CROSS COUNTRY HEALTHCARE INC
Form 10-Q
November 06, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2007

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	**13-4066229**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification Number)

6551 Park of Commerce Blvd, N.W.

Boca Raton, Florida 33487

(Address of principal executive offices)(Zip Code)

(561) 998-2232

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨

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

The registrant had outstanding 31,913,479 shares of Common Stock, par value $0.0001 per share, as of October 31, 2007.

CROSS COUNTRY HEALTHCARE, INC.

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September 30, 2007

PART I. FINANCIAL INFORMATION

ITEM 1.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Cross Country Healthcare, Inc.

Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands)

	September 30, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$	$
Accounts receivable, net	123,848	114,735
Deferred tax assets	5,360	7,888
Income taxes receivable	2,333	1,602
Other current assets	18,151	18,126
Total current assets	149,692	142,351
Property and equipment, net	24,284	20,562
Trademarks, net	19,253	17,199
Goodwill, net	325,253	310,173
Other identifiable intangible assets, net	16,690	9,310
Other assets	1,474	1,331
Total assets	$ 536,646	$ 500,926
Current liabilities:		
Accounts payable and accrued expenses	$ 11,838	$ 13,744
Accrued employee compensation and benefits	27,701	29,213
Current portion of long-term debt	1,196	1,550
Accrued legal settlement charge		6,704
Other current liabilities	8,895	5,931
Total current liabilities	49,630	57,142
Non-current deferred tax liabilities	45,880	39,972
Long-term debt	42,918	19,979
Other long-term liabilities	10,386	8,977
Total liabilities	148,814	126,070

Commitments and contingencies				
Stockholders' equity:				
Common stock		3		3
Additional paid-in capital		250,272		254,273
Other stockholders' equity		137,557		120,580
Total stockholders' equity		387,832		374,856
Total liabilities and stockholders' equity	$	536,646	$	500,926

See accompanying notes to the condensed consolidated financial statements

Cross Country Healthcare, Inc.

Condensed Consolidated Statements of Income

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
Revenue from services	$	185,124	$	162,876	$	536,556	$	479,407
Operating expenses:								
Direct operating expenses		139,266		125,083		408,606		367,983
Selling, general and administrative expenses		31,486		26,790		90,927		81,779
Bad debt expense						1,265		22
Depreciation		1,370		1,315		4,359		4,020
Amortization		622		418		1,361		1,130
Legal settlement charge				8,827		34		8,827
Total operating expenses		172,744		162,433		506,552		463,761
Income from operations		12,380		443		30,004		15,646
Other expenses:								
Foreign exchange loss		59				59		
Interest expense, net		808		273		1,823		979
Income from continuing operations before income taxes		11,513		170		28,122		14,667
Income tax expense		4,464		50		10,810		5,660
Income from continuing operations		7,049		120		17,312		9,007
Discontinued operations, net of income taxes				2				118
Net income	$	7,049	$	122	$	17,312	$	9,125
Net income per common share - basic:								
Income from continuing operations	$	0.22	$	0.00	$	0.54	$	0.28
Discontinued operations, net of income taxes				0.00				0.00
Net income	$	0.22	$	0.00	$	0.54	$	0.28
Net income per common share - diluted:								
Income from continuing operations	$	0.22	$	0.00	$	0.53	$	0.28
Discontinued operations, net of income taxes				0.00				0.00
Net income	$	0.22	$	0.00	$	0.53	$	0.28
		31,954		32,067		32,041		32,095

Weighted average common shares outstanding-basic				
Weighted average common shares outstanding-diluted	32,433	32,618	32,631	32,721

See accompanying notes to the condensed consolidated financial statements

Cross Country Healthcare, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

	Nine Months Ended September 30,	
	2007	**2006**
Operating activities		
Net income	$ 17,312	$ 9,125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,359	4,020
Amortization	1,361	1,130
Bad debt expense	1,265	22
Legal settlement charge		8,827
Deferred income tax expense	8,339	8,234
Other noncash charges	271	356
Income from discontinued operations		(118)
Changes in operating assets and liabilities:		
Accounts receivable	(7,200)	4,118
Income taxes receivable and other assets	357	828
Accounts payable and accrued expenses	(4,578)	(7,700)
Accrued legal settlement charge	(6,704)	
Other liabilities	2,544	714
Net cash provided by continuing operations	17,326	29,556
Income from discontinued operations, net		118
Other noncash items		(196)
Change in net assets from discontinued operations		233
Net cash provided by discontinued operations		155
Net cash provided by operating activities	17,326	29,711
Investing activities		
Acquisitions, net of cash acquired	(28,579)	(16,132)
Purchases of property and equipment	(6,658)	(6,424)
Net cash used in investing activities	(35,237)	(22,556)
Financing activities		
Repayment of debt	(123,473)	(26,586)
Proceeds from issuance of debt	145,457	21,750
Exercise of stock options	1,652	337
Stock repurchase and retirement	(6,008)	(2,680)

Tax benefit of stock option exercises		294		24
Other financing activities		(11)		
Net cash provided by (used in) financing activities		17,911		(7,155)
Change in cash and cash equivalents				
Cash and cash equivalents at beginning of period				
Cash and cash equivalents at end of period	$		$	
Supplemental disclosures of noncash financing activities:				
Equipment purchased through financing agreements	$	602	$	113

See accompanying notes to the condensed consolidated financial statements

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CROSS COUNTRY HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1.

ORGANIZATION AND BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of Cross Country Healthcare, Inc. and its wholly-owned direct and indirect subsidiaries (collectively, the Company). All material intercompany transactions and balances have been eliminated in consolidation. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These operating results are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2006, included in the Company s Form 10-K as filed with the Securities and Exchange Commission. The December 31, 2006, unaudited condensed consolidated balance sheet included herein was derived from the December 31, 2006, audited consolidated balance sheet included in the Company s Form 10-K.

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

2.

COMPREHENSIVE INCOME

The Company s foreign operations use their respective local currency as their functional currency. In accordance with Financial Accounting Standard Board (FASB) Statement No. 52, *Foreign Currency Translation,* assets and liabilities of these operations are translated at the exchange rates in effect on the balance sheet date. Income statement items are translated at the average exchange rates for the period. The impact of currency fluctuation is included in other stockholders equity on the condensed consolidated balance sheet and was $0.4 million at September 30, 2007.

Total comprehensive income was $7.3 million and $17.7 million for the three and nine month periods ended September 30, 2007, respectively. Total comprehensive income includes net income and foreign currency translation adjustments. During the three and nine month periods ending September 30, 2006, there were no other components of comprehensive income other than net income.

3.

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 including the vested portion of restricted shares. The denominator used to calculate diluted earnings per share reflects the dilutive effects of stock options and nonvested 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 per share calculations because their effect would have been anti-dilutive.

4.

ACQUISITIONS

Assent Consulting

On July 18, 2007, the Company completed the acquisition of all of the shares of privately-held Assent Consulting (Assent) for $19.6 million in cash paid at closing, including $1.0 million which was held in escrow to cover any post-closing liabilities. The purchase price is subject to a working capital adjustment that is expected to be settled in the fourth quarter of 2007. This transaction also includes an earnout provision up to a maximum of $4.9 million based on 2007 and 2008 performance criteria. This contingent consideration is not related to the sellers employment. If an earnout payment is made, it will be allocated to goodwill as additional purchase price, in accordance with FASB Statement No. 141, *Business Combinations.* The Company financed this acquisition using its revolving credit facility.

Headquartered in Cupertino, California, Assent Consulting provides staffing services primarily consisting of highly qualified clinical research, biostatistics and drug safety professionals to companies in the pharmaceutical and biotechnology industries. This acquisition provides a greater geographical presence on the West Coast of the U.S. and broadens the Company s client base for its clinical trials services business.

The acquisition has been accounted for using the purchase method and is included in the clinical trials services business segment. The results of Assent s operations have been included in the condensed consolidated statements of income since the date of acquisition, in accordance with FASB Statement No. 141.

The purchase price was allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition, utilizing unaudited financial statements and a preliminary independent third-party appraisal. These estimates may be revised subsequent to the date of acquisition based on the final independent third-party appraisal. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of acquisition:

(Amounts in thousands)		
Current assets:		
Cash	$	644
Accounts receivable, net		1,939
Other current assets		29
Total current assets		2,612
Property and equipment, net		63
Goodwill, net		11,569
Trademarks, net		340
Other identifiable intangible assets, net		6,040
Total assets acquired		20,624
Current liabilities:		
Accounts payable and accrued expenses		755
Accrued employee compensation and benefits		297
Total liabilities assumed		1,052
Net assets acquired	$	19,572

Based on the preliminary independent third-party appraisal, the Company assigned the following values to intangible assets: $5.2 million for customer relations with a useful life of 10 years, $0.5 million to database with a useful life of 6 years, $0.4 million to a noncompete agreement with a useful life of 5 years, and $0.3 million to trademarks with a useful life of 1.5 years. The excess of purchase price over the fair value of net tangible and intangible assets acquired was recorded as goodwill, which is expected to be deductible for tax purposes.

AKOS Limited

On June 6, 2007, the Company acquired all of the shares of privately-held AKOS Limited (AKOS), based in the United Kingdom, for a total purchase price of up to £7.2 million, consisting of an up-front payment of £4.0 million and potential earnout payments up to a maximum of £3.2 million in 2007 and 2008. The share purchase agreement also specified an estimated additional payment of £0.5 million, paid at closing, consisting of cash purchased, along with a post-closing net working capital adjustment. An additional amount of £0.2 million was paid in the third quarter of 2007, based on changes in net working capital, as defined by the share purchase agreement, and has been allocated to goodwill as additional purchase price.

The consideration for this acquisition equated to $8.9 million in cash paid at closing, which included $1.0 million for the additional payment and $0.8 million which was held in escrow to cover any post-closing liabilities. The Company financed this transaction using its revolving credit facility.

The potential earnout payments are based on 2007 and 2008 performance, as defined by the share purchase agreement and would be recorded in U.S. dollars using the exchange rate at the time of payment. This contingent consideration is not related to the sellers employment. If an earnout payment is made, it will be allocated to goodwill as additional purchase price, in accordance with FASB Statement No. 141.

AKOS, conducting business since 1986, is a provider of drug safety/pharmacovigilance, regulatory and clinical trial services to pharmaceutical and biotechnology companies in Europe, the United States, Canada and Asia. AKOS is based approximately 30 miles north of London, England, and strategically located inside what is considered to be the United Kingdom s research triangle that extends outward from London to Cambridge and Oxford Universities. The Company believes, with the addition of AKOS, it will provide a more global and comprehensive range of contract staffing and outsourcing services to pharmaceutical and biotech customers.

The acquisition has been accounted for using the purchase method and is included in the clinical trials services segment. The results of AKOS operations have been included in the condensed consolidated statements of income since the date of acquisition, in accordance with FASB Statement No. 141.

The purchase price was allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition, utilizing unaudited financial statements and an independent third-party appraisal. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of acquisition:

(Amounts in thousands)		
Current assets:		
Cash	$	1,257
Accounts receivable, net		1,078
Other current assets		106
Total current assets		2,441
Property and equipment, net		165
Trademarks, net		1,707
Goodwill, net		2,636
Other identifiable intangible assets, net		2,574
Total assets acquired		9,523
Current liabilities:		
Accounts payable and accrued expenses		175
Income taxes payable		51
Other current liabilities		405
Deferred taxes		25
Total liabilities assumed		656
Net assets acquired	$	8,867

Based on an independent third-party appraisal, the Company assigned $1.7 million to trademarks with an indefinite life and not subject to amortization. In addition, the Company assigned $2.6 million to other identifiable intangible assets subject to amortization, as follows: $2.2 million was assigned to customer relations with a useful life of 8.6 years, and $0.4 million was assigned to other intangibles with an estimated useful life of 6 years. The excess of purchase price over the fair value of net tangible and intangible assets acquired was recorded as goodwill, which is expected to be deductible for tax purposes.

Metropolitan Research

On August 31, 2006, the Company acquired substantially all of the assets of privately-held Metropolitan Research Associates, LLC and Metropolitan Research Staffing Associates, LLC (collectively Metropolitan Research) for a purchase price of approximately $18.6 million. The consideration for this acquisition was approximately $16.1 million in cash paid at closing, of which $1.0 million is being held in escrow to cover any post-closing liabilities. The remaining approximate $2.5 million of the purchase price was paid during the fourth quarter of 2006 as the associated milestones defined by the asset purchase agreement were reached. These payments were allocated to goodwill as additional purchase price. The Company financed this transaction using its revolving credit facility. During the nine months ended September 30, 2007, a post-closing adjustment of approximately $0.5 million, which included a net working capital adjustment, was paid and allocated to goodwill.

The asset purchase agreement also provides for a potential earnout payment of up to a maximum of $6.4 million based on 2006 and 2007 performance, as defined by the asset purchase agreement. This contingent consideration is not related to the sellers employment. If an earnout payment is made, it will be allocated to goodwill as additional purchase price, in accordance with FASB Statement No. 141.

Metropolitan Research is headquartered in New York City and provides drug safety monitoring, contract research, and clinical trials staffing and services to the pharmaceutical, biotech and medical device industries. The Company believes that the addition of Metropolitan Research enhances the breadth of the service offerings in its clinical trials services business.

The acquisition has been accounted for using the purchase method and is included in the clinical trials services business segment. The results of Metropolitan Research s operations have been included in the condensed consolidated statements of income since the date of acquisition, in accordance with FASB Statement No. 141.

The purchase price was originally allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition, utilizing Metropolitan Research s audited financial statements and an independent third-party appraisal. These estimates were revised subsequent to the date of acquisition based on the final audited financial statements and the final independent third-party appraisal. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of acquisition:

(Amounts in thousands)	
Current assets:	
Accounts receivable, net	$ 3,730
Other current assets	200
Total current assets	3,930
Property and equipment	350
Trademarks	1,700
Goodwill	4,890
Other identifiable intangible assets	5,490
Total assets acquired	16,360
Current liabilities:	
Accounts payable and accrued expenses	260
Total liabilities assumed	260
Net assets acquired	$ 16,100

Based on the final independent third-party appraisal, total other identifiable intangible assets were $5.5 million, of which $4.1 million was assigned to customer relations with a weighted-average useful life of 23 years, $1.0 million to database with a useful life of 4.5 years and $0.4 million to non-compete agreements with a useful life of 5 years. The excess of purchase price over the fair value of net tangible and intangible assets acquired was recorded as goodwill, which is expected to be deductible for tax purposes.

5.

DEBT

The Company s senior secured revolving credit facility entered into on November 10, 2005 (the 2005 Credit Agreement), consists of a 5-year, $75.0 million revolving credit facility, with a $10.0 million sublimit for the issuance of Swingline Loans (as defined by the 2005 Credit Agreement) and a $35.0 million sublimit for the issuance of standby letters of credit. Swingline Loans and letters of credit issued under this facility reduce the revolving credit facility on a dollar for dollar basis. The credit facility is being used for general corporate purposes including working capital, capital expenditures and permitted acquisitions and investments, as well as to pay fees and expenses related to the credit facility. As of September 30, 2007, the Company had $42.7 million of borrowings and $3.1 million of standby letters of credit outstanding under this facility, leaving $29.2 million available for borrowings under the current facility. The Company may, at its option, request an increase to the amount of principal borrowings of up to $50.0 million via an incremental increase in the revolving credit facility and/or through one or more term loan facilities.

The provisions of the revolving credit agreement generally allow the Company to borrow, repay and re-borrow debt for an uninterrupted period until the maturity date of the credit facility which, as of September 30, 2007, extends beyond one year from the balance sheet date. Borrowings under the facility are generally not callable unless an event of default exists, and there are no subjective acceleration clauses. Accordingly, as per the provisions of FASB Statement No. 6, *Classification of Short-term Obligations Expected to Be Refinanced,* $42.0 million of borrowings under this facility is classified as long-term as of September 30, 2007. Short-term borrowings under this facility consist of borrowings that the Company intends to or has repaid as of the date of the issuance of these condensed consolidated financial statements.

In the second quarter of 2007, the revolving credit agreement was amended in conjunction with the Company s acquisition of AKOS to increase the aggregate amount of Permitted Acquisitions, as defined by the 2005 Credit Agreement, during the term of the agreement from $75.0 million to $125.0 million.

Long-term debt includes capital lease obligations that are subordinate to the Company s senior secured facility. At September 30, 2007 and December 31, 2006, the Company had $1.4 million and $1.3 million, respectively, in capital lease obligations recorded as debt on the condensed consolidated balance sheets.

6.

STOCKHOLDERS EQUITY

During the three and nine months ended September 30, 2007 and 2006, there was no significant share-based compensation activity. However, the Company s 2007 Stock Incentive Plan (Plan) was approved by its stockholders at its 2007 Annual Meeting of Stockholders, held in May. The Plan provides for the issuance of Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Shares, and Other Stock-Based Awards as defined by the Plan. The aggregate number of shares of Common Stock which may be issued or used for reference purposes under the Plan or with respect to which awards may be granted may not exceed 1,500,000 shares, which may be either authorized and unissued Common Stock or Common Stock held in or acquired for the treasury of the Company; provided, however, that 1,200,000 shares of this aggregate limit may be used for awards that are not appreciation awards (including restricted stock, performance shares or certain other stock-based awards). The Company s 1999 Stock Option Plan was merged into the new Plan. The Company s 1999 Equity Participation Plan was terminated.

In October 2007, a total of 5,850 Stock Options, 169,500 Stock Appreciation Rights and 84,600 shares of Restricted Stock were granted under the 2007 Plan to the Company s management team. The Stock Appreciation Rights can only be settled with stock. The value of the awards granted totaled approximately $3.0 million which is expected to be expensed ratably over a period of 4 years

On May 10, 2006, th