shall offer to surrender such space to Landlord.

Landlord reserves the right to require as additional rent, any subtenant or assignee rent which is in excess of the base rent and additional rent then being paid by Tenant pursuant to this Lease, and any other profit or gain realized by Tenant from such assignment or subletting.

All sums payable hereunder by Tenant shall be paid as additional rent upon receipt by Tenant or upon request by Landlord.

(24) EMINENT DOMAIN:  
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Tenant agrees that if the Leased Premises, or any part thereof, shall be taken or condemned for public or quasi-public use or purpose by any competent authority, Tenant shall have no claim against Landlord and shall not have any claim or right to any portion of the amount that may be awarded as damages or paid as a result of any such condemnation, whether such amount be awarded for diminution in value to the leasehold or to the fee. It is agreed that the full amount of such award, if any, made by the taking authorities shall be paid to and retained by Landlord, free of any claim by Tenant to any portion thereof, and all rights of Tenant to damages therefor, if any, are hereby assigned by Tenant to Landlord, in the event that all or substantially all of the Leased Premises shall be taken or condemned by any governmental authority, then the term of this Lease shall cease and terminate from the date on which the Tenant is required, by such taking authority, to surrender possession of said Leased Premises and the Tenant shall not have nor make any claim against Landlord for the value of any unexpired term of this Lease, in the event that a portion of the Leased Premises shall be taken or condemned by any governmental authority, then this Lease shall continue in full force and effect, and rent shall abate in an amount which bears the same ratio to the annual base rent as the value of the floor space taken bears to the value of the total floor space of the Leased Premises. All rentals and other sums payable by Tenant hereunder shall be adjusted to the date on which Tenant is required, by the taking authority, to surrender possession of the Leased Premises or portion of the Leased Premises so taken.

(25) NOTICES:  
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All notices required or permitted to be given to Tenant under this Lease shall be given to it at 1645 Murfreesboro Pike, Suite J, Nashville, TN 37217. Any such notice to

Landlord under this Lease shall be given to it at 100 E. RiverCenter Boulevard, Suite 1100, Covington, Kentucky 41011-1602. All notices shall be in writing and sent (i) by certified mail, postage prepaid; (ii) by a nationally recognized overnight courier service; or (iii) by personal delivery.

Notice so mailed shall be effective upon the fifth day after its deposit into the mails; one day after being sent by overnight courier; and upon receipt if by personal delivery. Notice given in any other manner shall be effective under this Paragraph (25) only if and when received by the addressee.

(26) REDELIVERY OF PREMISES:  
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Tenant shall, on the expiration of this Lease, deliver up the Leased Premises in as good order and condition as it now is or may be put by Landlord, reasonable use and ordinary wear and tear thereof and damage by fire or other unavoidable casualty, condemnation or appropriation excepted. Tenant shall promptly surrender all keys to the Leased Premises to Landlord.

(27) DEFAULT: REMEDIES UPON DEFAULT:  
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(a) If any voluntary or involuntary petition in bankruptcy shall be filed by or against Tenant, or any voluntary or involuntary proceeding in any court shall be instituted to declare Tenant insolvent or unable to pay Tenant's debts, or Tenant makes an assignment for the benefit of its creditors, or a trustee or receiver is appointed for Tenant or for the major part of Tenant's property, then Landlord may forthwith terminate this Lease.

(b) If Tenant defaults in the prompt payment of rent and such default shall continue for five days after the due date, or if Tenant defaults in the performance or observance of any other provisions of this Lease and such other default shall continue for ten days after notice thereof shall have been given to Tenant or if Tenant abandons the Leased Premises, then Landlord either may terminate Tenant's right to possession without terminating this Lease or may terminate this Lease.

(c) Upon any termination of this Lease or upon any termination of the Tenant's right to possession without termination of this Lease, the Tenant shall surrender possession and vacate the Leased Premises immediately, and Landlord may enter the Leased Premises in such event with or without process of law and retake possession of the Leased Premises and may expel or remove the Tenant and any others who may be occupying or within the Leased Premises and remove all property therefrom without relinquishing the Landlord's right to rent or any other right given to the Landlord hereunder or by operation of law.

(d) If the Landlord elects to terminate the Tenant's right to possession only without terminating this Lease, the Landlord may, at its option, enter into the

Leased Premises, remove the Tenant's signs and other evidences of tenancy, and take and hold possession thereof as provided in Subparagraph (c) without such entry terminating this Lease or releasing the Tenant from the Tenant's obligation to pay the rent for the full term, and in any such case, the Tenant shall pay forthwith to the Landlord a sum equal to the entire amount of the rent specified in Paragraphs (8), (9) and (10) of this Lease for the residue of the stated term plus any other sums then due hereunder. Upon and after entry into possession without termination of this Lease, the Landlord may but need not re-let the Leased Premises or any part thereof for the account of the Tenant for such rent, for such time and upon such terms as the Landlord in its sole discretion shall determine. Landlord shall not be required to accept any tenant offered by the Tenant or to observe any instructions given by the Tenant about such re-letting. In any such case, the Landlord may make repairs, alterations, and additions in or to the Leased Premises and redecorate the same to the extent deemed by the Landlord necessary or desirable, and the Tenant shall, upon demand, pay the cost thereof together with the Landlord's expenses of the re-letting. If the consideration collected by the Landlord upon any such re-letting for the Tenant's account is not sufficient to pay the full amount of unpaid rent reserved in this Lease together with cost of repairs, alterations, additions, redecorating and the Landlord's expenses, the Tenant shall pay to the Landlord the amount of each deficiency upon demand; and if the consideration so collected from any such re-letting is more than sufficient to pay the full amount of the rent reserved herein, together with the costs and expenses of the Landlord, the Landlord at the end of the stated term of this Lease shall account for the surplus to the Tenant.

(e) Any property which may be removed from the Leased Premises by the Landlord pursuant to the authority of this Lease or of law to which the Tenant is or may be entitled maybe handled, removed, or stored in a commercial warehouse or otherwise by the Landlord at the risk, cost, and expense of the Tenant. Landlord shall in no event be responsible for the value, preservation, or safekeeping thereof. The Tenant shall pay to the Landlord, upon demand, all expenses incurred in such removal and all storage charges against such property. Any such property of Tenant not removed from the Leased Premises or retaken from storage by Tenant within thirty (30) days after the end of the term of this Lease, however terminated, shall be conclusively deemed to have been forever abandoned by Tenant.

(f) If Tenant violates any of the terms and provisions of this Lease or defaults in any of its obligations hereunder other than the payment of rent or other sums payable hereunder, such violation may be restrained or such obligation enforced by injunction.

(g) All rights and remedies of Landlord herein enumerated shall be cumulative and none shall exclude any other right or remedy allowed by law.

(h) Any costs and expenses incurred by Landlord (including, without limitation,

reasonable attorney's fees) in enforcing any of its rights or remedies under this Lease shall be deemed to be Additional Rental and shall be repaid to Landlord by Tenant upon demand.

(28) HOLDING OVER:

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Tenant shall pay Landlord for each month, or part thereof, that Tenant retains possession of the Leased Premises or any part thereof after termination or expiration of the term of this Lease 150% of the amount of the monthly rent then required by the terms hereof and also pay all damages sustained by Landlord by reason of such retention; or, if Landlord so elects and if Landlord gives notice to Tenant of Landlord's election thereof, such holding over shall constitute renewal of this Lease for one year, but acceptance by Landlord of rent after such termination shall not constitute a renewal nor waive Landlord's right of re-entry or any other right.

(29) RIGHTS RESERVED BY LANDLORD:

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Landlord shall have the following rights exercisable without notice and without liability to Tenant:

(a) To change the name or street address of the Building;

(b) To have pass keys to the Leased Premises;

(c) To require all persons entering or leaving the Building during such hours as Landlord may from time to time reasonably determine to identify themselves to a watchman by registration or otherwise, and to establish their right to enter or leave, and to exclude or expel any peddler, solicitor or beggar at any time from the Developed Parcel or the Building;

(d) To approve the weight, size and location of safes, computers, and other heavy articles or equipment in and about the Leased Premises and to require all such items and other office furniture and equipment to be moved in and out of the Building only at such times and in such manner as Landlord shall direct and in all events at Tenant's sole risk and responsibility;

(e) Landlord may, at its expense, relocate the Tenant's Leased Premises within the Building in order to facilitate leasing of the Building and/or construction and/or alterations of the Building;

(f) Landlord or its agents shall have the right to enter the Leased Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or tenants, making such alterations, repairs, improvements or additions to the Leased Premises as Landlord may deem necessary or desirable. Landlord may at any time place on or about the Leased Premises any ordinary "For Sale" signs;

(g) Within six (6) months prior to the date of the expiration of this Lease, Landlord or its agents shall have the right to enter the Leased Premises at all reasonable times for the purpose of exhibiting the Leased Premises to prospective tenants.

(30) BROKER'S COMMISSION:  
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Tenant represents that it has dealt directly with (and only with), Colliers Turley Martin Tucker as broker in connection with this Lease and that no other broker negotiated or participated in the negotiations of this Lease or submitted or showed the Leased Premises to it or is entitled to any commission in connection therewith. Landlord shall be liable for the payment of any commission due to the broker named in this Paragraph; however, if there is a violation of the representation herein made by Tenant, and any other broker claims a commission from Landlord, Tenant shall indemnify and hold the Landlord harmless from such claim.

(31) ESTOPPEL CERTIFICATE:  
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(a) Tenant shall at any time upon not less than ten (10) days prior written notice from Landlord execute, acknowledge and deliver to Landlord a statement in writing: (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease as so modified, is in full force and effect) and the date to which rent and other charges are paid in advance, if any, and (ii) acknowledging that there are no uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed. Such statement shall be in a form as Landlord, purchaser or mortgagee shall require. Any such statement may be conclusively relied upon by any prospective purchaser or mortgagee of the Leased Premises.

(b) Tenant's failure to deliver such statement within ten (10) days shall be a material default under this Lease or, at Landlord's option, Tenant's failure to furnish such statement shall be conclusive upon Tenant: (i) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) that there are no uncured defaults in Landlord's performance, and (iii) that not more than one month's rent has been paid in advance or such failure may be considered by Landlord as a default by Tenant under this Lease.

(c) If requested by any purchaser or mortgagee, Landlord shall execute such statement on behalf of Tenant as Tenant's attorney-in-fact. Tenant does hereby make, constitute and appoint Landlord as Tenant's attorney-in-fact and in Tenant's name, place and stead to execute such statement in accordance with this Paragraph (31).

(32) LANDLORD'S LIABILITY:  
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(a) The term "Landlord" as used herein shall mean only the owner or owners at the time in question of the fee title. In the event of any transfer of such title, Landlord herein named (and in case of any subsequent transfers, then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Landlord's obligations thereafter to be performed, provided that any funds in the hands of Landlord or the then grantor at the time of such transfer, in which Tenant has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Landlord shall, subject as aforesaid, be binding on Landlord's successors and assigns, only during their respective periods of ownership.

(b) Tenant shall look solely to the estate and property of Landlord in the Developed Parcel for the collection of any judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default or breach by Landlord with respect to any of the terms and provisions of this Lease to be kept, observed, and performed by Landlord, subject, however, to the prior rights of any mortgagee of all or any part of the property; no other assets of Landlord shall be subject to levy, execution or other judicial process for the satisfaction of Tenant's claim. Nothing in this Lease shall be construed in any event whatsoever to impose any personal liability upon the trustees, officers or the shareholders of the Landlord, or of the general or limited partners comprising the Landlord, as Landlord herein or otherwise.

(33) INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS:  
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This Lease including any exhibits, schedules or attachments, hereto, contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease maybe modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Tenant hereby acknowledges that neither any cooperating broker on this transaction nor the Landlord or any employees or agents of any of said persons has made any oral or written warranties or representations to Tenant relative to the condition or use by Tenant of said Leased Premises, the Building or the Developed Parcel.

(34) WAIVERS:  
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(a) No waiver by Landlord of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Tenant of the same or any other provision. Landlord's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act by Tenant.

(b) The acceptance of rent hereunder by Landlord shall not be a waiver of any preceding breach by Tenant of any provision hereof, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent.

(35) SEVERABILITY:

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If any provision of this Lease shall at any time be deemed to be invalid or illegal by any court of competent jurisdiction, this Lease shall not be invalidated thereby; and in such event this Lease shall be read and construed as if such invalid or illegal provision had not been contained herein.

(36) RECORDING:

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This Lease shall not be placed of record; however, either Landlord or Tenant shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

(37) CUMULATIVE REMEDIES:

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No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

(38) INTEREST ON PAST DUE OBLIGATIONS:

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Any amount owed by Tenant to Landlord which is not paid when due shall bear interest at the rate of fifteen percent (15%) per annum from the due date of such amount. However, interest shall not be payable on late charges to be paid by Tenant under this Lease. The payment of interest on such amounts shall not excuse or cure any default by Tenant under this Lease. If the interest rate specified in this Lease is higher than the rate permitted by law, the interest rate is hereby decreased to the maximum legal interest rate permitted by law.

(39) BINDING EFFECT:

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Subject to any provisions hereof restricting assignment or subletting by Tenant, this Lease shall be binding upon and inure to the benefit of the parties, their heirs, personal representatives, successors and assigns.

(40) SUBORDINATION:

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(a) The Tenant accepts this Lease subject and subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Developed Parcel and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. If any mortgagee, shall elect to have this Lease prior to the lien of its mortgage, and shall give written notice thereof to



Tenant, this Lease shall be deemed prior to such mortgage, whether this Lease is dated prior or subsequent to the date of said mortgage, or the date of recording thereof.

(b) Although the provisions of Paragraph (40)(a) shall be self operative, Tenant agrees, upon request of Landlord or Landlord's lender, to execute any documents required to effectuate any attornment, a subordination or to make this Lease prior to the lien of any mortgage. Tenant's failure to execute such documents within 10 days after written demand shall constitute a material default by Tenant hereunder, or, at Landlord's option, Landlord shall execute such documents on behalf of Tenant as Tenant's attorney-in-fact.

(c) Tenant does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney-in-fact and in Tenant's name, place and stead, to execute such documents in accordance with this Paragraph (40).

(41) AUTHORITY:  
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If Tenant is a corporation, trust, general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity and shall, at the execution of this Lease, deliver to Landlord evidence of such authority satisfactory to Landlord.

(42) CONFLICT:  
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Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provision (provided each such change is initialed by both parties).

(43) GOVERNING LAW; FORUM:  
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This Lease is made under and is to be governed by the laws of the State of Tennessee. Any action arising out of this Lease shall be brought only in a court of competent jurisdiction in Davidson County, Tennessee.

(44) MECHANICS' LIEN:  
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In the event Tenant performs any alterations in accordance with Paragraph 17 of this Lease, Tenant will not cause or permit to stand, through any action taken by it, any mechanics', laborer's, materialman's or other lien against the Leased Premises or the Building or improvement thereon in connection with work of any character performed or material furnished to the Leased Premises. Nothing in this Lease may be construed as creating an agency relationship between Landlord and Tenant for purposes of performing alterations, improvements, or repairs. If Tenant in good faith desires to contest the validity or amount of any such lien landlord

agrees to cooperate in the institution, defense and maintenance of any such action or proceeding, provided that Tenant will indemnify and hold Landlord harmless for and from any and all expenses, costs and liabilities in connection with any such contest. Any such action or proceeding may be instituted and maintained by Tenant only if and so long as the enforcement of any such lien, by sale or otherwise, will be stayed by reason of such action or proceeding or by bond filed or a monetary deposit paid into court as a part of such action or proceeding. Promptly after the determination of any such contest adverse to the Tenant and prior to the enforcement of any such lien, Tenant will pay and discharge the amount of any such lien, together with any related interest, costs and penalties.

(45) FINANCIAL STATEMENTS:  
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Within twenty (20) days of written request by Landlord, Tenant will provide Landlord with its most recent financial statement, certified to be true and correct by either Tenant's chief financial officer or an independent certified public accountant; provided, however, Landlord may only share such statements with its mortgagee, ground lessor, prospective mortgagees and ground lessors, purchasers and partners, and attorneys, accountants, and other advisors of Landlord and each of the foregoing.

(46) JOINT VENTURE:  
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This Lease may not be deemed or construed to create or establish any relationship of partnership, agency, or joint venture (or any other similar relationship or arrangement) between Landlord and Tenant.

(47) HAZARDOUS SUBSTANCES:  
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The term "Hazardous Substance" shall be interpreted broadly to include those substances defined as a "hazardous substance", "pollutant" or "contaminant" pursuant to the Compensation Liability Act, 72 U.S.C., 9061 et sec, as amended and regulations thereunder, or any federal, state or local regulation or ordinance; and shall also specifically include without limitation petroleum and petroleum based derivatives, distillates and byproducts, asbestos; and any hazardous waste or other similar material.

Tenant warrants and represents that it shall not use, store, treat, accumulate or transport Hazardous Substances at, on, to or from the Leased Premises during the Lease Term except de minimus quantities not requiring governmental or other permit to be used in the ordinary conduct of its business and in a manner that complies with all federal, state, and local laws, regulations, and ordinances. Tenant additionally warrants and represents that Tenant's occupancy of the Leased Premises and its activities thereon shall not cause or result in any release, leak, discharge, spill, disposal, or emission of Hazardous Substances at, in, on, from or under the Leased Premises during or following the Lease Term.

Tenant agrees to indemnify and hold Landlord harmless from any and all claims, damages, fines, judgements, penalties, costs, liabilities, or losses (including, without limitation reasonable sums paid for settlement of claims, attorneys fees, consultant and expert fees) arising during or after the Lease Term from or in connection with the presence of any Hazardous Substances in, on or under the Leased Premises during or after the Lease Term where the presence of such Hazardous Substances is caused by or arises from Tenant's occupancy of the Leased Premises or otherwise from Tenant's activities. Without limitation the foregoing, this Indemnification shall include reasonable costs incurred due to any investigation of the Leased Premises or any clean-up, removal or restoration mandated by a federal, state or local agency or political subdivision with respect to any such Hazardous Substance present on the Leased Premises during the Lease Term. The provisions of this paragraph shall survive the expiration or termination of this Lease.

Landlord warrants and represents that, to the best of its knowledge, any use, storage, treatment, accumulation, or transportation of Hazardous Substances which has occurred in or on the Developed Parcel prior to the date hereof has been in compliance with the applicable federal, state, or local laws, regulations, and ordinances. Landlord additionally warrants and represents that, to the best of its knowledge, no release, leak, discharge, spill, disposal, or emission of Hazardous Substances has occurred in, or under the Developed Parcel prior to the date hereof.

Landlord agrees to indemnify and hold the Tenant harmless from any and all claims, damages, fines, judgements, penalties, costs, liabilities, or losses (including without limitation reasonable sums paid for settlement of claims, attorneys' fees, consultant and expert fees) arising during or after the Lease Term from or in connection with the presence of any Hazardous Substance in, or under the Premises prior to the Lease Term. Without limiting the foregoing, this Indemnification shall include reasonable cost incurred due to any investigation of the Premises or any clean-up, removal or restoration mandated by a federal, state or local agency or political subdivision, with respect to any Hazardous Substance present on the Premises prior to the Lease Term other than such as may be caused by or arise out of Tenant's occupancy of the Leased Premises or from Tenant's activities. The provisions of this paragraph shall survive the expiration or termination of this Lease.

(48) ADDITIONAL EXHIBITS:

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The following exhibits ,are attached hereto and incorporated into this Lease, in addition to previously identified Exhibit "A" (identify additional exhibits by letter and title; if none, please so state):

- Exhibit "B" - Developed Parcel
- Exhibit "C" - Alterations and Improvements
- Exhibit "D" - Annual Base Rent
- Exhibit "E" - Rules and Regulations

IN WITNESS WHEREOF, Landlord and Tenant have hereunto executed this Lease as of the day and year first above written.

WITNESSES:

LANDLORD

CORPOREX KEY LIMITED PARTNERSHIP NO.8

By: Alpha Property Service Co.,  
its sole general partner

By: /s/ Rebecca Rattenmach

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WITNESSES:

TENANT

CROSS COUNTRY SEMINARS, INC.

By: /s/ Franklin Shaffer

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EXHIBIT "B"

DEVELOPED PARCEL

The Developed Parcel consists of 10.57 acres of land and contains four one-story buildings. Off-street parking is provided on the site.

Initials:

LANDLORD: /s/ RR

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TENANT: /s/ FS

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EXHIBIT "C"

ALTERATIONS AND IMPROVEMENTS

(WORK LETTER)

No promise of Landlord to alter, remodel, improve, repair, decorate, or clean the Leased Premises or any part thereof, and no representation respecting the condition of the Leased Premises, the Building or the Developed Parcel has been made to Tenant by Landlord except as made herein. In the event Landlord has agreed or is required to make any alterations or improvements to the Leased Premises to prepare same for Tenant's occupancy, the same shall be limited to those alterations and improvements which are enumerated and detailed in this Workletter.

Landlord shall paint, install new carpet and rubber base, repair the walls, create a cased opening, replace mini blinds, replace two (2) doors, replace ceiling tiles as needed, and clean and repair existing HVAC in the 1,864 square foot suite previously known as Suite K-2. Such repairs are not to exceed \$12,000.00.

\* to be adjusted to include repairs in Suite J

Initials:  
LANDLORD: /s/ RR  
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TENANT: /s/ FS  
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EXHIBIT "D"

ANNUAL BASE RENT

The Annual Base Rent for the initial term of this Lease is as follows:

YEAR	ANNUAL BASE RENT	MONTHLY BASE RENT	\$PSF
Lease Year	\$81,630.00	\$6,802.50	\$9.00
Lease Year 2	\$83,897.52	\$6,991.46	
Lease Year 3	\$86,165.04	\$7,180.42	
Lease Year 4	\$88,432.56	\$7,369.38	\$9.75

Notwithstanding Paragraph (7)(c) of this Lease, the following periods are defined to be the Lease Years.

Lease Year 1	September 1, 2003	through	August 31, 2004
Lease Year 1	September 1, 2004	through	August 31, 2005
Lease Year 1:	September 1, 2005	through	August 31, 2006
Lease Year	September 1, 2006	through	August 31, 2007

In addition to the monthly installments of Annual Base Rent and Additional Rent, if any, the Tenant agrees to pay to Landlord all applicable sales, use and/or other taxes (whether Federal, State or local), applicable to this Lease.

Initials:  
LANDLORD: /s/ RR  
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TENANT: /s/ FS  
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EXHIBIT "E"

RULES AND REGULATIONS

Definitions:

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Wherever in these Rules and Regulations the word "Tenant" is used, it shall be taken to apply to and include Tenant and its agents, employees, invitees, licensees, subtenants, and contractors, and is to be deemed of such number and gender as the circumstances require. The word "Landlord" shall be taken to include the employees and agents of the Landlord.

Construction:

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The streets, sidewalks, entrances, and other common areas provided by Landlord shall not be obstructed by Tenant, or used by it for any other purpose than for ingress and egress.

Washrooms:

- - - - -

Restrooms, water-closets and other water apparatus shall not be used for any purpose other than those for which they were constructed.

General Prohibitions and Covenants:

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In order to insure proper use and care of the Building, Tenant shall not:

- (a) Allow any sign, advertisement or notice to be fixed to the Building, inside or outside, without Landlord's consent;
- (b) Make improper [noises or disturbances of any kind;
- (c) Mark or defile water-closets, restrooms, walls, windows, doors or any other part of the Building;
- (d) Place anything 'on the outside of the Building, including roof setbacks, window ledges and other projections;
- (e) Cover or obstruct any window;
- (f) Fasten any article, drill holes, drive nails or screws into the Building walls, floors, woodwork, window mullions, or demising partitions without Landlord's consent;
- (g) Interfere with the heating or cooling apparatus;



- (h) Install any shades, blinds, or awnings without Landlord's consent;
- (i) Install call boxes or any kind of wire in or on the Building without Landlord's consent and direction;
- (j) Change the locks of any doors to the Leased Premises without furnishing Landlord duplicate keys;
- (k) Give its employees or other persons permission to go upon the roof of the Building without Landlord's consent; and no roof or exterior wall penetrations shall be made without consent of Landlord;
- (l) Advertise the business, profession or activities of Tenant in any manner involving the Building name and address which violates the letter or spirit of any code of ethics adopted by any recognized association or organization pertaining thereto or use the name of the Building for any purpose other than that of the business address of the Tenant;
- (m) Carry on or permit to be carried on upon said Leased Premises or any part thereof any immoral or illegal business, gambling, the selling of pools, lotteries or any business that is prohibited by law;

In addition, Tenant agrees that:

- (a) All entrance doors in the Leased Premises shall be left locked when not in use;
- (b) Canvassing, soliciting or peddling in the Building is prohibited and Tenant shall cooperate to prevent the same;
- (c) Freight, furniture, business equipment, merchandise and bulky matter of any description shall be delivered to and removed from the Leased Premises at the sole risk of Tenant.

Business Machines:

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Business machines and mechanical equipment which cause vibration, noise, cold or heat that may be transmitted to the Building structure or to any other leased space outside Leased Premises shall be placed and maintained by Tenant, at its sole cost and expense, in settings of cork, rubber or spring type vibration eliminators or by other methods acceptable to Landlord, sufficient to absorb and isolate such vibration, noise, cold or heat.

Rights Reserved by Landlord:

Without abatement or diminution in rent, Landlord reserves and shall have the right:

- (a) To control and operate the public portions of the Building and the public facilities, as well as facilities furnished for the common use of the tenants, in such manner as it deems best for the benefit of the tenants generally. No tenant shall invite to the Leased Premises, or permit the visit of, persons in such numbers or under such conditions as to interfere with the use and employment of the entrances, corridors, elevators and facilities of the Building by other tenants;
- (b) To refuse admission to the Building outside of ordinary business hours to any person not known to a watchman (if utilized) or not having a pass issued by tenant or not properly identified, and may require all persons admitted to or leaving the Building outside of ordinary business hours to register;
- (c) To install and maintain a sign or signs on the exterior of the Building;
- (d) To approve all sources furnishing Tenant signs;
- (e) To erect, use and maintain pipes and conduits in and through the Leased Premises;
- (f) During the last six (6) months of the Lease Term or any part thereof, if during or prior to that time Tenant vacates the Leased Premises, to decorate, remodel, repair, alter or otherwise prepare the Leased Premises for reletting;
- (g) To constantly have pass keys to the Leased Premises;
- (h) To grant to anyone the exclusive right to conduct any particular business or undertaking in the Building;
- (i) To exhibit the Leased Premises to others and to display "For Rent" signs on the Leased Premises;
- (j) To take any and all measures, including inspections, repairs, alterations, additions and improvements to the Leased Premises or to the Building as may be necessary or desirable in the operation of the Building; and,

(k) To close or temporarily suspend operation of entrances, doors, corridors or other facilities, provided that Landlord shall cause as little inconvenience or annoyance to Tenant as it is reasonably necessary in the circumstances, and shall not do any act which permanently reduces the size of the Leased Premises. Landlord may do any such work during ordinary business hours. If such work is done during other hours at Tenant's request, Tenant shall pay Landlord for overtime and any other expenses incurred.

Landlord may enter upon the Leased Premises and may exercise any or all of the foregoing rights hereby reserved without being deemed guilty of an eviction or disturbance of Tenant's use or possession and without being liable in any manner to Tenant.

Regulation Change:  
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Landlord reserves the right to make such other and further reasonable Rules and Regulations or to rescind, alter or waive any rule or regulation, as in the judgement of Landlord, may from time to time be needful for the safety, appearance, care and cleanliness of the Building and for the preservation of good order therein. Landlord shall not be responsible to Tenant for any violation of Rules and Regulations by any other Tenants.

Initials:

LANDLORD /s/ RR

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TENANT: /s/ FS

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FORM OF STOCK OPTION AGREEMENT  
PURSUANT TO THE  
CROSS COUNTRY, INC.  
1999 STOCK OPTION PLAN, AS AMENDED.  
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AGREEMENT, dated as of \_\_\_\_\_, \_\_\_\_\_ by and between Cross Country Healthcare, Inc. (formerly known as Cross Country, Inc.) (the "Company") and (First\_Name) (Last\_Name) (the "Participant").

PRELIMINARY STATEMENT  
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The committee appointed by the Board of Directors of the Company (the "Committee"), to administer the Cross Country, Inc. 1999 Stock Option Plan (the "Plan"), has authorized this grant of an incentive stock option (the "Option") on February 16th 2005 (the "Grant Date") to purchase the number of shares of the Company's Class A common stock, \$.0001 par value per share (the "Common Stock") set forth below to the Participant, as an Eligible Employee of the Company, or its Subsidiaries. (the Company and all such Subsidiaries shall be collectively referred to as the "Employer"). Unless otherwise indicated, any capitalized term used but not defined herein shall have the meaning ascribed to such term in the Plan. A copy of the Plan is available from the Human Resources Department. By signing and returning this Agreement, the Participant agrees to comply with the Plan, this Agreement and all applicable laws and regulations.

Accordingly, the parties hereto agree as follows:

1. TAX MATTERS. The Option granted hereby is intended to qualify as an "incentive stock option" under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Notwithstanding the foregoing, the Option will not qualify as an "incentive stock option," if any of the following events occur: (i) the Participant disposes of the Common Stock acquired pursuant to the Option at any time during the 2 year period following the date of this Agreement or the one year period following the date on which the Option is exercised; (ii) except in the event of the Participant's death or disability (as defined in Section 22(e)(3) of the Code), the Participant is not employed by the Company or any of its Subsidiaries at all times during the period beginning on the date of this Agreement and ending on the day 3 months before the date of exercise of the Option; or (iii) the aggregate fair market value (determined as of the time the Option is granted) of the Common Stock subject to "incentive stock options" which become exercisable for the first time in any calendar year exceeds \$100,000, to the extent of the excess over \$100,000. To the extent that all or a portion of the Option does not qualify as an "incentive stock option", the validity of the Option (or portion thereof) not so qualifying shall not be affected and such Option (or portion thereof) not so qualifying shall constitute a separate non-qualified stock option.

2. GRANT OF OPTION. Subject in all respects to the Plan and the terms and conditions set forth herein and therein, the Participant is hereby granted an Option to purchase from the Company (Time\_Vested\_Grant) shares of Common Stock, at a price per share of \$15.60 (the "Option Price").

3. EXERCISE.  
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(a) Except as set forth in subsection (b) below, the Option shall become exercisable in installments on the dates provided below, which shall be cumulative, provided that the Participant has not incurred a Termination of Employment with the Employer prior to that date. To the extent that the Option has become vested and exercisable with respect to a percentage of shares of Common Stock granted as provided below, the Option may thereafter be exercised by the Participant, in whole or in part, at any time or from time to time prior to the expiration of the Option as provided herein and in accordance with Section 6.3(d) of the Plan, including, without limitation, the filing of such written form of exercise notice, if any, as may be required by the Committee and payment in full of the Option Price multiplied by the number of shares of Common Stock so exercised. Upon expiration of the Option, the Option shall be canceled and no longer exercisable.

The following table indicates the dates (the "Vesting Date") upon which the Participant shall be entitled to exercise the Option with respect to the total percentage of the number of shares of Common Stock granted as indicated beside that date:

VESTING DATE	TOTAL PERCENTAGE VESTED
1st Anniversary	25%

of Grant Date	
2nd Anniversary of Grant Date	50%
3rd Anniversary of Grant Date	75%
4th Anniversary of Grant Date	100%

There shall be no proportionate or partial vesting in the periods prior to each Vesting Date and all vesting shall occur only on the appropriate Vesting Date.

(b) Upon the occurrence of a Change in Control, the Option shall immediately become exercisable with respect to all shares of Common Stock subject thereto.

(c) Notwithstanding any other provision to the contrary, to the extent this Option is not vested upon the Participant's Termination of Employment, the Option shall, upon such Termination of Employment, be non-exercisable and shall be canceled.

4. OPTION TERM. The term of each Option shall be 10 years after the Grant Date, subject to earlier termination in the event of the Participant's Termination of Employment as specified in Section 5 below.

5. TERMINATION. Subject to Section 4 above and the terms of the Plan, the Option, to the extent vested at the time of the Participant's Termination of Employment, shall remain exercisable as follows:

(a) In the event of the Participant's Termination of Employment by reason of death, Disability or Retirement, the Option shall remain exercisable until the earlier of (i) one year from the date of such Termination of Employment or (ii) the expiration of the stated term of

the Option pursuant to Section 4 hereof; provided, however, that in the case of Retirement, if the Participant dies within such one year exercise period, any unexercised Option held by such Participant shall thereafter be exercisable by the legal representative of the Participant's estate, to the extent to which it was exercisable at the time of death, for a period of one year from the date of death, but in no event beyond the expiration of the stated term of the Option pursuant to Section 4 hereof.

(b) In the event of the Participant's involuntary Termination of Employment without Cause, the Option shall remain exercisable until the earlier of (i) 90 days from the date of such Termination of Employment or (ii) the expiration of the stated term of the Option pursuant to Section 4 hereof.

(c) In the event of the Participant's voluntary Termination of Employment (other than a voluntary termination described in Section 5(d) below), the Option shall remain exercisable until the earlier of (i) 30 days from the date of such Termination of Employment or (ii) the expiration of the stated term of the Option pursuant to Section 4 hereof.

(d) In the event of the Participant's Termination of Employment for Cause or in the event of the Participant's voluntary termination at any time after an event that would be grounds for a Termination of Employment for Cause, the Participant's entire Option (whether or not vested) shall be forfeited and canceled in its entirety upon such Termination of Employment.

6. RESTRICTION ON TRANSFER OF OPTION. The Option granted hereby shall not be Transferred other than by will or by the laws of descent and distribution and during the lifetime of the Participant, may be exercised only by the Participant. Upon any attempt to Transfer the Option, the Option shall immediately become null and void. The Option shall not in any manner be liable or subject to the debts, contracts, liabilities, engagements or torts of any person who is entitled to the Option, nor shall it be subject to attachment or legal process for or against such person.

7. RIGHTS AS A STOCKHOLDER. The Participant shall have no rights as a stockholder with respect to any shares covered by the Option unless and until the Participant has become the holder of record of the shares, and no adjustments shall be made for dividends in cash or other property, distributions or other rights in respect of any such shares, except as otherwise specifically provided for in the Plan.

8. PROVISIONS OF PLAN CONTROL. This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted by the Committee and as may be in effect from time to time. The Plan is incorporated herein by reference. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly.

9. NOTICES. Any notice or communication given hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, or by United States mail, to the appropriate party at the address set forth below (or such other address as the party shall from time to time specify):

If to the Company, to:

Cross Country Healthcare, Inc.  
6551 Park of Commerce Blvd.  
Boca Raton, Florida 33487  
Attention: Paula Donayri, Corporate Benefits Manager

If to the Participant, to:

The address indicated after the Participant's signature at the end of this Agreement.

10. NO OBLIGATION TO CONTINUE EMPLOYMENT. This Agreement is not an agreement of employment. This Agreement does not guarantee that the Employer will employ the Participant for any specific time period, nor does it modify in any respect the Employer's right to terminate or modify the Participant's employment or compensation.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

PARTICIPANT:

CROSS COUNTRY HEALTHCARE, INC.

By: /s/ Emil Hensel

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Emil Hensel, Chief Financial Officer

\_\_\_\_\_  
(FIRST NAME) (LAST NAME)

Social Security No.: (ss)

Home Address:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

CODE OF ETHICS  
FOR  
PRINCIPAL EXECUTIVE OFFICER  
SENIOR FINANCIAL OFFICERS AND ALL  
OTHER PRINCIPAL EXECUTIVE OFFICERS  
AND MANAGERS  
OF

CROSS COUNTRY HEALTHCARE, INC.

BE IT RESOLVED that the Board of Directors of Cross Country Healthcare, Inc., herein referred to as the "Company," has established the following Code of Ethics for its Principal Executive Officer, Senior Financial Officers and all other Principal Executive Officers and Managers (collectively, the "Senior Officers") to ensure the continuing integrity of financial reporting and transactions to protect the interest of its shareholders, customers, employees and all those with which the Company conducts business. The Company's Senior Officers are required to conduct their personal and professional conduct consistent with the guidance of ethical and professional standards set forth herein.

APPLICATION

For the purposes of this Code of Ethics, Senior Officers shall include, but not necessarily be limited to the Company's:

- President and Chief Executive Officer
- Chief Financial Officer
- Controller
- President, Travel Staffing Division
- President, Consulting Division
- President, Education and Training Division
- President, Clinical Trials Staffing Division
- President, Search and Recruitment Division
- President, Cross Country Local
- Chief Marketing and Strategy Officer
- Vice President, Corporate Development
- Corporate Counsel

The use of the term "Senior Officer" also includes, without limitation, each of the above positions and all other principal executive officers and managers of the Company and its subsidiaries. Should any irregularities or breaches of this Code of Ethics be observed by any Senior Officer, they are required to report such irregularities or breaches to the Audit Committee of the Company's Board of Directors and its Chief Executive Officer.

SUMMARY OF GUIDING PRINCIPLES

All Senior Officers shall serve the Company's shareholders, customers and employees with an unwavering commitment to the ethical practice of management in all legal and moral matters. As a condition of employment, all Senior Officers shall at all times, in performing their professional services:

- Act with integrity, and in a lawful manner.
- Not knowingly misrepresent material facts.
- Establish and support principles and procedures, which seek the highest and best use of resources yielding continually accurate, timely and understandable information, and full disclosure of financial and operating conditions.
- Avoid all possible conflicts of interest in personal and in professional relationships.
- Act in good faith, responsibly, with due care, competence and diligence.



- |X| Ensure accurate recordation and maintenance of all material files adhering to full compliance with the Company's record retention policy.
- |X| Ensure continuing education and share knowledge among peers to ensure maximum knowledge of best practices, laws, regulations and core skills that are required of or enhance the financial and operating performance of the Company.
- |X| Observe discretion regarding confidential information and personal relationships.
- |X| Employ, reward and recognize accomplishments without regard to race, personal background, sex or religious practice.
- |X| Ensure all information provided to shareholders, regulatory bodies, employees and the general public is credible, and accurate in all material respects.
- |X| Ensure responsible use of and control over the Company's assets.
- |X| Be recognized as a responsible partner within the communities the Company serves, among peers, among those with which the Company conducts business, among customers and in society.

#### BASIC STANDARD OF ETHICS

Senior Officers shall observe the highest standards of ethical conduct. In the performance of their duties, they shall protect and foster shareholder value through fair dealings, complete honesty and full disclosure. Senior Officers shall maintain the highest standards of integrity, both in the workplace and outside the workplace, fully observing all laws and applicable regulations.

Senior Officers shall ensure full compliance with the Sarbanes-Oxley Act of 2002 and all existing and future securities legislation, as well as full compliance with corporate governance requirements of the NASD or any exchange upon which the Company may in the future trade its stock.

Senior Officers shall in all cases ensure full and honest disclosure of the Company's financial and operating conditions as required by law and NASD mandate. They shall be responsible for and ensure the security of confidential information related to the Company.

#### CONFLICTS OF INTEREST

Senior Officers shall avoid all conflicts of interest. A "conflict of interest" exists any time a Senior Officer faces a choice between what is in his or her personal interest (financial or otherwise) and the interest of the Company. When a conflict of interest arises, it is important that each Senior Officer act with great care to avoid even the appearance that his or her actions were not in the best interest of the Company. If a Senior Officer is in a position where his or her objectivity may be questioned because of individual interests or family or personal relationships, the Senior Officer shall immediately notify the Chief Executive Officer and the Audit Committee for guidance.

#### OWNERSHIP INTERESTS

The Company's Senior Officers are excluded from transacting business with the Company through any company they own all or partial interest or in which an immediate family member owns all or partial interests. Immediate family shall include spouse, children, parents, siblings, in-laws, and grandparents. If a Senior Officer is aware of an extended family member (all non-immediate family members) who has an interest in a firm which does or wishes to transact business with the Company, the Senior Officer should notify the Chief Executive Officer and Audit Committee for determination of potential conflicts and guidance. In any instance, regardless of a family or non-family relationship with a vendor, it is illegal and unacceptable for any Senior Officer to receive any form of compensation or value as a result of the Company's transacting business with any person or firm. In all purchasing and business relationships, the Senior Officer is obligated to keep the Company's interests first in mind.

#### PERSONAL FINANCES

Senior Officers are required to ensure that their personal finances and personal financial dealings are prudent and in no manner shall have a negative impact on the Company or place the Senior Officer in a potential compromising position as it relates to the Company's best interest.

#### OUTSIDE INTERESTS AND DIRECTORSHIPS

Senior Officers who hold interests in another company must make certain they cause no conflicts of interest or potential negative impact on the confidence that shareholders, customers and the public have in the Company. This means such Senior Officers may not serve as an officer, director, partner or consultant for other organizations if such activity:

- |X| Interferes with the Senior Officer's ability to act in the best interests of the Company;
- |X| Requires the Senior Officer to use proprietary, confidential or non-public information, procedures, plans or techniques of the Company;

Competes with the Company and/or its subsidiaries; or

Creates any appearance of impropriety.

The Company's Board of Directors and management fully support Senior Officers' involvement in and contribution to not-for-profit and charitable activities. Senior Officers must report to the Chief Executive Officer and the Audit Committee any existing or potential director positions they hold or wish to hold on not-for-profit and charitable organization boards. The Audit Committee shall make its determination as to the potential for material conflicts and shall authorize or deny such director participation by a Senior Officer. Should a Senior Officer at the time of adoption of this Code of Ethics serve on the board of directors of a not-for-profit or charitable organization, he or she should immediately seek approval and guidance from the Audit Committee. Should the Audit Committee approve such volunteerism, Senior Officers are required to remain vigilant to ensure no conflicts of interest arise and that the best interests of the Company serve as the guiding influence. Senior Officers are precluded from making decisions concerning contributions to philanthropic organizations on which they serve as a member of the Board or a volunteer. All contributions shall be solely sanctioned by the Audit Committee and/or Board of Directors.

Senior Officers shall seek approval for any "outside" activity before accepting such a position. Officers are required to submit a formal written request and all relevant facts to the Chief Executive Officer and Audit Committee.

#### LOANS

The Company prohibits the loan, in any form, of money to Senior Officers, including a prohibition against the guarantee of a loan. The prohibition of loans shall include, the personal use of Company issued credit cards and split dollar life insurance policies. The absence of mention of a specific form of a loan in the Code of Ethics does not imply its approval.

#### GIFTS, MEALS, SERVICES and ENTERTAINMENT

Senior Officers shall not request or accept anything that might be used as a means of influence, or even appear to influence, such person's actions. Senior Officers may not accept, from any firm that does or may do business with the Company, any gifts, meals, entertainment or services of a value which is not consistent with high integrity and sound business practice.

#### SAFEGUARDING COMPANY ASSETS / ACCURACY OF BOOKS AND RECORDS

The Company's Senior Officers must ensure the maintenance of internal controls to provide guidance and overall protection of Company assets and financial integrity. The controls are based upon the following principles.

#### SENIOR OFFICERS MAY NOT:

Make personal use of company assets which create any additional costs for, interferes with work duties or violates any company policies;

Allow company property to be used to help carry out illegal acts;

Manipulate financial accounts, records or reports for personal gain; and

SENIOR OFFICERS MUST:

- |X| Maintain off-the-book accounts to facilitate questionable or illegal payments.
- |X| Prepare budget proposals with accurate information;
- |X| Maintain books, accounts and records according to generally accepted accounting principles, using enough detail to reflect accurately and fairly Company transactions;
- |X| Record transactions accurately and in a timely manner, so that no misleading financial information is created (These transactions include income, expense, indebtedness, obligation, reserves and acquisition or disposition of assets, etc.);
- |X| Establish internal financial controls that are documented, stored in multiple locations and reviewed for their integrity and application quarterly by Senior Officers before submission of quarterly SEC filings. Should any irregularities, non-compliance with internal controls or abuses be observed, the observing Senior Officer should report such directly to the Chief Executive Officer and Audit Committee;
- |X| Review internal financial controls at least every ninety days to ensure their integrity and report any deficiencies to the Chief Executive Officer and Audit Committee for immediate correction; and
- |X| Ensure a broad knowledge of the Company's operating condition, ensuring full and honest disclosure of all material aspects and reporting such in Management's Discussion and Analysis section of the Company's periodic reports and filings.

BRIBERY, KICKBACKS AND OTHER IMPROPER PAYMENTS

The Company's Senior Officers shall maintain high ethical and professional standards in dealings with government officials and members of the private sector. Senior Officers should adhere to the following guidelines.

- |X| Do not directly or indirectly promise, offer or make payment in money or anything of value to anyone, including a government official, agent or employee of a government, political party, labor organization or business entity or a candidate of a political party, with the intent to induce favorable business treatment or to improperly affect business or government decisions.
- |X| Document any entertainment of and gifts to customers and potential customers in accordance with the Company's Corporate Control Policies. Just as Senior Officers should not accept gifts of value from vendors, government officials, labor organizations and others, Senior Officers should not give any gifts or provide entertainment that is not consistent with high integrity and sound business practices.

- |X| Pay special attention to the treatment of public officials and employees of governmental agencies whose conduct with respect to gifts and meals is controlled by laws and regulations which must be complied with at all times. These laws and regulations are complex and can vary from state to state and country to country.

#### USE AND SELECTION OF AGENTS

Senior Officers shall engage only reputable, qualified individuals or firms as consultants, agents, representatives or distributors under compensation arrangements that are reasonable in relation to the services performed. The engagement should be formalized in a written contract.

The Company requires its Senior Officers, employees and agents alike to conduct business with integrity and ignorance of that standard is never an acceptable excuse for improper behavior, nor is it acceptable for improper behavior to be rationalized as being in the Company's best interest.

#### USE OF COMPUTER RESOURCES

The Company invests in and uses computer resources (computer hardware, software, supporting infrastructure, network connections and telecommunications equipment) to advance its business strategy and objectives. Unless prohibited by local law, the use of this technology, including electronic mail and the Internet, is subject to monitoring by the Company.

- |X| Computer software (computer programs, databases and related documentation) whether purchased from a supplier or developed by the Company is protected by copyright and may also be protected by patent or as a trade secret. Senior Officers are expected to strictly follow the terms and conditions of the license agreements, including provisions not to copy or distribute materials covered by these agreements. These protected materials may not be reproduced for personal use.
- |X| Use of the Internet, Intranet and electronic mail should be in support of and to advance the Company's business success. Any personal use of these technologies should not create additional costs for, interfere with work duties or violate any Company policies, including information management policies related to defamatory, offensive or threatening messages, gambling, pornography, viruses, chain letters, executable "ready to run" files, "hacking," etc.

#### CONFIDENTIAL AND PROPRIETARY INFORMATION

Senior Officers shall be aware that all information, including electronic information that is created or used in support of Company business activities is the property of the Company. Information is a valuable asset and Senior Officers are expected to protect it from unauthorized disclosure. This applies to Company, customer, supplier, business partner and employee data. Laws which protect Company assets and contractual arrangements between the Company and its customers, suppliers or business partners may restrict the use of such confidential and proprietary information and impose both corporate and personal liabilities for impermissible use or disclosure.

- |X| In the course of business the Company has access to information regarding customers and employees which must be treated as confidential to protect individuals' privacy rights.

|X| Senior Officers may use confidential and proprietary information for business purposes only. Each Senior Officer should ensure information within his or her operating organization is appropriately labeled confidential and is handled appropriately. If a Senior Officer is uncertain as to some information's confidentiality, consult with Corporate Counsel.

|X| Senior Officers shall not disclose confidential or proprietary information to individuals (including other employees) who do not have a business need to know the information. They shall not assist anyone in gaining access to confidential information without authorization.

#### BRAND MANAGEMENT AND INTELLECTUAL PROPERTY

The Company's name, logo, inventions, processes and innovations are all valuable assets of the Company and are part of its brand management efforts. These assets are called "intellectual property," and their protection is vital to the success of the Company's business. Senior Officers must respect the intellectual property rights of third parties. Violation of others' intellectual property rights may subject both an employee and the Company to substantial liability, including criminal penalties.

COPYRIGHTS protect works like articles, drawings, photographs, video, music, audiotapes and software and generally prohibit unauthorized copying or downloading of these works.

|X| Do not copy these materials without first determining that the Company has obtained permission from the copyright holder or that other limited copying is legally permitted.

|X| Should questions arise, consult with Corporate Counsel.

|X| Do not copy or distribute software or related documentation without reviewing the license agreement.

TRADEMARKS AND SERVICE MARKS are words, names and symbols which help consumers recognize a product or service and distinguish it from those of competitors. The Company's name and logo are among the Company's most valuable assets. The use of the Company's trademarks or service marks must be properly authorized or licensed.

|X| Do not use a third party's trademark or service mark without permission.

A TRADE SECRET is valuable information that creates a competitive advantage for the Company by being kept secret. Examples include information about customers, and financial, planning, marketing and strategic information about the Company's current and future business plans.

|X| Treat as trade secrets and keep confidential all commercially sensitive and important business information of the Company and all similar information of other companies and persons that the Company has received under a confidentiality agreement.

Intellectual property that a Senior Officer creates during the course of his or her employment belongs to the Company. Senior Officers must share any innovations or inventions they create during the course of their employment with Corporate Counsel and the Chief Executive Officer so that the Company can take steps to protect these valuable assets.

## MEDIA AND PUBLIC INQUIRIES

Senior Officers shall not divulge or "leak" any unauthorized information to the media or others. Unless the Senior Officer's job duties specifically include responding to outside inquiries, all inquiries shall be referred to the Chief Financial Officer. They shall:

- |X| Refer all inquiries from regulatory agencies to the Corporate Counsel and/or the Chief Executive Officer;
- |X| Refer all inquiries from the news or trade media to the Chief Financial Officer; and
- |X| Refer all inquiries about current or former employees to the Manager of Human Resources.

## HEALTH AND SAFETY

The Company highly values the health and safety of its employees and customers. To meet the Company's standards, each Senior Officer shall personally follow and vigilantly promote all employees to:

- |X| Conduct all work in conformance with the Company's health and safety policies and standards.
- |X| Conduct operations in a manner that meets applicable health and safety laws, regulations, permits and other requirements, such as those dealing with employee and public safety and work conditions.
- |X| Follow instructions on health and safety laws, regulations and hazards, and apply training to protect one's self, others and the environment.
- |X| Abide by the requirements of the Company's employee related policies. While on the Company's premises or engaged in Company's business, Senior Officers shall not threaten or injure other persons, or possess or use firearms.
- |X| Follow the requirements of the Company's alcohol and drug-free workplace policy. Senior Officers shall ensure their personal fitness, duties, and work environments are safe. Senior Officers shall not unlawfully use, possess, sell or transfer illegal drugs, narcotics or alcohol either on or off the job.

## EQUAL EMPLOYMENT OPPORTUNITY

The Company seeks diversity in its employees, respects their differences and encourages and recognizes contributions of individuals. Senior Officers shall comply with all local laws concerning discrimination and equal opportunity. The Company does not tolerate discrimination in its workplace or against its employees. Senior Officers shall recruit, select, train and pay based on merit, experience and other work-related criteria.

## HARASSMENT IN THE WORKPLACE

The Company's Senior Officers shall be committed to maintaining a work environment where employees can perform their assigned duties and responsibilities without being harassed, and Senior Officers will take appropriate action if harassment occurs. Harassment (generally meaning any offensive action which singles out an employee to the detriment or objection of that employee because of race, sex, religion, national origin, age, disability, etc.) covers a wide range of conduct, including unwelcome behavior of a sexual nature and racial slurs.

- |X| Senior Officers shall not allow harassment of any kind in the workplace to be tolerated.
- |X| Senior Officers are expected to report all incidents of suspected harassment to the Corporate Counsel and Chief Executive Officer.
- |X| Senior Officers shall ensure all claims of harassment are promptly and thoroughly investigated in as confidential a manner as possible.

## FAIR COMPETITION

Senior Officers shall follow fair competition standards to ensure full, effective and fair competition and, in particular, to protect customers from unfair or anti-competitive behavior. It is the Company's policy not only to adhere strictly to the fair competition standards that are a matter of law, but also to conduct Company affairs with the highest moral, legal and ethical principles consistent with the spirit of these laws.

## REGULATORY COMPLIANCE

Senior Officers shall at all times ensure full compliance with all applicable laws, rules and regulations. Should any questions exist relative to full compliance, the Senior Officer should contact Corporate Counsel for guidance.



## List of Subsidiaries

Subsidiary	State of Incorporation
Assignment America, Inc.	Delaware
Cejka Search, Inc.	Delaware
CC Staffing, Inc.	Delaware
ClinForce, Inc.	Delaware
Cross Country Capital, Inc.	Delaware
Cross Country Consulting, Inc.	Delaware
Cross Country Local, Inc. (f/k/a Flex Staff, Inc.)	Delaware
Cross Country Education, Inc. (f/k/a Cross Country Seminars, Inc.)	Delaware
Cross Country TravCorps, Inc.	Delaware
Cross Country TravCorps, Inc. Ltd. (NZ) (a)	New Zealand
HealthStaffers, Inc.	Delaware
MCVT, Inc.	Delaware
Med-Staff, Inc. (f/k/a Cross Country Nurses, Inc.)	Delaware
NovaPro, Inc.	Delaware
TVCM, Inc.	Delaware

(a) Dissolved in February 2005.

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-74862) pertaining to the Cross Country, Inc. Amended and Restated 1999 Stock Option Plan and the Cross Country, Inc. Amended and Restated Equity Participation Plan of our reports dated March 14, 2005, with respect to the consolidated financial statements and schedule of Cross Country Healthcare, Inc., Cross Country Healthcare, Inc.'s management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Cross Country Healthcare, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/ ERNST & YOUNG LLP  
Certified Public Accountants

West Palm Beach, Florida  
March 14, 2005

**Certification**

I, Joseph A. Boshart, certify that:

1. I have reviewed this annual report on Form 10K 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer(s) 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 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 function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

/s/ JOSEPH A. BOSHAART

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Joseph A. Boshart

President and Chief Executive Officer

**Certification**

I, Emil Hensel, certify that:

1. I have reviewed this annual report on Form 10K 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer(s) 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 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 function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

/s/ EMIL HENSEL

Emil Hensel

Chief Financial Officer

**Certification Pursuant to 18 U.S.C. Section 1350**

In connection with the accompanying Annual Report on Form 10-K of Cross Country Healthcare, Inc. (the "Company") for the year ended December 31, 2004 (the "Periodic Report"), I, Joseph A. Boshart, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 16, 2005

/s/ JOSEPH A. BOSHA RT

Joseph A. Boshart

Chief Executive Officer

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

**Certification Pursuant to 18 U.S.C. Section 1350**

In connection with the accompanying Annual Report on Form 10-K of Cross Country Healthcare, Inc. (the "Company") for the year ended December 31, 2004 (the "Periodic Report"), I, Emil Hensel, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 16, 2005

/s/ EMIL HENSEL

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Emil Hensel

Chief Financial Officer

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