

CROSS COUNTRY HEALTHCARE INC  
Form 10-Q  
August 04, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

\_\_\_\_\_  
FORM 10-Q  
\_\_\_\_\_

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended June 30, 2017

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 0-33169 13-4066229  
(State or other jurisdiction of Commission (I.R.S. Employer  
Incorporation or organization) file number Identification Number)  
5201 Congress Avenue, Suite 100B  
Boca Raton, Florida 33487  
(Address of principal executive offices)(Zip Code)  
(561) 998-2232  
(Registrant's telephone number, including area code)

Not Applicable

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

\_\_\_\_\_  
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 36,494,303 shares of Common Stock, par value \$0.0001 per share, as of July 31, 2017.

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## INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-Q contains statements relating to our future results (including certain projections and business trends) that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the “safe harbor” created by those sections. Forward-looking statements consist of statements that are predictive in nature, depend upon or refer to future events. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, “suggests”, “appears”, “seeks”, “will”, and variations of such words and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following: our ability to attract and retain qualified nurses, physicians and other healthcare personnel, costs and availability of short-term housing for our travel healthcare professionals, demand for the healthcare services we provide, both nationally and in the regions in which we operate, the functioning of our information systems, the effect of cyber security risks and cyber incidents on our business, the effect of existing or future government regulation and federal and state legislative and enforcement initiatives on our business, our clients’ ability to pay us for our services, our ability to successfully implement our acquisition and development strategies, including our ability to successfully integrate acquired businesses and realize synergies from such acquisitions, the effect of liabilities and other claims asserted against us, the effect of competition in the markets we serve, our ability to successfully defend the Company, its subsidiaries, and its officers and directors on the merits of any lawsuit or determine its potential liability, if any, and other factors set forth in Item 1.A. “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, as filed and updated in our Quarterly Reports on Form 10-Q and other filings with the Securities and Exchange Commission.

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

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

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CROSS COUNTRY HEALTHCARE, INC.

INDEX

FORM 10-Q

June 30, 2017

	PAGE
<u>PART I. – FINANCIAL INFORMATION</u>	<u>1</u>
<u>Item 1. Condensed Consolidated Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>5</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
<u>Item 4. Controls and Procedures</u>	<u>35</u>
<u>PART II. – OTHER INFORMATION</u>	<u>36</u>
<u>Item 1. Legal Proceedings</u>	<u>36</u>
<u>Item 1A. Risk Factors</u>	<u>36</u>
<u>Item 6. Exhibits</u>	<u>36</u>
<u>Signatures</u>	<u>37</u>

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$33,936	\$ 20,630
Accounts receivable, net of allowances of \$3,280 in 2017 and \$3,245 in 2016	155,903	173,620
Prepaid expenses	6,230	6,126
Insurance recovery receivable	3,197	3,037
Other current assets	1,249	2,198
Total current assets	200,515	205,611
Property and equipment, net of accumulated depreciation of \$45,364 in 2017 and \$43,141 in 2016	13,862	12,818
Goodwill	79,648	79,648
Trade names, indefinite-lived	35,402	35,402
Other intangible assets, net	34,690	36,835
Other non-current assets	18,373	18,064
Total assets	\$382,490	\$ 388,378
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$52,435	\$ 58,837
Accrued compensation and benefits	31,073	33,243
Other current liabilities	6,097	5,012
Total current liabilities	89,605	97,092
Long-term debt and capital lease obligations, less current portion	35,344	84,760
Non-current deferred tax liabilities	14,353	13,154
Long-term accrued claims	29,066	28,870
Contingent consideration	4,390	5,301
Other long-term liabilities	8,084	7,399
Total liabilities	180,842	236,576
Commitments and contingencies		
Stockholders' equity:		
Common stock	4	3
Additional paid-in capital	303,917	256,570
Accumulated other comprehensive loss	(1,183 )	(1,241 )
Accumulated deficit	(101,784 )	(104,089 )
Total Cross Country Healthcare, Inc. stockholders' equity	200,954	151,243
Noncontrolling interest	694	559
Total stockholders' equity	201,648	151,802
Total liabilities and stockholders' equity	\$382,490	\$ 388,378

See accompanying notes to the condensed consolidated financial statements

1

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CROSS COUNTRY HEALTHCARE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenue from services	\$209,313	\$199,443	\$416,886	\$396,026
Cost of services	152,785	144,597	307,083	290,134
Gross profit	56,528	54,846	109,803	105,892
Operating expenses:				
Selling, general and administrative expenses	46,600	44,675	93,836	87,608
Bad debt expense	326	228	649	477
Depreciation and amortization	2,285	2,465	4,476	4,877
Acquisition-related contingent consideration	281	183	551	470
Acquisition and integration costs	587	—	587	—
Impairment charges	—	24,311	—	24,311
Total operating expenses	50,079	71,862	100,099	117,743
Income (loss) from operations	6,449	(17,016)	9,704	(11,851)
Other expenses (income):				
Interest expense	535	1,608	1,754	3,243
Loss (gain) on derivative liability	—	3,571	(1,581)	(12,865)
Loss on early extinguishment of debt	—	1,568	4,969	1,568
Other income, net	(59)	(34)	(59)	(51)
Income (loss) before income taxes	5,973	(23,729)	4,621	(3,746)
Income tax expense (benefit)	753	(6,634)	1,119	(5,837)
Consolidated net income (loss)	5,220	(17,095)	3,502	2,091
Less: Net income attributable to noncontrolling interest in subsidiary	370	142	662	306
Net income (loss) attributable to common shareholders	\$4,850	\$(17,237)	\$2,840	\$1,785
Net income (loss) per share attributable to common shareholders - Basic	\$0.14	\$(0.54)	\$0.08	\$0.06
Net income (loss) per share attributable to common shareholders - Diluted	\$0.13	\$(0.54)	\$0.05	\$(0.26)
Weighted average common shares outstanding:				
Basic	35,651	32,085	34,269	32,021
Diluted	36,021	32,085	36,250	36,194

See accompanying notes to the condensed consolidated financial statements

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

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Consolidated net income (loss)	\$5,220	\$(17,095)	\$3,502	\$2,091
Other comprehensive income (loss), before income tax:				
Unrealized foreign currency translation gain (loss)	24	(20)	58	(27)
Other comprehensive income (loss), net of tax	24	(20)	58	(27)
Comprehensive income (loss)	5,244	(17,115)	3,560	2,064
Less: Net income attributable to noncontrolling interest in subsidiary	370	142	662	306
Comprehensive income (loss) attributable to common shareholders	\$4,874	\$(17,257)	\$2,898	\$1,758

See accompanying notes to the condensed consolidated financial statements

3

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

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Consolidated net income	\$3,502	\$2,091
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,476	4,877
Amortization of debt discount and debt issuance costs	429	902
Provision for allowances	1,935	2,254
Deferred income tax expense	1,200	(6,288 )
Gain on derivative liability	(1,581 )	(12,865 )
Acquisition-related contingent consideration	551	470
Impairment charges	—	24,311
Loss on early extinguishment of debt	4,969	1,568
Equity compensation	2,015	1,767
Other non-cash costs	22	5
Changes in operating assets and liabilities:		
Accounts receivable	15,783	9
Prepaid expenses and other assets	279	565
Accounts payable and accrued expenses	(8,449 )	(5,007 )
Other liabilities	394	(1,792 )
Net cash provided by operating activities	25,525	12,867
Cash flows from investing activities		
Acquisition-related settlements	—	(1,858 )
Purchases of property and equipment	(3,386 )	(2,616 )
Net cash used in investing activities	(3,386 )	(4,474 )
Cash flows from financing activities		
Debt issuance costs	—	(990 )
Repayments of debt	(6,509 )	(95,247 )
Borrowings on debt	—	97,200
Extinguishment fees	(578 )	