

CROSS COUNTRY HEALTHCARE INC
Form 10-Q
November 05, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2010

Or

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

For the Transition Period From _____ to _____

CROSS COUNTRY HEALTHCARE, INC.

(Exact name of registrant as specified in its charter)

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

0-33169
Commission

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

file number
6551 Park of Commerce Blvd, N.W.

Boca Raton, Florida 33487

Edgar Filing: CROSS COUNTRY HEALTHCARE INC - Form 10-Q

(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 No

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

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

Large accelerated filer Accelerated filer

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

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

The registrant had outstanding 31,102,682 shares of Common Stock, par value \$0.0001 per share, as of October 29, 2010.

INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-Q contains statements relating to our future results (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the safe harbor created by those sections. Words such as expects, anticipates, intends, plans, believes, estimates, suggests, seeks, will and variations of such words and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following: our ability to attract and retain qualified nurses, physicians and other healthcare personnel, costs and availability of short-term housing for our travel healthcare professionals, demand for the healthcare services we provide, both nationally and in the regions in which we operate, the functioning of our information systems, the effect of existing or future government regulation and federal and state legislative and enforcement initiatives on our business, our clients' ability to pay us for our services, our ability to successfully implement our acquisition and development strategies, the effect of liabilities and other claims asserted against us, the effect of competition in the markets we serve, our ability to successfully defend the Company, its subsidiaries, and its officers and directors on the merits of any lawsuit or determine its potential liability, if any, and other factors set forth in Item 1.A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as filed and updated in our Quarterly Reports on Form 10-Q and other filings with the Securities and Exchange Commission.

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

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

CROSS COUNTRY HEALTHCARE, INC.

INDEX

FORM 10-Q

September 30, 2010

| | PAGE |
|--------------------------------------------------------------------------------------------------|-----------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| | <u>1</u> |
| <u>Item 1.</u> | |
| <u>Condensed Consolidated Financial Statements</u> | <u>1</u> |
| <u>Condensed Consolidated Balance Sheets</u> | <u>1</u> |
| <u>Condensed Consolidated Statements of Income</u> | <u>2</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>3</u> |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | <u>4</u> |
| <u>Item 2.</u> | |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>13</u> |
| <u>Item 3.</u> | |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>25</u> |
| <u>Item 4.</u> | |

Controls and Procedures

25

PART II. OTHER INFORMATION

26

Item 1.

Legal Proceedings

26

Item 1A.

Risk Factors

26

Item 6.

Exhibits

26

Signatures

27

PART I. FINANCIAL INFORMATION**Item 1.****Condensed Consolidated Financial Statements****Cross Country Healthcare, Inc.****Condensed Consolidated Balance Sheets****(Unaudited, amounts in thousands)**

| | September 30, | December 31, |
|--------------------------------------------------------------------------------------------------|----------------------|---------------------|
| | 2010 | 2009 |
| Current assets: | | |
| Cash and short-term cash investments | \$ 8,839 | \$ 8,569 |
| Accounts receivable, less allowance for doubtful accounts of \$3,729 in 2010 and \$4,545 in 2009 | 66,543 | 70,172 |
| Deferred tax assets | 12,601 | 11,794 |
| Income taxes receivable | | 7,405 |
| Other current assets | 11,291 | 8,268 |
| Total current assets | 99,274 | 106,208 |
| Property and equipment, net of accumulated depreciation of \$47,683 in 2010 and \$41,760 in 2009 | 15,289 | 19,706 |
| Trademarks, net | 62,847 | 62,858 |
| Goodwill, net | 143,480 | 130,701 |
| Other identifiable intangible assets, net | 25,670 | 28,572 |
| Debt issuance costs, net | 2,342 | 1,536 |
| Non-current deferred tax assets | 5,010 | 5,390 |
| Other long-term assets | 2,961 | 1,618 |
| Total assets | \$ 356,873 | \$ 356,589 |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 7,349 | \$ 8,143 |
| Accrued employee compensation and benefits | 18,209 | 16,140 |
| Current portion of long-term debt | 6,395 | 5,733 |
| Income taxes payable | 332 | |
| Interest rate swaps-current | 60 | 1,427 |
| Other current liabilities | 3,934 | 3,113 |
| Total current liabilities | 36,279 | 34,556 |
| Long-term debt | 48,710 | 56,781 |
| Other long-term liabilities | 20,293 | 19,181 |
| Total liabilities | 105,282 | 110,518 |
| Commitments and contingencies | | |

Edgar Filing: CROSS COUNTRY HEALTHCARE INC - Form 10-Q

| | | |
|--------------------------------------------|------------|------------|
| Stockholders' equity: | | |
| Common stock | 3 | 3 |
| Additional paid-in capital | 242,412 | 240,870 |
| Accumulated other comprehensive loss | (2,230) | (2,979) |
| Retained earnings | 11,406 | 8,177 |
| Total stockholders' equity | 251,591 | 246,071 |
| Total liabilities and stockholders' equity | \$ 356,873 | \$ 356,589 |

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 | | Nine Months Ended | |
|------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2010 | September 30, 2009 | September 30, 2010 | September 30, 2009 |
| Revenue from services | \$ 115,687 | \$ 129,635 | \$ 354,885 | \$ 454,098 |
| Operating expenses: | | | | |
| Direct operating expenses | 83,258 | 94,955 | 255,171 | 335,987 |
| Selling, general and administrative expenses | 26,630 | 28,184 | 81,837 | 93,228 |
| Bad debt expense | 115 | (303) | 115 | (227) |
| Depreciation | 1,782 | 2,034 | 6,156 | 6,645 |
| Amortization | 963 | 1,005 | 2,887 | 3,046 |
| Total operating expenses | 112,748 | 125,875 | 346,166 | 438,679 |
| Income from operations | 2,939 | 3,760 | 8,719 | 15,419 |
| Other expenses (income): | | | | |
| Foreign exchange loss | 57 | 18 | 72 | 31 |
| Interest expense, net | 1,134 | 1,664 | 3,317 | 4,878 |
| Other income | | (193) | | (193) |
| Income before income taxes | 1,748 | 2,271 | 5,330 | 10,703 |
| Income tax expense | 832 | 1,303 | 2,101 | 4,407 |
| Net income | \$ 916 | \$ 968 | \$ 3,229 | \$ 6,296 |
| Net income per common share: | | | | |
| Basic | \$ 0.03 | \$ 0.03 | \$ 0.10 | \$ 0.20 |
| Diluted | \$ 0.03 | \$ 0.03 | \$ 0.10 | \$ 0.20 |
| Weighted average common shares outstanding: | | | | |
| Basic | 31,088 | 30,814 | 31,046 | 30,793 |
| Diluted | 31,112 | 31,002 | 31,162 | 30,963 |

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, | |
| | 2010 | 2009 |
| Operating activities | | |
| Net income | \$ 3,229 | \$ 6,296 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 6,156 | 6,645 |
| Amortization | 2,887 | 3,046 |
| Bad debt expense | 115 | (227) |
| Deferred income tax benefit | (964) | (980) |
| Share-based compensation | 1,942 | 1,363 |
| Other noncash charges | 456 | 1,325 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,514 | 47,813 |
| Other current assets | (2,113) | 7,560 |
| Income taxes | 8,166 | 4,531 |
| Accounts payable and accrued expenses | 783 | (7,663) |
| Other liabilities | 614 | 215 |
| Net cash provided by operating activities | 24,785 | 69,924 |
| Investing activities | | |
| Acquisition of MDA Holdings, Inc. | (12,826) | (6,804) |
| Other acquisition related payments | | (748) |
| Purchases of property and equipment | (1,254) | (2,101) |
| Other investing activities | (901) | |
| Net cash used in investing activities | (14,981) | (9,653) |
| Financing activities | | |
| Repayment of debt | (11,893) | (79,209) |
| Borrowings under our revolving credit facility | 4,000 | 15,425 |
| Release of restricted cash | | 5,000 |
| Debt issuance costs | (1,480) | |
| Repurchase of stock for restricted stock tax withholdings | (200) | (48) |
| Exercise of stock options | | 208 |
| Tax benefit of stock option exercises | | 14 |
| Net cash used in financing activities | (9,573) | (58,610) |

Edgar Filing: CROSS COUNTRY HEALTHCARE INC - Form 10-Q

| | | |
|-------------------------------------------------------------|----------|-----------|
| Effect of exchange rate changes on cash | 40 | 169 |
| Change in cash and short-term cash investments | 271 | 1,830 |
| Cash and short-term cash investments at beginning of period | 8,569 | 10,173 |
| Cash and short-term cash investments at end of period | \$ 8,840 | \$ 12,003 |

See accompanying notes to the condensed consolidated financial statements

CROSS COUNTRY HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1.

ORGANIZATION AND BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Cross Country Healthcare, Inc. and its direct and indirect wholly-owned subsidiaries (collectively, the Company). 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. The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. 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, 2010.

Unless otherwise disclosed in the notes to the condensed consolidated financial statements, the estimated fair value of financial assets and liabilities approximates carrying value. As of September 30, 2010 and December 31, 2009, cash and short-term cash investments include approximately \$1.8 million and \$1.7 million, respectively, of foreign investments in highly liquid time deposits with original maturities of six months or less. As of September 30, 2010, other current assets include approximately \$0.9 million of foreign investments in highly liquid time deposits with original maturities greater than six months. The carrying value of these investments on the consolidated condensed balance sheet approximates their fair value. Subsequent events have been evaluated through the filing date of these unaudited condensed consolidated financial statements.

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, 2009 included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The December 31, 2009 condensed consolidated balance sheet included herein was derived from the December 31, 2009 audited consolidated balance sheet included in the Company's Annual Report on Form 10-K.

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

2.

COMPREHENSIVE INCOME

Total comprehensive income includes net income, foreign currency translation adjustments, net changes in the fair value of hedging transactions, and net changes in the fair value of marketable securities available for sale, net of any related deferred taxes.

The table that follows describes the components of comprehensive income in the three- and nine-month periods ending September 30, 2010 and 2009:

Cross Country Healthcare, Inc.

Consolidated Statements of Other Comprehensive Income

(Amounts in thousands)

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------------------------------------|-------------------------------|-------------|-------------------------------|-------------|
| | September 30, 2010 | 2009 | September 30, 2010 | 2009 |
| Net income | \$ 916 | \$ 968 | \$ 3,229 | \$ 6,296 |
| Other comprehensive income (loss), before tax | | | | |
| Foreign currency translation adjustments | 639 | (386) | 71 | 968 |
| Net change in fair value of hedging transactions | 387 | 335 | 1,149 | 764 |
| Net change in fair value of marketable securities | (46) | (192) | (32) | 171 |
| Other comprehensive income (loss), before tax | 980 | (243) | 1,188 | 1,903 |
| Income tax expense related to items of other comprehensive income | 134 | 42 | 439 | 342 |
| Other comprehensive income (loss), net of tax | 846 | (285) | 749 | 1,561 |
| Comprehensive income | \$ 1,762 | \$ 683 | \$ 3,978 | \$ 7,857 |

Certain of the Company's foreign operations use their respective local currency as their functional currency. In accordance with the *Foreign Currency Matters* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), assets and liabilities of these operations are translated at the exchange rates in effect on the balance sheet date. Income statement items are translated at the average exchange rates for the period. The cumulative impact of currency translation is included in accumulated other comprehensive loss (OCL) in the accompanying condensed consolidated balance sheets and was \$2.2 million and \$2.3 million at September 30, 2010 and December 31, 2009, respectively.

The net change in fair value of hedging transactions (including effective hedging reclassified to interest expense at cash settlement), related to the Company's interest rate swap agreements, is included in accumulated OCL in the accompanying condensed consolidated balance sheets and was less than \$0.1 million at September 30, 2010. See Note 7- Interest Rate Swap Agreements. The amount included in accumulated OCL at December 31, 2009 was \$0.7 million, net of deferred taxes.

3.

EARNINGS PER SHARE

In accordance with the requirements of the *Earnings Per Share* Topic of the FASB ASC, basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding including the vested portion of restricted shares. The denominator used to calculate diluted earnings per share reflects the dilutive effects of stock options, stock appreciation rights 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

MDA Holdings, Inc.

In September 2008, the Company consummated the acquisition of substantially all of the assets of privately-held MDA Holdings, Inc. and its subsidiaries and all of the outstanding stock of Jamestown Indemnity Ltd. (the Captive), a Cayman Island company and wholly-owned subsidiary (collectively, MDA). This transaction included an earnout provision based on 2008 and 2009 performance criteria. This contingent consideration was not related to the sellers continued employment. In April 2009, the Company paid \$6.7 million, related to the 2008 performance. In April 2010, the Company paid \$12.8 million, related to the 2009 performance, satisfying all earnout amounts potentially due to the seller in accordance with the asset purchase agreement. Earnout payments were allocated to goodwill as additional purchase price, in accordance with the *Business Combinations* Topic of the FASB ASC. In May 2010, \$1.7 million was released to the seller from the indemnification escrow account leaving a balance of \$5.4 million.

Assent Consulting

In July 2007, the Company completed the acquisition of all of the shares of privately-held Assent Consulting (Assent). This transaction included an earnout provision based on 2007 and 2008 performance criteria. This contingent consideration was not related to the sellers' employment. In April 2008, the Company paid \$4.6 million related to 2007 performance satisfying all earnout amounts potentially due to the seller in accordance with the asset purchase agreement. Approximately \$2.0 million of the payment was being held in escrow, subject to forfeiture to the Company, to the extent a 2008 performance milestone was not achieved. Based on 2008 performance, the full amount was released to the sellers in the first quarter of 2009. The entire payment was allocated to goodwill as additional

purchase price, in accordance with the *Business Combinations* Topic of the FASB ASC. In addition, in the first quarter of 2009, the escrow for post-closing liabilities of \$1.0 million was released to the sellers.

AKOS Limited

In June 2007, the Company acquired all of the shares of privately-held AKOS Limited (AKOS), based in the United Kingdom. This transaction included an earnout provision based on 2007 and 2008 performance, as defined by the share purchase agreement. In the first quarter of 2008, the Company paid £1.1 million (approximately \$2.1 million) related to the 2007 performance. In the second quarter of 2009, the Company paid the sellers approximately £0.5 million (approximately \$0.7 million) related to the 2008 performance. The payments have been allocated to goodwill as additional purchase price, in accordance with the *Business Combinations* Topic of the FASB ASC.

5.

RESERVES FOR CLAIMS

Workers compensation benefits are provided under a partially self-insured plan. For workers compensation claims reported prior to September 1, 2009, the insurance carrier required the Company to fund a reserve for payment of claims. Those funds were maintained by the insurance carrier. Effective September 1, 2009, the Company completely moved from a pre-funded program to a letter of credit structure to guarantee payments of claims. At September 30, 2010 and December 31, 2009, the Company had outstanding \$7.2 million and \$7.1 million, respectively, in standby letters of credit related to this new structure.

6.

DEBT

At September 30, 2010 and December 31, 2009, long-term debt consisted of the following:

| | September 30, 2010 | December 31, 2009 |
|--------------------------------------------------------------------------------|-------------------------------|------------------------------|
| | (Amounts in thousands) | |
| Term loan, interest 2.30% at September 30, 2010 and 1.99% at December 31, 2009 | \$ 54,599 | \$ 62,109 |
| Capital lease obligations | 506 | 405 |
| Total debt | 55,105 | 62,514 |
| Less current portion | (6,395) | (5,733) |
| Long-term debt | \$ 48,710 | \$ 56,781 |

The Company's senior secured revolving credit facility entered into on November 10, 2005 was amended and restated as of September 9, 2008 (Credit Agreement) in connection with the acquisition of MDA. The Credit Agreement kept in place an existing \$75.0 million revolving credit facility, maturing in November 2010, and provided for a 5-year \$125.0 million term loan facility with Wachovia Capital Markets, LLC and certain of its affiliates, Banc of America Securities LLC and certain other lenders.

On May 28, 2010, the Company entered into a first amendment to its Credit Agreement with the lenders party thereto and Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association) as Administrative Agent. The Credit Agreement amendment, among other things, extends the maturity date of the revolving credit facility from November 2010 to September 2013 to be coterminous with the term loan facility, and reduces the existing revolving credit facility to \$50.0 million, and the sublimit for letters of credit to \$20.0 million from \$35.0 million. The Company paid \$1.5 million of financing fees related to this amendment, that have been capitalized as debt issuance costs on the condensed consolidated balance sheet as of September 30, 2010. Debt issuance costs related to this amendment are being amortized on a straight-line basis over the remaining term of the Credit Agreement. In addition, the Company wrote off an immaterial amount of debt issuance costs related to the reduction of the size of the revolving credit facility.

As of September 30, 2010, the Company did not have any borrowings outstanding under its revolving credit facility, but had \$12.7 million of standby letters of credit outstanding under this facility, leaving \$37.3 million available for borrowing.

In addition to the above mentioned changes, the terms of the Credit Agreement were adjusted to reflect customary covenants for similarly leveraged deals. As of September 30, 2010, interest on its revolving credit facility was based

on LIBOR plus a margin of 3.50% or Base Rate (as defined by the Credit Agreement) plus a margin of 2.50%. The Company is required to pay a quarterly commitment fee on the average daily unused portion of the revolving loan facility, which, as of September 30, 2010 was 0.625%. The interest rate spreads on its term loans remained unchanged, and as of September 30, 2010 were based on LIBOR plus a margin of 2.00% or Base Rate plus a margin of 1.00%.

The table below summarizes what the Company believes are the key financial covenants, as defined by the Credit Agreement, as amended, and its corresponding actual performance as of September 30, 2010.

| | Requirement | Actual |
|-------------------------------------------|--------------------|---------------|
| Maximum Permitted Leverage Ratio (a) | 2.50 to 1.00 | 2.02 to 1.00 |
| Minimum Fixed Charge Coverage Ratio (b) | 1.75 to 1.00 | 6.9 to 1.00 |
| Maximum Capital Expenditures for 2010 (c) | \$16.5 million | \$1.3 million |

(a)

The Company's Leverage Ratio must not be greater than 2.50 to 1.00 for the duration of the Credit Agreement ending September 2013.

(b)

The Company's Fixed Charge Coverage Ratio (as defined by the Credit Agreement) must not be less than: 1) 1.75 to 1.00 through December 31, 2010; 2) 1.50 to 1.00 for the fiscal year 2011; 3) 1.25 to 1.00 for the fiscal year 2012 and 4) 1.15 to 1.00 thereafter.

(c)

The Capital Expenditures limit as defined by the Credit Agreement may be increased in any fiscal year by the amount of Capital Expenditures that were permitted but not made in the immediately preceding fiscal year. The aggregate Capital Expenditures limit for the fiscal years following as defined by the Credit Agreement are: 1) \$4.0 million in the fiscal year 2010; 2) \$5.0 million in the fiscal year 2011; and 3) \$7.0 million in the fiscal year 2012. The 2010 limit in the preceding table reflects an increase of \$12.5 million representing the 2009 fiscal year excess that was permitted but not made.

Effective with the May 2010 amendment, the limitation on the Company's ability to repurchase its common stock and declare and pay cash dividends on its common stock was adjusted. The Credit Agreement, as amended, provides for an amount allowed for stock repurchases/dividends subsequent to May 28, 2010, that is the lesser of \$25.0 million and 50% of cumulative Consolidated Net Income (as defined by the Credit Agreement) for each fiscal quarter after March 31, 2010 where financial statements have been delivered; provided, that the Company's Debt/EBITDA ratio (as defined by the Credit Agreement), after giving effect to the transaction, is less than 1.00 to 1.00 and there is \$40.0 million in cash or available cash under its revolving loan facility. However, if the Company's Debt/EBITDA ratio, after giving effect to the transaction is less than 2.00 to 1.00 but equal to or greater than 1.00 to 1.00, and there are no amounts outstanding under the revolving credit facility (other than letters of credit), the allowable amount for repurchases/dividends is \$2.5 million. The Company's requirement to obtain lender consent for acquisitions was also adjusted. Effective with the May 2010 amendment, the Company is required to obtain the consent of its lenders to complete any acquisition which exceeds \$20.0 million or would cause the Company to exceed \$50.0 million in aggregate cash and non-cash consideration for Permitted Acquisitions (as defined by the Credit Agreement) during the term of the Credit Agreement (excluding the MDA acquisition).

Long-term debt includes capital lease obligations that are subordinate to the Company's senior secured facility.

Aggregate scheduled maturities of long-term debt as of September 30, 2010, are as follows:

| Through Year Ending December 31 (Amounts in thousands): | | |
|----------------------------------------------------------------|----|--------|
| 2010 | \$ | 1,592 |
| 2011 | | 7,957 |
| 2012 | | 18,473 |
| 2013 | | 27,063 |
| 2014 | | 20 |
| Thereafter | \$ | 55,105 |

7.

INTEREST RATE SWAP AGREEMENTS

The Company has used derivative instruments to manage fluctuations in cash flows resulting from interest rate risk on variable-rate debt financing. The objective of the hedges was to reduce the exposure to fluctuations in floating interest rates tied to LIBOR borrowings as required by the Company's credit agreement and not for trading purposes. The interest rate swap agreements involved the receipt of variable rate amounts in exchange for fixed rate interest payments over the life of the agreement without an exchange of the underlying principal amount.

Pursuant to the provisions of the Credit Agreement and not for trading purposes, in October 2008, the Company entered into two interest rate swap agreements, both with effective dates of October 9, 2008 and termination dates of October 9, 2010. The Company was required to execute Interest Rate Contract(s) (as defined in the Credit Agreement) to hedge its variable interest rate exposure in an aggregate amount of at least 40% of its \$125.0 million term loan facility, or \$50.0 million, for at least 2 years. No initial investments were made to enter into these agreements. The interest rate swap agreements required the Company to pay a fixed rate to the respective counterparty (fixed rate of 3.1625% per annum on a notional amount of \$50.0 million and a fixed rate of 2.75% on \$20.0 million), and to receive from the respective counterparty, interest payments, based on the applicable notional amounts and 1 month LIBOR, with no exchanges of notional amounts. The interest rate swaps effectively fixed the interest on \$70.0 million of the Company's term debt for a period of 2 years at 3.04%, plus the applicable LIBOR spread.

The Company formally documented the hedging relationships and has accounted for these derivatives as cash flow hedges eligible for hedge accounting. Gains or losses resulting from changes in the fair value of these agreements have been recorded in accumulated OCL, net of tax, until the hedged item is recognized in earnings. The Company formally assessed, both at the hedge's inception and on an ongoing basis, whether the derivatives that were used in the hedging transactions were highly effective in offsetting changes in fair values or cash flows of the hedged items. Any ineffectiveness has been recorded directly to interest expense.

In the third quarter of 2009, the Company generated excess cash flow, which, along with cash on hand, allowed it to prepay an additional \$22.5 million of term loan borrowings causing its \$20.0 million notional amount interest rate swap to become ineffective. Subsequent prepayments were made of \$5.0 million in the fourth quarter of 2009 and \$4.0 million in the first quarter of 2010. The Company has continued to reclassify the after tax amount of estimated ineffectiveness from accumulated OCL to interest expense in the accompanying condensed consolidated income statements related to these prepayments, which was immaterial for the three months ended September 30, 2010, and \$0.1 million for the nine months ended September 30, 2010. In the three- and nine-month periods ending September 30, 2010, the Company reclassified \$0.1 million of the loss in accumulated OCL to interest expense coinciding with interest payments on the underlying term loan portion that was hedged.

Changes in the cash flows of the \$50.0 million notional amount interest rate swap remained highly effective at offsetting the changes in overall cash flows (i.e. changes in interest payments) attributable to fluctuations in the LIBOR rates on the Company's variable-rate debt. Changes in the fair value of derivatives deemed to be eligible for hedge accounting are reported in accumulated OCL on the condensed consolidated balance sheets. See Note 2 Comprehensive Income.

As of September 30, 2010, the fair value of the interest rate swap agreements and the remaining balance in accumulated OCL was immaterial as the interest rate swaps were terminated effective October 9, 2010. As of December 31, 2009, the fair value of the interest rate swap agreements was \$1.4 million and was recorded as a liability on the condensed consolidated balance sheet with offsets to accumulated OCL of \$1.2 million for the effective portion and interest expense of \$0.2 million for the ineffective portion. Deferred tax benefits of \$0.5 million were also included in OCL, leaving a balance of \$0.7 million as of December 31, 2009.

Interest rate swap payments are included in net cash provided by operating activities in the Company's condensed consolidated statements of cash flows.

8.

FAIR VALUE MEASUREMENTS

The *Fair Value Measurements and Disclosures* Topic of the FASB ASC, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The

Fair Value Measurements and Disclosures Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

During the three and nine months ended September 30, 2010, the Company's only financial assets/liabilities required to be measured on a recurring basis were its interest rate swap agreements, its deferred compensation liability included in other long-term liabilities and marketable securities included in other long-term assets. The Company utilizes Level 1 inputs to value marketable securities and its deferred compensation liability and Level 2 inputs to value the interest rate swap agreements. Interest rate swap agreements are recorded at fair value based on available quotations provided by a recognized dealer in such hedging agreements. The Company did not hold any Level 3 assets or liabilities at September 30, 2010 or December 31, 2009. The *Fair Value Measurements and Disclosures* Topic of the FASB ASC also states that the fair value measurement of a financial asset or financial liability must reflect the nonperformance risk of the entity and the counterparty. Therefore, the impact of the counterparty's creditworthiness will be considered when in an asset position and the Company's credit worthiness will be considered when it is in a liability position. As of September 30, 2010, both counterparties are expected to continue to perform under their contractual terms of the instrument and the creditworthiness did not have a material impact on the fair value of the interest rate swap agreements.

The table below summarizes the estimated fair values of the Company's financial assets and liabilities measured on a recurring basis as of September 30, 2010 and December 31, 2009:

| | Fair Value Measurements as of September 30, 2010 | | | Fair Value Measurements as of December 31, 2009 | | |
|-----------------------------|-----------------------------------------------------|------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------------|------------------------------------------------------------------------|----------------------------------------------|
| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs |
| (Amounts in thousands) | Total | (Level 1) | (Level 2) | Total | (Level 1) | (Level 2) |
| Financial Assets: | | | | | | |
| Marketable securities | \$ 91 | \$ 91 | \$ | \$ 123 | \$ 123 | \$ |
| Financial Liabilities: | | | | | | |
| Interest rate swaps-current | \$ 60 | \$ | \$ 60 | \$ 1,427 | \$ | \$ 1,427 |
| Deferred compensation | 1,347 | 1,347 | | 1,376 | 1,376 | |
| | \$ 1,407 | \$ 1,347 | \$ 60 | \$ 2,803 | \$ 1,376 | \$ 1,427 |

9.

STOCKHOLDERS EQUITY

Stock Repurchase Program

During the nine months ended September 30, 2010 and 2009, the Company was restricted under its Credit Agreement and did not repurchase shares of its common stock. Under its February 2008 authorization, the Company may purchase up to an additional 1,441,139 shares of common stock, subject to the constraints of the Company's Credit Agreement. At September 30, 2010, the Company had approximately 31.1 million shares of common stock outstanding.

Share-Based Payments

During the three and nine month periods ended September 30, 2010, \$0.7 million and \$1.9 million, respectively, was included in selling, general and administrative expenses related to share-based payments. In addition, a net of 78,182 shares of common stock were issued upon vesting of restricted stock awards in the nine month period ending September 30, 2010.

During the three and nine month periods ended September 30, 2009, \$0.6 million and \$1.4 million, respectively, was included in selling, general and administrative expenses related to share-based payments. In addition, a net of 22,831 shares of common stock were issued upon vesting of restricted stock awards and 26,814 shares were converted upon exercise of employee stock options, in the nine month period ending September 30, 2009 (of which 16,983 shares were converted upon exercise in the three months ended September 30, 2009).

On May 5, 2010, the Company's shareholders approved an amendment to its 2007 Stock Incentive Plan (Plan) to: (1) increase the number of shares of common stock, par value \$0.0001 per share (Common Stock), of the Company that may be issued under the Plan from 1,500,000 shares to 3,500,000 shares and (2) increase the share sub-limit for awards that are not stock appreciation awards that may be granted pursuant to the Plan from 1,200,000 shares to 1,700,000 shares of Common Stock.

On June 1, 2010, 205,647 shares of restricted stock at a market price of \$8.09 were granted to Directors and key employees of the Company. In addition, 254,000 stock appreciation rights were granted to key employees at a price of \$8.09 and a weighted average valuation per share of \$2.77. Similar to prior grants, the restricted stock vests ratably over a four year period on the anniversary date of the grant. The stock appreciation rights vest 25% per year over a four year period, expire after seven years and can only be settled with stock.

10.

SEGMENT DATA

The Company reports the following business segments in accordance with the *Segment Reporting* Topic of the FASB ASC:

Nurse and allied staffing - The nurse and allied staffing business segment provides travel nurse and allied staffing services and per diem nurse services primarily to acute care hospitals which include public and private healthcare and for-profit and not-for-profit facilities throughout the U.S. The Company aggregates the different brands that it markets to its customers in this business segment.

Physician staffing - The physician staffing business segment provides multi-specialty locum tenens to the healthcare industry in all 50 states.

Clinical trials services - The clinical trials services business segment provides clinical trials, drug safety, and regulatory professionals and services on a contract staffing and outsourced basis to companies in the pharmaceutical, biotechnology and medical device industries, as well as to contract research organizations, primarily in the United States, Canada and Europe.

Other human capital management services - The other human capital management services business segment includes the combined results of the Company's education and training and retained search businesses.

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

| Three Months Ended | | Nine Months Ended | |
|---------------------------|-------------|--------------------------|-------------|
| September 30, | | September 30, | |
| 2010 | 2009 | 2010 | 2009 |

(Amounts in thousands)

Edgar Filing: CROSS COUNTRY HEALTHCARE INC - Form 10-Q

| | | | | | | | | |
|-----------------------------------------|----|---------|----|---------|----|---------|----|---------|
| Revenue from external customers: | | | | | | | | |
| Nurse and allied staffing | \$ | 58,256 | \$ | 64,053 | \$ | 182,743 | \$ | 247,664 |
| Physician staffing | | 31,294 | | 39,595 | | 93,704 | | 118,600 |
| Clinical trials services | | 15,682 | | 16,426 | | 46,656 | | 56,816 |
| Other human capital management services | | 10,455 | | 9,561 | | 31,782 | | 31,018 |
| | \$ | 115,687 | \$ | 129,635 | \$ | 354,885 | \$ | 454,098 |
| Contribution income (a): | | | | | | | | |
| Nurse and allied staffing | \$ | 5,285 | \$ | 6,236 | \$ | 17,265 | \$ | 23,466 |
| Physician staffing | | 3,503 | | 3,961 | | 10,094 | | 11,334 |
| Clinical trials services | | 1,771 | | 1,652 | | 5,055 | | 6,111 |
| Other human capital management services | | 673 | | 682 | | 2,489 | | 1,940 |
| | | 11,232 | | 12,531 | | 34,903 | | 42,851 |
| Unallocated corporate overhead | | 5,548 | | 5,732 | | 17,141 | | 17,741 |
| Depreciation | | 1,782 | | 2,034 | | 6,156 | | 6,645 |
| Amortization | | 963 | | 1,005 | | 2,887 | | 3,046 |
| Income from operations | \$ | 2,939 | \$ | 3,760 | \$ | 8,719 | \$ | 15,419 |

(a)

The Company defines contribution income as income from operations before depreciation, amortization and corporate expenses not specifically identified to a reporting segment. Contribution income is a financial measure used by management when assessing segment performance and is provided in accordance with the *Segment Reporting* Topic of the FASB ASC.

11.

COMMITMENTS AND CONTINGENCIES

In July 2010, the Company entered into an agreement to lease 18,000 square feet of space in Pune, India for its in-house information systems and development support services as well as back-office processing services. The agreement was mutually cancelled in September 2010 when the landlord failed to meet its obligations. In October, 2010, the Company entered into a new lease agreement at a different location for 20,700 square feet in Pune, India. This lease has a three year lock in period beginning December 1, 2010, whereby the Company cannot terminate the agreement. Future minimum lease payments over the next three years total approximately \$3.1 million at the September 30, 2010 balance sheet exchange rate. The Company has the option to continue the lease for an additional two years at rates prescribed by the agreement.

In July 2010, the Company renegotiated its lease in Malden, Massachusetts. The new lease, effective July 1, 2010, reduces the space occupied by the Company from approximately 31,662 square feet to approximately 22,767 square feet. In addition, the lease expiration was extended from June 30, 2012 to June 30, 2017, with an option to extend another three years. The revised lease has the effect of reducing the Company's lease payment commitments by approximately \$0.2 million through June 30, 2012. However, the extension through 2017 added \$1.3 million to the total commitment related to this property.

Contingencies:

Maureen Petray and Carina Higareda v. MedStaff, Inc.

On February 18, 2005, the Company's MedStaff subsidiary became the subject of a purported class action lawsuit (*Maureen Petray and Carina Higareda v. MedStaff, Inc.*) filed in the Superior Court of California in Riverside County. The lawsuit relates to only MedStaff corporate employees working in California. The claims alleged under this lawsuit are generally similar in nature to those brought by Darrelyn Renee Henry in a lawsuit against the Company, which was dismissed (*Darrelyn Renee Henry vs. MedStaff, Inc., et. al.*).

The lawsuit alleges, among other things, violations of certain sections of the California Labor Code, the California Business and Professions Code, 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, and allege that MedStaff failed, under California law, to provide meal periods 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; failed to keep appropriate records to keep track of time worked; failed to pay Plaintiffs and their purported class as required by law. Plaintiffs seek, among other things, an order enjoining MedStaff from engaging in the practices challenged in the complaint and for full restitution of all monies, for interest, for certain penalties provided for by the California Labor Code and for attorneys' fees and costs. On February 5, 2007, the court granted class certification. On October 16, 2008, MedStaff filed a Motion to Decertify the class which was denied on December 19, 2008. Trial was scheduled to occur in the second quarter of 2010; however, in December 2009, the Company reached an agreement in principle to settle this matter. As a result,

the Company accrued a pre-tax charge of \$345,000 (approximately \$209,000 after taxes) related to this lawsuit. In October 2010, the court granted preliminary approval of the settlement.

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

12.

INCOME TAXES

The Company's effective tax rate for the full year is estimated to be approximately 41%. The effective tax rate was 47.6% and 39.4% in the three and nine months ended September 30, 2010, respectively. The Company had a lower tax rate in the first half of 2010 due to certain discrete items, including an immaterial prior year correction related to a tax election the Company made on behalf of a subsidiary acquired in 2008 as part of the MDA acquisition. Excluding these items, the effective tax rate in the three and nine months ended September 30, 2010 was 38.2% and 38.5%, respectively.

In accordance with the *Income Taxes* Topic of the FASB ASC, a reconciliation of the beginning and ending amounts of unrecognized tax benefits, including estimated interest and penalties, is as follows:

| | (Amounts in thousands) |
|----------------------------------------------------------|-----------------------------------|
| Balance at January 1, 2010 | \$ 4,443 |
| Additions based on tax positions related to prior years | 131 |
| Additions based on tax positions related to current year | 487 |
| Balance at September 30, 2010 | \$ 5,061 |

As of September 30, 2010, the Company had approximately \$4.3 million of unrecognized tax benefits, which would affect the effective tax rate if recognized. During the nine months ended September 30, 2010, the Company had gross increases of \$0.6 million to its current year unrecognized tax benefits related to federal and state tax issues.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company had accrued approximately \$0.8 million and \$0.7 million for the payment of interest and penalties at September 30, 2010 and December 31, 2009, respectively.

The tax years 2007 through 2009 remain open to examination by the major taxing jurisdictions to which the Company is subject, with the exception of certain states in which the statute of limitations has been extended. In April 2010, the Company received a federal tax refund of \$5.6 million substantially related to its election, under the Worker, Homeownership, and Business Assistance Act of 2009, of a 5 year carryback period for its 2009 estimated taxable net operating loss. The Company expects to receive an additional \$0.7 million related to this election resulting from the filing of its final tax return for 2009.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's condensed consolidated financial statements present a consolidation of all its operations. This discussion supplements the detailed information presented in the condensed consolidated financial statements and notes thereto which should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K, filed for the year ended December 31, 2009, and is intended to assist the reader in understanding the financial results and condition of the Company.

Overview

We are a diversified leader in healthcare staffing services offering a comprehensive suite of staffing and outsourcing services to the healthcare market. We report our financial results according to four business segments: (1) nurse and allied staffing, (2) physician staffing (locum tenens), (3) clinical trials services and (4) other human capital management services. We believe we are one of the top two providers of travel nurse and allied staffing services in the United States; one of the top four providers of temporary physician staffing services; and a leading provider of clinical trials staffing services and retained physician search services. We are also a provider of educational seminars, specifically for the healthcare marketplace.

We have a diversified revenue mix across business sectors and healthcare customers. For the quarter ended September 30, 2010, our nurse and allied staffing business segment represented approximately 50% of our revenue and is comprised of travel and per diem nurse staffing and travel allied health staffing. Travel nurse staffing represented approximately 37% of our total revenue and 74% of our nurse and allied staffing business segment revenue. Other nurse and allied staffing services include the placement of per diem nurses and allied healthcare professionals, such as radiology technicians, rehabilitation therapists and respiratory therapists. Our physician staffing business segment represented approximately 27% of third quarter 2010 revenue and consists of temporary physician staffing services (locum tenens). Our clinical trials services business segment represented approximately 14% of our revenue and consists of service offerings that include traditional staffing, drug safety monitoring and regulatory services to pharmaceutical and biotechnology customers. Our other human capital management services business segment represented approximately 9% of our revenue and consists of education and training and retained search services.

For the quarter ended September 30, 2010, our revenue was \$115.7 million, and net income was \$0.9 million, or \$0.03 per diluted share. Cash flow provided by operating activities for the nine months ended September 30, 2010, was \$24.8 million, which was primarily used to pay the final earnout payment related to our acquisition of privately-held MDA Holdings, Inc. and its subsidiaries and all of the outstanding stock of Jamestown Indemnity Ltd. (the Captive), a Cayman Island company and wholly-owned subsidiary (collectively, MDA), and to repay debt. We ended the third quarter of 2010 with total debt of \$55.1 million and \$8.8 million of cash, resulting in a ratio of debt, net of cash, to total capitalization of 15.1%.

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

Nurse and Allied Staffing

Our nurse and allied staffing business results in the third quarter of 2010 reflected soft demand earlier this year, which we believe was caused by the weak national labor market. In addition, our results were impacted by the temporary loss of a long-standing vendor managed account earlier in the year that re-engaged us at the end of September under the same terms we had with them previously. While demand for our nurse and allied staffing services is well below levels of two to three years ago, since the beginning of June of this year, we have experienced a significant increase in demand in most areas of the country, particularly for travel nurse staffing. In addition, relative bookings for our nurse and allied staffing business segment, which measures net weeks booked as a percentage of the average field FTE count, improved from 88% in the first quarter of 2010, to 97% in the second quarter and 107% in the third quarter of 2010 and have averaged 123% so far in the fourth quarter. It takes several months for sequential volume growth to materialize after booking trends begin to improve due to the typical three-month contract length and normal one-month delay from the time a contract is booked to the assignment start date. We would expect a sequential increase in segment staffing volume in the fourth quarter 2010 and continuing into the first quarter of 2011 if trends persist.

Physician Staffing

We believe the lingering effects of the recession and the weak housing market have delayed the retirement plans of many older physicians. These factors, along with a reduction in surgeries and a trend in which hospitals have had increasing success in directly hiring physicians for staff positions, have resulted in a decrease in demand for temporary physicians. The decline was particularly large in anesthesiology, which historically has been one of our largest specialty areas. Despite this decrease in current demand, we believe the long-term demographic drivers of this business are still favorable. These drivers include an aging population demanding more healthcare, an aging physician population from the baby boom generation nearing retirement age, and more females entering the profession, which historically have provided relatively less hours of service on average than males. Due to these factors, we believe the long-term prospects for an acute physician shortage are just as strong now as they were before the current downturn. In addition, we believe the increase in the insured population that will result from the enactment of healthcare reform should increase demand for primary care physicians which should benefit our business.

Clinical Trials Services

Over the past two years, the environment for clinical trials services weakened due to a slow-down in clinical trials caused largely by economic factors and financial market conditions, along with uncertainty concerning research and development activities following the recent wave of mergers and acquisitions in the pharmaceutical and biotechnology sectors. Nevertheless, we have been seeing gradual improvement in our core contract staffing component of this business, which represented approximately 93% of the business segment's revenue in the third quarter of 2010, while continuing to experience weakness in our drug safety monitoring and regulatory compliance service offerings. Despite the recent industry weaknesses, demographic factors and advances in biotechnology should drive long-term growth for this business segment.

Results of Operations

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

| | Three Months Ended | | Nine Months Ended | |
|----------------------------------------------|-------------------------------|-------------|-------------------------------|-------------|
| | September 30, 2010 | 2009 | September 30, 2010 | 2009 |
| Revenue from services | 100.0% | 100.0% | 100.0% | 100.0% |
| Direct operating expenses | 72.0 | 73.2 | 71.9 | 74.0 |
| Selling, general and administrative expenses | 23.0 | 21.8 | 23.1 | 20.5 |
| Bad debt expense | 0.1 | (0.2) | 0.0 | 0.0 |
| Depreciation and amortization | 2.4 | 2.3 | 2.5 | 2.1 |
| Income from operations | 2.5 | 2.9 | 2.5 | 3.4 |
| Foreign exchange loss | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest expense, net | 1.0 | 1.3 | 1.0 | 1.0 |
| Other income | | (0.2) | | 0.0 |
| Income before income taxes | 1.5 | 1.8 | 1.5 | 2.4 |
| Income tax expense | 0.7 | 1.1 | 0.6 | 1.0 |
| Net income | 0.8% | 0.7% | 0.9% | 1.4% |

Acquisitions

MDA Holdings, Inc.

In September 2008, we consummated the acquisition of substantially all of the assets of privately-held MDA Holdings, Inc. and its subsidiaries and all of the outstanding stock of a subsidiary of MDA Holdings, Inc. (collectively, MDA). This transaction included an earnout provision based on 2008 and 2009 performance criteria. This contingent consideration is not related to the sellers' continued employment. In the second quarter of 2009, we paid \$6.7 million, related to the 2008 performance. In April 2010, we paid \$12.8 million, related to the 2009 performance, satisfying all earnout amounts potentially due to the seller in accordance with the asset purchase agreement. The earnout payments were allocated to goodwill as additional purchase price, in accordance with the *Business Combinations* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). In addition, in May 2010, \$1.7 million was released to the seller from the indemnification escrow account leaving a balance of \$5.4 million.

Assent Consulting

In July 2007, we completed an acquisition of the shares of privately-held Assent Consulting (Assent). This transaction also included an earnout provision based on 2007 and 2008 performance criteria. This contingent consideration was not related to the sellers' employment. In the second quarter of 2008, we paid \$4.6 million related to 2007 performance satisfying all earnout amounts potentially due to the seller in accordance with the asset purchase agreement. Of this payment, \$2.0 million was being held in escrow, subject to forfeiture to us, to the extent a 2008 performance milestone was not achieved. However, based on 2008 performance, the full amount was released to the seller in the first quarter of 2009. The entire payment was allocated to goodwill as additional purchase price, in accordance with the *Business Combinations* Topic of the FASB ASC. In addition, in the first quarter of 2009, the escrow for post-closing liabilities of \$1.0 million was released to the sellers.

AKOS Limited

In June 2007, we acquired all of the shares of privately-held AKOS Limited (AKOS), based in the United Kingdom. This transaction included an earnout provision based on 2007 and 2008 performance, as defined by the share purchase agreement. In the first quarter of 2008, we paid £1.1 million (approximately \$2.1 million) related to the 2007 performance. In the second quarter of 2009, we paid the sellers approximately £0.5 million (approximately \$0.7 million) related to the 2008 performance. The payments have been allocated to goodwill as additional purchase price, in accordance with the *Business Combinations* Topic of the FASB ASC.

Goodwill and Other Identifiable Intangible Assets

Goodwill and other intangible assets represented 92% of our stockholders' equity as of September 30, 2010. Goodwill and other identifiable intangible assets (including trademarks) from the acquisition of the assets of our predecessor, Cross Country Staffing, a partnership, as well as from subsequent acquisitions were \$143.5 million and \$88.5 million, respectively, net of accumulated amortization, at September 30, 2010. In accordance with the *Intangibles-Goodwill and Other* Topic of the FASB ASC, goodwill and certain other identifiable intangible assets are not 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 4.5 to 15 years.

Segment Information

We report the following business segments in accordance with the *Segment Reporting* Topic of the FASB ASC:

.

Nurse and allied staffing - The nurse and allied staffing business segment provides travel nurse and allied staffing services and per diem nurse services primarily to acute care hospitals which include public and private healthcare and for-profit and not-for-profit facilities throughout the U.S. We aggregate the different brands that we market to our customers in this business segment.

.

Physician staffing - The physician staffing business segment provides multi-specialty locum tenens to the healthcare industry in all 50 states.

Clinical trials services - The clinical trials services business segment provides clinical trials, drug safety, and regulatory professionals and services on a contract staffing and outsourced basis to companies in the pharmaceutical, biotechnology and medical device industries, as well as to contract research organizations, primarily in the United States, Canada and Europe.

Other human capital management services - The other human capital management services business segment includes the combined results of our education and training and retained search businesses.

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

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------------|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| (Amounts in thousands) | | | | |
| Revenue from external customers: | | | | |
| Nurse and allied staffing | \$ 58,256 | \$ 64,053 | \$ 182,743 | \$ 247,664 |
| Physician staffing | 31,294 | 39,595 | 93,704 | 118,600 |
| Clinical trials services | 15,682 | 16,426 | 46,656 | 56,816 |
| Other human capital management services | 10,455 | 9,561 | 31,782 | 31,018 |
| | \$ 115,687 | \$ 129,635 | \$ 354,885 | \$ 454,098 |
| Contribution income (a): | | | | |
| Nurse and allied staffing | \$ 5,285 | \$ 6,236 | \$ 17,265 | \$ 23,466 |
| Physician staffing | 3,503 | 3,961 | 10,094 | 11,334 |
| Clinical trials services | 1,771 | 1,652 | 5,055 | 6,111 |
| Other human capital management services | 673 | 682 | 2,489 | 1,940 |
| | 11,232 | 12,531 | 34,903 | 42,851 |
| Unallocated corporate overhead | 5,548 | 5,732 | 17,141 | 17,741 |
| Depreciation | 1,782 | 2,034 | 6,156 | 6,645 |
| Amortization | 963 | 1,005 | 2,887 | 3,046 |
| Income from operations | \$ 2,939 | \$ 3,760 | \$ 8,719 | \$ 15,419 |

(a)

We define contribution income as income from operations before depreciation, amortization and other corporate expenses not specifically identified to a reporting segment. Contribution income is a measure used by management to access operations and is provided in accordance with the *Segment Reporting* Topic of the FASB ASC.

Comparison of Results for the Three Months Ended September 30, 2010 compared to Three Months Ended September 30, 2009

Revenue from services

Revenue from services decreased \$13.9 million, or 10.8%, to \$115.7 million for the three months ended September 30, 2010, as compared to \$129.6 million for the three months ended September 30, 2009. The decrease was due to lower revenue from our nurse and allied staffing, physician staffing and clinical trials services business segments, partially offset by an increase in revenue from our other human capital services business segment. The decrease in revenue primarily reflects decreased demand from our physician and nurse staffing customers which we believe was caused largely by the weak national labor market.

Nurse and allied staffing

Revenue from our nurse and allied staffing business segment decreased \$5.8 million, or 9.1%, to \$58.3 million in the three months ended September 30, 2010, from \$64.1 million in the three months ended September 30, 2009, primarily due to lower staffing volume, as well as lower pricing, partially resulting from changes in geographic mix.

The average number of nurse and allied staffing FTEs on contract during the three months ended September 30, 2010, decreased 6.6% from the three months ended September 30, 2009. Average nurse and allied staffing revenue per FTE per day decreased approximately 2.6% in the three months ended September 30, 2010 compared to the three months ended September 30, 2009, primarily due to a decline of 2.1% in the average bill rate in our travel staffing operations.

Physician staffing

Revenue from our physician staffing business decreased \$8.3 million or 21.0% to \$31.3 million for the three months ended September 30, 2010, compared to \$39.6 million in the three months ended September 30, 2009. The revenue decline reflects decreased demand for our temporary physician staffing services, and in particular, anesthesiology.

Physician staffing days filled is a metric that we use to measure volume in this business segment. Physician staffing days filled is equivalent to total hours filled during the respective period divided by eight hours. Physician staffing days filled decreased 17.3% to 20,177 in the three months ended September 30, 2010, compared to the three months ended September 30, 2009. Revenue per day filled for the three months ended September 30, 2010 was \$1,551, a 4.4% decrease from the three months ended September 30, 2009, reflecting a change in the mix of specialties. Revenue per day filled is calculated by dividing total physician staffing revenue by days filled for the respective period.

Clinical trials services

Revenue from clinical trials services decreased \$0.7 million, or 4.5%, to \$15.7 million in the three months ended September 30, 2010, from \$16.4 million in the three months ended September 30, 2009. This decline was primarily due to the conclusion, in the third quarter of 2009, of a large clinical trial we were contracted to manage and a decrease in revenue from a specific drug safety contract, partially offset by higher average bill rates resulting from a change in mix to higher value activities. Contract staffing represented approximately 93% of this business segment's revenue in the three months ended September 30, 2010 compared to 84% in the three months ended September 30, 2009.

Other human capital management services

Revenue from other human capital management services for the three months ended September 30, 2010, increased \$0.9 million, or 9.4%, to \$10.5 million from \$9.6 million in the three months ended September 30, 2009, reflecting an increase in revenue from both our education and training and retained search businesses.

Direct operating expenses

Direct operating expenses are comprised primarily of field employee and independent contractor compensation expenses, housing expenses, travel expenses and field insurance expenses. Direct operating expenses decreased \$11.7 million, or 12.3%, to \$83.3 million for the three months ended September 30, 2010, as compared to \$95.0 million for three months ended September 30, 2009.

As a percentage of total revenue, direct operating expenses represented 72.0% of revenue for the three months ended September 30, 2010, and 73.2% for the three months ended September 30, 2009. The decrease is primarily due to a change in the business mix among segments, coupled with a widening of the bill-pay spread and lower housing costs in our travel staffing operations, partially offset by higher workers' compensation insurance expense due to unfavorable loss developments. The year over year comparison of workers' compensation insurance expense was magnified by the unusually good experience in the prior policy year.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased \$1.6 million, or 5.5%, to \$26.6 million for the three months ended September 30, 2010, as compared to \$28.2 million for the three months ended September 30, 2009. The decrease in selling, general and administrative expenses was primarily due to our efforts to reduce overhead expenses.

Included in selling, general and administrative expenses is unallocated corporate overhead of \$5.5 million for three months ended September 30, 2010, compared to \$5.7 million for the three months ended September 30, 2009. As a percentage of consolidated revenue, unallocated corporate overhead was 4.8% for the three month period ended September 30, 2010 and 4.4% for the three month period ended September 30, 2009. Share-based compensation, included in unallocated corporate overhead, was \$0.7 million in the three months ended September 30, 2010 and \$0.6 million in the three months ended September 30, 2009.

As a percentage of total revenue, selling, general and administrative expenses were 23.0% and 21.8%, for the three months ended September 30, 2010 and 2009, respectively. This increase is primarily due to negative operating leverage, partially offset by efforts to reduce overhead expenses.

Bad debt expense

In the three month period ended September 30, 2010, we recorded \$0.1 million of additional reserves for bad debt, representing 0.1% of consolidated revenue from services. In the three months ended September 30, 2009, \$0.3 million of our reserve for bad debt expense was reversed due to the improved quality of our receivables.

Contribution income

Nurse and allied staffing

Contribution income from our nurse and allied staffing segment for the three months ended September 30, 2010, decreased \$1.0 million or 15.3%, to \$5.3 million from \$6.2 million in three months ended September 30, 2009. As a percentage of nurse and allied staffing revenue, segment contribution income was 9.1% for the three months ended September 30, 2010, and 9.7% for the three months ended September 30, 2009. This decrease is primarily due to negative operating leverage and higher workers' compensation insurance expenses, partially offset by a widening of our bill-pay spread and lower housing expenses.

Physician staffing

Contribution income from physician staffing for the three months ended September 30, 2010 decreased 11.6% to \$3.5 million, from \$4.0 million in the three months ended September 30, 2009. As a percentage of physician staffing revenue, contribution income was 11.2% in the three months ended September 30, 2010 compared to 10.0% in the three months ended September 30, 2009. The improvement in contribution income as a percentage of revenue is primarily due to lower professional liability and selling expenses in the three months ended September 30, 2010 compared to the three months ended September 30, 2009. The lower professional liability expenses reflect a change in the mix of our business to lower risk specialties and geographic locations, as well as better than expected loss development.

Clinical trials services

Contribution income from clinical trials services for the three months ended September 30, 2010, increased \$0.1 million, or 7.2%, to \$1.8 million, from \$1.7 million in the three months ended September 30, 2009. As a percentage of clinical trials services revenue, segment contribution income was 11.3% in the three months ended September 30, 2010 compared to 10.1% in the three months ended September 30, 2009, primarily due to a reduction in selling, general and administrative expenses.

Other human capital management services

Contribution income from other human capital management services was essentially flat at \$0.7 million in the three months ended September 30, 2010 and 2009. Contribution income as a percentage of other human capital

management services revenue was 6.4% for the three months ended September 30, 2010 and 7.1% for the three months ended September 30, 2009, primarily reflecting an increase in marketing costs in our education and training business.

Depreciation and amortization expense

Depreciation and amortization expense in the three months ended September 30, 2010, totaled \$2.7 million as compared to \$3.0 million for the three months ended September 30, 2009. As a percentage of revenue, depreciation and amortization expense was 2.4% for the three months ended September 30, 2010 and 2.3% for the three months ended September 30, 2009.

Interest expense, net

Interest expense, net, totaled \$1.1 million for the three months ended September 30, 2010 and \$1.7 million for the three months ended September 30, 2009. The decrease in interest expense was due to lower average borrowings in the three months ended September 30, 2010, partially offset by a higher average effective interest rate on our borrowings. The effective interest rate on our borrowings was 5.8% for the three month period ended September 30, 2010 and 4.7% for the three month period ended September 30, 2009.

Income tax expense

Income tax expense totaled \$0.8 million for the three months ended September 30, 2010, as compared to \$1.3 million for the three months ended September 30, 2009. The effective tax rate was 47.6% in the three months ended September 30, 2010, compared to 57.4% in the three months ended September 30, 2009. Both periods were impacted by discrete items. Excluding discrete items, the effective tax rate in the three months ended September 30, 2010 was 38.2% compared to 41.2% in the three months ended September 30, 2009.

Comparison of Results for the Nine Months Ended September 30, 2010 compared to Nine Months Ended September 30, 2009

Revenue from services

Revenue from services decreased \$99.2 million, or 21.9%, to \$354.9 million for the nine months ended September 30, 2010, as compared to \$454.1 million for the nine months ended September 30, 2009. The decrease was due to a decrease in revenue from our nurse and allied, physician staffing and clinical research services business segments. The decreases in revenue reflect the challenging operating environment all of our business segments have experienced resulting from a decrease in demand from our customers.

Nurse and allied staffing

Revenue from our nurse and allied staffing business segment decreased \$64.9 million, or 26.2%, to \$182.7 million in the nine months ended September 30, 2010, from \$247.7 million in the nine months ended September 30, 2009, primarily due to lower staffing volume.

The average number of nurse and allied staffing FTEs on contract during the nine months ended September 30, 2010, decreased 23.3% from the nine months ended September 30, 2009. Average nurse and allied staffing revenue per FTE per day decreased approximately 3.8% in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009, primarily due to a decline of 2.7% in the average bill rate in our travel staffing operations and a relatively higher mix of per diem staffing operations, which typically has a lower average bill rate than travel staffing due to the mix of healthcare professionals.

Physician staffing

Revenue from our physician staffing business decreased \$24.9 million, or 21.0%, to \$93.7 million for the nine months ended September 30, 2010, compared to \$118.6 million in the nine months ended September 30, 2009. The revenue decline reflects decreased demand for our temporary physician staffing services, and in particular, anesthesiology. Physician staffing days filled decreased 17.6% to 60,422 in the nine months ended September 30, 2010, compared to 73,348 in the nine months ended September 30, 2009. Revenue per day filled for the nine months ended September 30, 2010 was \$1,551, a 4.1% decrease from the nine months ended September 30, 2009, reflecting an unfavorable change in the mix of specialties.

Clinical trials services

Revenue from clinical trials services decreased \$10.2 million, or 17.9%, to \$46.7 million in the nine months ended September 30, 2010, from \$56.8 million in the nine months ended September 30, 2009. This decline was primarily due to several clinical research projects that ended in the third quarter of 2009, a decrease in revenue from a specific drug safety contract and a decrease in contract staffing volume.

Other human capital management services

Revenue from other human capital management services for the nine months ended September 30, 2010, increased \$0.8 million, or 2.5%, to \$31.8 million from \$31.0 million in the nine months ended September 30, 2009, reflecting an increase in revenue from our education and training business due to higher seminar attendance partially offset by a decrease in revenue related to the number of retained searches performed.

Direct operating expenses

Direct operating expenses are comprised primarily of field employee and independent contractor compensation expenses, housing expenses, travel expenses and field insurance expenses. Direct operating expenses decreased \$80.8 million, or 24.1%, to \$255.2 million for the nine months ended September 30, 2010, as compared to \$336.0 million for nine months ended September 30, 2009.

As a percentage of total revenue, direct operating expenses represented 71.9% of revenue for the nine months ended September 30, 2010, and 74.0% for the nine months ended September 30, 2009. The decrease is primarily due to a change in the business mix among segments, coupled with a widening of the bill-pay spread in our travel staffing operations and lower housing costs, partially offset by higher workers' compensation insurance expense. The year over year comparison of workers' compensation insurance expense was magnified by the unusually good experience in the prior policy year.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased \$11.4 million, or 12.2%, to \$81.8 million for the nine months ended September 30, 2010, as compared to \$93.2 million for the nine months ended September 30, 2009. The decrease in selling, general and administrative expenses was primarily due to our efforts to reduce overhead expenses.

Included in selling, general and administrative expenses is unallocated corporate overhead of \$17.1 million for nine months ended September 30, 2010, compared to \$17.7 million for the nine months ended September 30, 2009. As a percentage of consolidated revenue, unallocated corporate overhead was 4.8% for the nine month period ended September 30, 2010 and 3.9% for the nine month period ended September 30, 2009. Share-based compensation, included in unallocated corporate overhead, was \$1.9 million in the nine months ended September 30, 2010 and \$1.4 million in the nine months ended September 30, 2009.

As a percentage of total revenue, selling, general and administrative expenses were 23.1% and 20.5%, for the nine months ended September 30, 2010 and 2009, respectively. This increase is primarily due to negative operating leverage.

Bad debt expense

Bad debt expense was \$0.1 million in the nine months ended September 30, 2010. In the nine months ended September 30, 2009, bad debt expense of \$0.2 million was reversed due to the improved quality of our receivables.

Contribution income

Nurse and allied staffing

Contribution income from our nurse and allied staffing segment for the nine months ended September 30, 2010, decreased \$6.2 million, or 26.4%, to \$17.3 million from \$23.5 million in nine months ended September 30, 2009. As a percentage of nurse and allied staffing revenue, segment contribution income was 9.4% for the nine months ended September 30, 2010, and 9.5% for the nine months ended September 30, 2009. This decrease is primarily due to

higher workers compensation insurance expense and negative operating leverage largely offset by a widening of our bill-pay spread and lower housing expenses as a percentage of revenue.

Physician staffing

Contribution income from physician staffing for the nine months ended September 30, 2010 decreased 10.9% to \$10.1 million, from \$11.3 million in the nine months ended September 30, 2009. As a percentage of physician staffing revenue, contribution income was 10.8% in the nine months ended September 30, 2010 compared to 9.6% in the nine months ended September 30, 2009. The improvement in contribution income as a percentage of revenue is primarily due to lower professional liability expense in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009, reflecting a change in mix to lower risk specialties and geographic locations, as well as better than expected loss development.

Clinical trials services

Contribution income from clinical trials services for the nine months ended September 30, 2010, decreased \$1.1 million, or 17.3%, to \$5.1 million, from \$6.1 million in the nine months ended September 30, 2009. As a percentage of clinical trials services revenue, segment contribution income was 10.8% in both the nine months ended September 30, 2010 and 2009.

Other human capital management services

Contribution income from other human capital management services for the nine months ended September 30, 2010, increased by \$0.5 million, or 28.3%, to \$2.5 million, from \$1.9 million in the nine months ended September 30, 2009 primarily due to an increase from our education and training business, partly offset by a decrease from the retained search business. Contribution income as a percentage of other human capital management services revenue was 7.8% for the nine months ended September 30, 2010 and 6.3% for the nine months ended September 30, 2009, reflecting improved leverage in our education and training business, partially offset by negative operating leverage in our retained search business.

Depreciation and amortization expense

Depreciation and amortization expense in the nine months ended September 30, 2010, totaled \$9.0 million as compared to \$9.7 million for the nine months ended September 30, 2009. As a percentage of revenue, depreciation and amortization expense was 2.5% for the nine months ended September 30, 2010 and 2.1% for the nine months ended September 30, 2009.

Interest expense, net

Interest expense, net, totaled \$3.3 million for the nine months ended September 30, 2010 and \$4.9 million for the nine months ended September 30, 2009. The decrease in interest expense was due to lower average borrowings in the nine months ended September 30, 2010, partially offset by a higher average effective interest rate on our borrowings. The effective interest rate on our borrowings was 5.7% for the nine month period ended September 30, 2010 and 4.5% for the nine month period ended September 30, 2009.

Income tax expense

Income tax expense totaled \$2.1 million for the nine months ended September 30, 2010, as compared to \$4.4 million for the nine months ended September 30, 2009. The effective tax rate was 39.4% in the nine months ended September 30, 2010, compared to 41.2% in the nine months ended September 30, 2009. The lower tax rate in the 2010 was due to certain discrete items, including an immaterial prior year correction related to a tax election we made on behalf of a subsidiary we acquired in 2008 as part of the MDA acquisition. Excluding these items, the effective tax rate in the nine months ended September 30, 2010 and 2009 was 38.5% and 35.1%, respectively.

Liquidity and Capital Resources

As of September 30, 2010, we had a current ratio, defined as the amount of current assets divided by current liabilities, of 2.7 to 1. Working capital decreased by \$8.7 million to \$63.0 million as of September 30, 2010, compared to \$71.7 million as of December 31, 2009. The decrease in working capital was primarily due to a decrease in accounts receivable and income taxes receivable. In April 2010, we received a federal tax refund of \$5.6 million substantially related to our election, under the Worker, Homeownership, and Business Assistance Act of 2009, of a five year carryback period for our 2009 taxable net operating loss. This cash, along with cash on hand was used, in the second quarter of 2010, to repay our remaining earnout obligation for our acquisition of MDA.

Net cash provided by operating activities during the nine months ended September 30, 2010, was \$24.8 million, compared to \$69.9 million in the nine months ended September 30, 2009. The decrease is primarily due to lower collections of accounts receivable in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009, primarily due to declining revenue since December 2008. Number of days sales outstanding increased by one day to 53 days at September 30, 2010, compared to 52 days at December 31, 2009.

Investing activities used \$15.0 million in the nine months ended September 30, 2010, compared to \$9.7 million in the nine months ended September 30, 2009. In the nine months ended September 30, 2010, we used \$12.8 million to pay the final earnout payment due on the MDA acquisition based on 2009 performance and \$0.9 million in other investing activities. In the nine months ended September 30, 2009, we used \$6.8 million to pay the earnout payment related to 2008 performance on our MDA acquisition. An additional \$0.8 million was used primarily to pay the final earnout related to our acquisition of AKOS Ltd. and as well as other acquisition related payments related to MDA. Investing activities also used \$1.3 million and \$2.1 million, respectively, in cash, during the nine months ended September 30, 2010 and 2009, for capital expenditures.

Net cash used in financing activities during the nine months ended September 30, 2010, was \$9.6 million compared to \$58.6 million during the nine months ended September 30, 2009. We repaid, in the nine months ended September 30, 2010, a net of \$7.9 million on our total debt, compared to a net of \$63.8 million in the nine months ended September 30, 2009. In addition, in the nine months ended September 30, 2010, we paid \$1.5 million in debt issuance costs to amend our current Credit Agreement, as discussed in the Credit Facility section. Both periods also included any cash flows relating to the vesting and exercise of share-based payments.

Stockholders Equity

During the nine months ended September 30, 2010 and 2009, we were restricted under our Credit Agreement and we did not make any repurchases of shares of our common stock. Under the remainder of the February 2008 authorization, we can purchase up to an additional 1,441,139 shares, subject to the constraints of the Credit Agreement. At September 30, 2010, we had approximately 31.1 million shares of common stock outstanding.

On May 5, 2010, our shareholders approved an amendment to its 2007 Stock Incentive Plan (Plan) to: (1) increase the number of shares of common stock, par value \$0.0001 per share (Common Stock), of the Company that may be issued under the Plan from 1,500,000 shares to 3,500,000 shares and (2) increase the share sub-limit for awards that are not stock appreciation awards that may be granted pursuant to the Plan from 1,200,000 shares to 1,700,000 shares of Common Stock.

On June 1, 2010, 205,647 shares of restricted stock at a market price of \$8.09 were granted to directors and key employees. In addition, 254,000 stock appreciation rights were granted to key employees at a price of \$8.09 and weighted average valuation per share of \$2.77. Similar to prior grants, the restricted stock vests ratably over a four year period on the anniversary date of the grant. The stock appreciation rights vest 25% per year over a four year period, expire after seven years and can only be settled with stock.

Credit Facility

Our senior secured revolving credit facility entered into on November 10, 2005 was amended and restated as of September 9, 2008 (Credit Agreement) in connection with the acquisition of MDA. The Credit Agreement kept in place an existing \$75.0 million revolving credit facility, maturing in November 2010, and provided for a 5-year \$125.0 million term loan facility with Wachovia Capital Markets, LLC and certain of its affiliates, Banc of America Securities LLC and certain other lenders.

On May 28, 2010, we entered into a first amendment to our Credit Agreement with the lenders party thereto and Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association) as Administrative

Agent. The Credit Agreement amendment, among other things, extends the maturity date of the revolving credit facility from November 2010 to September 2013, to be coterminous with the term loan, and reduces the existing revolving credit facility to \$50.0 million, and the sublimit for letters of credit to \$20.0 million from \$35.0 million. We paid \$1.5 million of financing fees related to this amendment, that have been capitalized as debt issuance costs on the condensed consolidated balance sheet as of September 30, 2010. Debt issuance costs related to this amendment are being amortized on a straight-line basis over the remaining term of the Credit Agreement. In addition, we wrote off an immaterial amount of debt issuance costs related to the reduction of the size of the revolving credit facility.

In addition to the above mentioned changes, the terms of the Credit Agreement were adjusted to reflect customary covenants for similarly leveraged deals. As of September 30, 2010, interest on our revolving credit facility was based on LIBOR plus a margin of 3.50% or Base Rate (as defined by the Credit Agreement) plus a margin of 2.50%. The Company is required to pay a quarterly commitment fee on the average daily unused portion of the revolving loan facility, which, as of September 30, 2010 was 0.625%. The interest rate spreads on our term loans remained unchanged, and as of September 30, 2010 were based on LIBOR plus a margin of 2.00% or Base Rate plus a margin of 1.00%.

The table below summarizes what we believe are the key financial covenants, as defined by the Credit Agreement, as amended, and its corresponding actual performance as of September 30, 2010.

| | Requirement | Actual |
|-------------------------------------------|--------------------|---------------|
| Maximum Permitted Leverage Ratio (a) | 2.50 to 1.00 | 2.02 to 1.00 |
| Minimum Fixed Charge Coverage Ratio (b) | 1.75 to 1.00 | 6.9 to 1.00 |
| Maximum Capital Expenditures for 2010 (c) | \$16.5 million | \$1.3 million |

(a)

Our Leverage Ratio must not be greater than 2.50 to 1.00 for the duration of the Credit Agreement, September 2013.

(b)

Our Fixed Charge Coverage Ratio (as defined by the Credit Agreement) must not be less than: 1) 1.75 to 1.00 through December 31, 2010; 2) 1.50 to 1.00 for the fiscal year 2011; 3) 1.25 to 1.00 for the fiscal year 2012 and 4) 1.15 to 1.00 thereafter.

(c)

The Capital Expenditures limit as defined by the Credit Agreement may be increased in any fiscal year by the amount of Capital Expenditures that were permitted but not made in the immediately preceding fiscal year. The aggregate Capital Expenditures limit for the fiscal years following as defined by the Credit Agreement are: 1) \$4.0 million in the fiscal year 2010; 2) \$5.0 million in the fiscal year 2011; and 3) \$7.0 million in the fiscal year 2012. The 2010 limit in the preceding table reflects an increase of \$12.5 million representing the 2009 fiscal year excess that was permitted but not made.

Effective with the May 2010 amendment, the limitation on our ability to repurchase our common stock and declare and pay cash dividends on our common stock has been adjusted. The Credit Agreement, as amended, provides for an amount allowed for stock repurchases/dividends subsequent to May 28, 2010, that is the lesser of \$25.0 million and 50% of cumulative Consolidated Net Income (as defined by the Credit Agreement) for each fiscal quarter after March 31, 2010 where financial statements have been delivered; provided, that the Company's Debt/EBITDA ratio (as defined by the Credit Agreement), after giving effect to the transaction, is less than 1.00 to 1.00 and there is \$40.0 million in cash or available cash under its revolving loan facility. However, if the Company's Debt/EBITDA ratio, after giving effect to the transaction is less than 2.00 to 1.00 but equal to or greater than 1.00 to 1.00, and there are no amounts outstanding under the revolving credit facility (other than letters of credit), the allowable amount for repurchases/dividends is \$2.5 million. Our requirement to obtain lender consent for acquisitions has also been adjusted. Effective with the May 2010 amendment, we are required to obtain the consent of our lenders to complete any acquisition which exceeds \$20.0 million or would cause us to exceed \$50.0 million in aggregate cash and non-cash consideration for Permitted Acquisitions (as defined by the Credit Agreement) during the term of the Credit

Agreement (excluding the MDA acquisition).

Commitments and Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

The following table reflects our contractual obligations and other commitments as of September 30, 2010:

| Commitments | Total | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter |
|------------------------------------|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|
| | (Amounts in thousands) | | | | | | |
| Senior secured credit facility (a) | \$ 54,599 | \$ 1,560 | \$ 7,800 | \$ 18,330 | \$ 26,909 | \$ | \$ |
| Capital lease obligations | 505 | 31 | 158 | 143 | 154 | 19 | |
| Operating leases obligations (b) | 29,411 | 1,654 | 6,031 | 5,756 | 5,292 | 3,263 | 7,415 |
| Purchase obligations (c) | 715 | 203 | 461 | 51 | | | |
| Legal settlement (d) | 345 | | 345 | | | | |
| | \$ 85,575 | \$ 3,448 | \$ 14,795 | \$ 24,280 | \$ 32,355 | \$ 3,282 | \$ 7,415 |

(a)

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

(b)

Represents future minimum lease payments associated with operating lease agreements with original terms of more than one year.

(c)

Other contractual obligations include contracts for information systems, maintenance and support, consulting and other services and application hosting.

(d)

During the fourth quarter of 2009, the Company reached an agreement in principle to settle a class action lawsuit, *Maureen Petray and Carina Higareda v. MedStaff, Inc.*, which settlement was preapproved by the Court in early October 2010. In the fourth quarter of 2009, the Company accrued a pre-tax charge of \$0.3 million (\$0.2 million after taxes) related to this lawsuit. We expect the distribution of funds to occur in 2011.

In July 2010, we entered into an agreement to lease 18,000 square feet of space in Pune, India for our in-house information systems and development support services as well as back-office processing services. The agreement was

mutually cancelled in September 2010 when the landlord failed to meet its obligations. In October 2010 we entered into a new lease agreement at a different location for 20,700 square feet in Pune, India. This lease has a three year lock in period beginning December 1, 2010, whereby we cannot terminate the agreement. Future minimum lease periods over the three year period total approximately \$3.1 million at the September 30, 2010 balance sheet exchange rate. We have the option to continue the lease for an additional two years at rates prescribed by the agreement.

In July 2010, we renegotiated our lease in Malden, Massachusetts. The new lease, effective July 1, 2010, reduces the space we occupy from approximately 31,662 square feet to approximately 22,767 square feet. In addition, the lease expiration was extended from September 30, 2012 to September 30, 2017, with an option to extend another three years. The revised lease has the effect of reducing our lease payment commitments by \$0.2 million through September 30, 2012. However, the extension through 2017 added \$1.3 million to our total commitment related to this property.

Critical Accounting Principles and Estimates

Our critical accounting principles remain consistent with those reported in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion supplements the detailed information presented in our Annual Report on Form 10-K filed for the year ended December 31, 2009.

Our term loan bears interest at a rate of, at our option, either: (i) LIBOR plus a leverage-based margin or (ii) Base Rate plus a leverage-based margin. Excluding the impact of our interest rate swap agreements, a 1% change in interest rates would have resulted in interest expense fluctuating less than \$0.1 million in the nine months ended September 30, 2010 and \$0.2 million in the nine months ended September 30, 2009. Considering the effect of our interest rate swap agreements a 1% change in interest rates on our variable rate debt would have resulted in interest expense fluctuating approximately \$0.4 million the nine months ended September 30, 2010 and \$0.8 million in the nine months ended September 30, 2009.

ITEM 4.

CONTROLS AND PROCEDURES

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

The evaluation has not identified any changes in the Company's internal controls over financial reporting or in other factors that occurred during the last fiscal quarter that have materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

Maureen Petray and Carina Higareda v. MedStaff, Inc

On February 18, 2005, the Company's MedStaff subsidiary became the subject of a purported class action lawsuit (*Maureen Petray and Carina Higareda v. MedStaff, Inc.*) filed in the Superior Court of California in Riverside County. The lawsuit relates to only MedStaff corporate employees working in California. The claims alleged under this lawsuit are generally similar in nature to those brought by Darrelyn Renee Henry in a lawsuit against the Company, which was dismissed (*Darrelyn Renee Henry vs. MedStaff, Inc., et. al.*).

The lawsuit alleges, among other things, violations of certain sections of the California Labor Code, the California Business and Professions Code, 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, and allege that MedStaff failed, under California law, to provide corporate employees while in on-call status with meal periods 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; failed to keep appropriate records to keep track of time worked; failed to pay Plaintiffs and their purported class as required by law. Plaintiffs seek, among other things, an order enjoining MedStaff from engaging in the practices challenged in the complaint and for full restitution of all monies, for interest, for certain penalties provided for by the California Labor Code and for attorneys' fees and costs. On February 5, 2007, the court granted class certification. On October 16, 2008, MedStaff filed a Motion to Decertify the class which was denied on December 19, 2008. Trial was scheduled to occur in the second quarter of 2010; however, in December 2009, the Company reached an agreement in principle to settle this matter. As a result, the Company accrued a pre-tax charge of \$345,000 (approximately \$209,000 after taxes) related to this lawsuit. In October 2010, the court granted preliminary approval of the settlement.

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

ITEM 1A.

RISK FACTORS

There are no material changes to our Risk Factors as previously disclosed in our Form 10-K for the year ended December 31, 2009.

ITEM 6.

EXHIBITS

See Exhibit Index immediately following signature page.

SIGNATURES

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

CROSS COUNTRY HEALTHCARE, INC.

Date: November 5, 2010

By:

/s/ EMIL HENSEL
Emil Hensel

Chief Financial Officer and Director

(Principal Financial Officer)

Date: November 5, 2010

By:

/s/ DANIEL J. LEWIS
Daniel J. Lewis

Chief Accounting Officer

(Principal Accounting Officer)

EXHIBIT INDEX

| No. | Description |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>10.1</u> | Deed of Cancellation of The Leave and License Agreement, dated July 28, 2010, between Subhash Gaikwad, Hindu Undivided Family and Crosscountry Infotech Pvt. Ltd. |
| <u>10.2</u> | Leave and License Agreement dated October 15, 2010 between Cross Country InfoTech, Ltd. And Shri Subhash Dattatraya Angal |
| <u>31.1</u> | Certification pursuant to Rule 13a-14(a) and Rule 15d-14 (a) by Joseph A. Boshart, President and Chief Executive Officer |
| <u>31.2</u> | Certification pursuant to Rule 13a-14(a) and Rule 15d-14 (a) by Emil Hensel, Chief Financial Officer |
| <u>32.1</u> | Certification pursuant to 18 U.S.C. Section 1350 by Joseph A. Boshart, Chief Executive Officer |
| <u>32.2</u> | Certification pursuant to 18 U.S.C. Section 1350 by Emil Hensel, Chief Financial Officer |