CROSS COUNTRY HEALTHCARE INC
Form 10-Q
August 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2014
Or
o 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 Incorporation or organization)	Commission file number	(I.R.S. Employer Identification Number)

6551 Park of Commerce Blvd, N.W.
Boca Raton, Florida 33487
(Address of principal executive offices)(Zip Code)
(561) 998-2232
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
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). þ Yes o No
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act:
Large accelerated filer ¨ Accelerated filer þ
Non-accelerated filer ¨ (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 þ
The registrant had outstanding 31,244,525 shares of Common Stock, par value $0.0001 per share, as of July 31, 2014.

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 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, 2013, 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 and affiliates.

CROSS COUNTRY HEALTHCARE, INC.

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FORM 10-Q

JUNE 30, 2014

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$9,293	$8,055
Accounts receivable, less allowance for doubtful accounts of $2,238 in 2014 and $1,651 in 2013	106,901	60,750
Income taxes receivable	648	538
Prepaid expenses	7,752	6,163
Insurance recovery receivable	6,507	3,886
Indemnity escrow receivable	3,750	3,750
Other current assets	749	793
Total current assets	135,600	83,935
Property and equipment, net of accumulated depreciation of $46,642 in 2014 and $44,779 in 2013	12,394	6,170
Trade names, net	46,501	42,301
Goodwill, net	96,034	77,266
Other identifiable intangible assets, net	32,829	26,198
Debt issuance costs, net	1,260	464
Non-current insurance recovery receivable	16,056	10,914
Non-current security deposits	705	997
Total assets	$341,379	$248,245
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$21,717	$10,272
Accrued compensation and benefits	37,046	19,148
Current portion of long-term debt and capital lease obligations	11,711	8,483
Sales tax payable	2,530	2,404
Deferred tax liabilities	622	535
Other current liabilities	1,556	4,063
Total current liabilities	75,182	44,905
Long-term debt and capital lease obligations	53,086	93
Non-current deferred tax liabilities	18,475	16,849
Long-term accrued claims	28,302	18,303
Long-term deferred purchase price	2,500	—
Long-term unrecognized tax benefits	2,475	4,013
Other long-term liabilities	4,116	3,415
Total liabilities	184,136	87,578
Commitments and contingencies		

Stockholders' equity:		
Common stock	3	3
Additional paid-in capital	246,637	246,325
Accumulated other comprehensive loss	(1,040)	(970)
Accumulated deficit	(88,655)	(84,691)
Total Cross Country Healthcare stockholders' equity	156,945	160,667
Non-controlling interest	298	—
Total stockholders' equity	157,243	160,667
Total liabilities and stockholders' equity	$341,379	$248,245

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue from services	$122,656	$110,768	$240,747	$221,084
Operating expenses:				
Direct operating expenses	90,220	82,930	177,861	164,370
Selling, general and administrative expenses	29,167	26,603	58,622	53,668
Bad debt expense	32	132	464	554
Depreciation	817	1,040	1,791	2,062
Amortization	784	566	1,569	1,132
Acquisition and integration costs	2,747	—	3,042	—
Restructuring costs	755	375	755	375
Legal settlement charge	—	750	—	750
Total operating expenses	124,522	112,396	244,104	222,911
Loss from operations	(1,866)	(1,628)	(3,357)	(1,827)
Other expenses (income):				
Foreign exchange loss (gain)	27	(110)	74	(101)
Interest expense	289	164	544	444
Loss on early extinguishment and modification of debt	—	—	—	1,419
Other (income) expense, net	(7)	10	54	(51)
Loss from continuing operations before income taxes	(2,175)	(1,692)	(4,029)	(3,538)
Income tax expense (benefit)	1,006	(257)	(65)	(757)
Loss from continuing operations	(3,181)	(1,435)	(3,964)	(2,781)
(Loss) income from discontinued operations, net of income taxes	—	(22)	—	2,482
Net loss	$(3,181)	$(1,457)	$(3,964)	$(299)
Basic (loss) income per common share from:				
Continuing operations	$(0.10)	$(0.05)	$(0.13)	$(0.09)
Discontinued operations	—	—	—	0.08
Net loss	$(0.10)	$(0.05)	$(0.13)	$(0.01)
Diluted (loss) income per common share from:				
Continuing operations	$(0.10)	$(0.05)	$(0.13)	$(0.09)
Discontinued operations	—	—	—	0.08
Net loss	$(0.10)	$(0.05)	$(0.13)	$(0.01)
Weighted average common shares outstanding:				
Basic	31,151	30,961	31,125	30,932
Diluted	31,151	30,961	31,125	30,932

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(3,181)	$(1,457)	$(3,964)	$(299)
Other comprehensive (loss) income, before tax:				
Foreign currency translation adjustments	(3)	(277)	92	(285)
Reclassification of currency translation adjustments related to sale of clinical trial services business (see Note 5 - Comprehensive Income)	—	—	—	2,337
Other comprehensive (loss) income, before tax	(3)	(277)	92	2,052
Income tax (benefit) expense related to items of other comprehensive income	—	(99)	162	(130)
Other comprehensive (loss) income, net of tax	(3)	(178)	(70)	2,182
Comprehensive (loss) income	$(3,184)	$(1,635)	$(4,034)	$1,883

See accompanying notes to the condensed consolidated financial statements

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

	Six Months Ended June 30, 2014	2013
Operating activities		
Net loss	$(3,964)	$(299)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	1,791	2,062
Amortization	1,569	1,132
Bad debt expense	464	559
Loss on early extinguishment and modification of debt	—	1,419
Deferred income tax expense	1,558	2,505
Amortization of debt issuance costs	109	118
Equity compensation	542	1,184
Gain on sale of clinical trial services business	—	(4,085)
Other noncash costs	99	—
Changes in operating assets and liabilities:		
Accounts receivable	(9,198)	(322)
Other assets	61	(328)
Income taxes	(2,636)	(1,487)
Accounts payable and accrued expenses	4,820	1,234
Other liabilities	(746)	706
Net cash (used in) provided by operating activities	(5,531)	4,398
Investing activities		
Proceeds from sale of clinical trial services business segment, net of cash sold and transaction costs	—	45,897
Acquisition of assets of Medical Staffing Network, net of cash acquired	(45,359)	—
Purchases of property and equipment	(2,849)	(427)
Net cash (used in) provided by investing activities	(48,208)	45,470
Financing activities		
Principal repayments on term loan	—	(23,125)
Proceeds from borrowing on term loan	28,875	—
Proceeds from borrowing on convertible note	24,063	—
Repayments on revolving credit facility	—	(10,000)
Repayments on asset-based revolving credit facility	(27,700)	(49,244)
Borrowings under asset-based revolving credit facility	30,905	49,244
Principal payments on capital lease obligations and note payable	(70)	(349)
Repurchase of stock for restricted stock tax withholdings	(229)	(301)
Debt issuance costs	(905)	(506)
Net cash provided by (used in) financing activities	54,939	(34,281)
Effect of exchange rate changes on cash	38	(135)
Change in cash and cash equivalents	1,238	15,452

Cash and cash equivalents at beginning of period	8,055	10,463
Cash and cash equivalents at end of period	$9,293	$25,915

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 (U.S. GAAP) for complete financial statements. These operating results are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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, 2013 included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The December 31, 2013 condensed consolidated balance sheet included herein was derived from the December 31, 2013 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 (see Note 12 – Segment Data for more information).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the valuation of accounts receivable, goodwill and intangible assets, other long-lived assets, accruals for health, workers' compensation and professional liability claims, derivative liability, legal contingencies, future contingent considerations, income taxes and sales and other non-income tax liabilities. Accrued claims and reserves include estimated settlements from known claims and actuarial estimates for claims incurred but not reported. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Debt Discount

Stated discounts on proceeds, and other fees reimbursed to lender, as well as the value of any embedded derivative features of the Convertible Notes and Term Loans are treated as a discount associated with the respective debt instrument and presented in the balance sheet as an offset to the carrying amount of the debt. Discounts are amortized to interest expense using the effective interest rate method, or a method that approximates the effective interest rate method, over the expected life of the debt.

Derivative Financial Instruments

The Company evaluates embedded conversion features within convertible debt under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815, Derivatives and Hedging, to determine whether the embedded conversion feature should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in other expense (income) on our condensed consolidated statement of operations. The Company uses a trinomial lattice model to estimate the fair value of embedded conversion and redemption features in its convertible debt at the end of each applicable reporting period. Changes in the fair value of these derivatives during each reporting period will be reported in the consolidated statement of operations. Inputs into the model require estimates, including such items as estimated volatility of the Company’s stock, estimated probabilities of change of control and issuance of additional financing, risk-free interest rate and the estimated life of the financial instruments being fair valued. The fair value at inception has been recorded as debt discount and will be amortized to interest expense over the term of the note using the effective interest method or another method that approximates the effective interest method.

Performance-Based Restricted Stock Compensation

The Company granted performance-based shares to certain key personnel pursuant to its 2014 Omnibus Incentive Plan as described in Note 11- Stockholders' Equity. Pursuant to the Plan the number of target shares that will vest are determined based on the level of attainment of the targets. If the minimum level of performance is attained, restricted stock will vest on December 31, 2016. The Company recognizes performance-based restricted stock as compensation expense based on the most likely probability of attaining the prescribed performance and over the requisite service period beginning at its grant date and through the date the restricted stock vests.

3. ACQUISITIONS

Medical Staffing Network

On June 30, 2014, the Company acquired substantially all of the assets and certain liabilities of Medical Staffing Network Healthcare, LLC (MSN) for an aggregate purchase price of $48.1 million, subject to certain post-closing net working capital adjustments. The Company funded $45.4 million at closing, net of cash acquired, of which $1.0 million was funded to an escrow account for the net working capital adjustment. An additional $2.5 million was deferred and is due to the seller in 21 months, less any COBRA expenses incurred by the Company on behalf of former MSN employees over that period.

The Company financed the purchase price using $55.0 million in new subordinated debt consisting of a $30.0 million, 5-year term loan and $25.0 million of convertible notes having a 6-year maturity and a conversion price of $7.10. The Company also amended its loan agreement with Bank of America. N.A. to increase its borrowing capacity under its senior secured asset-based revolving credit facility from $65.0 million to $85.0 million. See Note 8 - Debt for further information.

At the time of the acquisition, MSN had 55 locations throughout the U.S. that provide per diem, local, contract, travel, and permanent hire staffing services. This acquisition increases the Company's branch network and market share, diversifies its customer base and brings new service lines. Management believes it positions the Company to serve its customers better and to increase earnings growth through improved fill rates, expansion of its managed service programs and per diem activities, and the recognition of cost synergies.

The acquisition has been accounted for in accordance with FASB ASC 805, Business Combinations, using the purchase method. The results of the acquisition's operations will be included in the consolidated statements of operations from July 1, 2014 due to their immaterial impact on June 30, 2014, the date of the acquisition. Accordingly, the MSN operations are not included in our accompanying condensed consolidated statements of operations, cash flows or comprehensive (loss) income for the three or six months ended June 30, 2014. The Company expects the results of the MSN acquisition to be substantially reported through its nurse and allied business segment.

The following table is an estimate of the fair values of the assets acquired and liabilities assumed subject to completion of the post-closing net working capital adjustment.

	(amounts in thousands)
Cash acquired	$462
Accounts receivables, net	37,417
Other current assets	3,012
Property and equipment	5,113
Goodwill	18,768
Other intangible assets	12,400
Other assets	2,326
Total assets acquired	79,498
Accounts payable	7,269
Accrued employee compensation and benefits	14,013
Other liabilities	9,867
Total liabilities assumed	31,149
Non-controlling interest	298
Net assets acquired	$48,051

The Company is using a third-party appraiser to determine the fair value and estimated useful lives of certain acquired assets and liabilities. The gross contractual accounts receivable of the business are $38.1 million and were recorded net of the Company's best estimate of receivables not expected to be collected of $0.7 million.

As of June 30, 2014, the self insurance accruals and liabilities for workers' compensation and professional liability were based on preliminary third-party appraisals which are subject to final actuarial reports. The Company provides workers' compensation insurance coverage and professional liability coverage for our eligible temporary healthcare professionals. As part of the MSN acquisition, the Company assumed MSN's workers compensation and professional liability claims (both known claims and those incurred but not reported or IBNR). The MSN workers' compensation benefits are provided under a partially self-insured plan. The workers' compensation insurer requires that the Company provide a letter of credit to guarantee payments of those workers' compensation claims. The Company also purchased an aggregate stop loss policy that attaches at $2.3 million for known MSN professional liability claims with a policy limit of $5.0 million. For IBNR claims of MSN, the Company purchased a primary professional liability policy that provides each temporary healthcare professional with coverage of $1.0 million per occurrence and $5.0 million in the aggregate. This policy does not have a deductible. The Company also purchased an excess layer of insurance for MSN IBNR professional liability claims having limits of $1.0 million per occurrence and $6.0 million in the aggregate.

Based on the preliminary independent third-party appraisal, the Company assigned the following values to intangible and other identifiable assets: $4.2 million to trade names with an indefinite life, $1.5 million to customer relations with a weighted average estimated useful life of 13 years and $6.7 million to a database with an estimated useful life of 10 years, for a total of $8.2 million in definite life intangible assets with a weighted average estimated useful life of 11 years. The Company also assigned an estimated fair value of $0.3 million to the non-controlling interest in InteliStaf of Oklahoma, LLC, a joint venture between MSN and a third party. The remaining excess of purchase price over the fair value of net assets acquired of $18.8 million was recorded as goodwill, which is expected to be deductible for tax purposes. Additional acquisition-related costs of approximately $2.4 million were incurred and are reflected as acquisition and integration costs on the Company's condensed consolidated statement of operations for the three and six months ended June 30, 2014.

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Allied Healthcare Staffing

In December 2013, the Company acquired the operating assets of On Assignment, Inc.'s Allied Healthcare Staffing division (the acquired allied staffing business) for an aggregate purchase price of $28.7 million, subject to certain post-closing adjustments. Excluded from the transaction were the accounts receivable, accounts payable and accrued compensation of the business acquired. The Company used $24.7 million in cash on hand and $4.5 million from borrowings under its senior secured asset based revolving credit facility with Bank of America, N.A. to pay the purchase price and approximately $0.5 million in transaction costs. Subsequent to December 31, 2013, an immaterial post-closing adjustment was made.

As of the date of this filing, 21 leases have been either assumed or entered into by the Company representing approximately $2.3 million of operating lease future payments.

The Company believes the acquisition complements its current nurse and allied staffing business segment by: (1) adding new skillsets to its traditional staffing offerings, (2) expanding its local branch network, which will allow it to expand its local market presence and its MSP business, and (3) diversifying its customer base into the local ambulatory care and smaller local healthcare facilities, which the Company believes will provide more balance between its large volume based customers and its local retail market.

At the time of the acquisition, the acquired allied staffing business had 84 branch-based employees and made placements in more than 125 specialties from 23 branch offices.

The acquisition has been accounted for in accordance with FASB ASC Topic 805, Business Combinations, using the purchase method. The results of the acquisition's operations have been included in the consolidated statements of operations since December 2, 2013, the date of the acquisition. The acquired allied staffing business has been included with the Company's nurse and allied staffing business segment.

The following table summarizes the approximate fair values of the assets acquired and liabilities assumed. The Company used a third-party appraiser to determine the fair value and estimated useful lives of acquired assets and liabilities.

	(amounts in thousands)
Other current assets	$62
Property and equipment	161
Goodwill	14,554
Other intangible assets	14,000
Other assets	52
Total assets acquired	28,829
Accrued employee compensation and benefits	112
Total liabilities assumed	112
Net assets acquired	$28,717

Based on the final independent third-party appraisal, the Company assigned the following values to intangible and other identifiable assets: $10.4 million to customer relations with an estimated useful life of 16 years, $3.4 million to database with an estimated useful life of 10 years, and $0.2 million to non-compete agreements with a useful life of 5 years, in a total $14.0 million and a weighted average estimated useful life of 14 years. The remaining excess of purchase price over the fair value of net assets acquired of $14.6 million was recorded as goodwill, which is expected to be deductible for tax purposes. Additional acquisition-related costs of approximately $0.3 million and $0.6 million were incurred and are reflected as acquisition and integration costs on the Company's consolidated statement of operations for the three and six months ended June 30, 2014, respectively.

The following unaudited pro forma financial information approximates the consolidated results of operations of the Company as if the MSN and allied staffing business acquisitions had occurred as of January 1, 2013, after giving effect to certain adjustments, including additional interest expense on the amount the Company borrowed on the date of the transaction, the amortization of acquired intangible assets and the elimination of certain expenses that will not be recurring in post-acquisition periods, net of an estimated income tax impact. These results are not necessarily indicative of future results as they do not include incremental investments in support functions, cost reductions or operating synergies, estimates of the changes in the fair value of the embedded derivative in our Convertible Notes or an estimate of any impact on interest expense resulting from the operating cash flow of the acquired business, among other adjustments that could be made in the future but are not factually supportable on the date of the transaction.

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(unaudited, amounts in thousands)	
Revenue from services	$362,818	$354,951
Net loss	$(1,978)	$(2,524)
Net loss per common share - basic	$(0.06)	$(0.08)
Net loss per common share - diluted	$(0.06)	$(0.08)

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., a Cayman Island company and wholly-owned subsidiary (collectively, MDA). As of June 30, 2014, an indemnification escrow account of $3.6 million exists.

4. DISCONTINUED OPERATIONS

The clinical trial services business provided clinical trial, 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, and also in Canada and Europe.

On February 15, 2013, the Company completed the sale of its previously discontinued clinical trial services business to ICON Clinical Research, Inc. and ICON Clinical Research UK Limited (the “Buyer”) for an aggregate $52.0 million in cash, subject to certain adjustments. At closing, the total amount paid was reduced by $0.1 million for the amount the Targeted Net Working Capital exceeded the Estimated Net Working Capital. During the fourth quarter of 2013, the Company paid an additional $0.2 million to the Buyer to finalize the Net Working Capital adjustment, pursuant to the asset purchase agreement.

The agreement included a provision for an earn-out of up to $3.75 million related to certain performance-based milestones. The maximum earn-out amount of $3.75 million was deposited in escrow by Buyer as security for the earn-out payment, if any. The $3.75 million earn out related to certain performance-based milestones was treated as contingent consideration and the Company assigned no fair value to this earn-out as of June 30, 2014 based on recent information available to the Company. In addition, a portion of the performance-based milestones was not earned, and as a result $1.5 million of the original escrow was released to the Buyer in the second quarter of 2013, leaving a balance of $2.25 million as of June 30, 2014 which was released in July 2014.

Of the $52.0 million purchase price paid at closing, $3.75 million was also placed in escrow for a period of 18 months following the closing to provide partial security to the Buyer in the event of any breach of the representations, warranties and covenants of the Company. The Company recorded the $3.75 million indemnity escrow funds as an escrow receivable, and will adjust the amount, each reporting period, based on any known information that may arise that would be reasonable and estimable. As of June 30, 2014 there was no known information about any indemnity claims. See Note 10 – Fair Value Measurements for more information.

As a result of the disposal, the underlying operations and cash flows of the clinical trial services business have been eliminated from the Company's continuing operations and the Company no longer has the ability to influence the operating and/or financial policies of the disposal group. The historical financial results of operations, except for disclosures related to cash flows, have been presented as discontinued operations for the three and six months ended June 30, 2013.

The following table presents the revenues and the components of discontinued operations, net of tax:

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
	(amounts in thousands)	
Revenue	$—	$7,939
Income from discontinued operations before gain on sale and income taxes	—	483
(Loss) gain on sale of discontinued operations	(73)	4,085
Income tax benefit (expense)	51	(2,086)
(Loss) income from discontinued operations, net of income taxes	$(22)	$2,482

5. COMPREHENSIVE INCOME

Total comprehensive (loss) income includes net (loss) income, foreign currency translation adjustments and reclassification of foreign currency adjustments, net of any related deferred taxes. Certain of the Company's foreign operations use their respective local currency as their functional currency. In accordance with ASC 830, Foreign Currency Matters, assets and liabilities of these operations are translated at the exchange rates in effect on the balance sheet date. Statement of operations items are translated at the average exchange rates for the period. The cumulative impact of currency translation is included in accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets and was $1.0 million and $1.1 million at June 30, 2014 and December 31, 2013, respectively.

Pursuant to Accounting Standard Update (ASU) 2013-5, Foreign Currency Matters (Topic 830), Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force) (ASU 2013-5) the Company released into earnings $2.3 million of its cumulative currency translation losses related to the sale of clinical trial services business in the first quarter of 2013, which was included in the income (loss) from discontinued operations, net of income taxes on the condensed consolidated statements of operations.

6. EARNINGS PER SHARE

In accordance with the requirements of the ASC 260, Earnings Per Share Topic of the FASB ASC, basic earnings per share is computed by dividing net (loss) income by the weighted average number of shares outstanding (excluding unvested restricted stock) and diluted earnings per share reflects the dilutive effects of stock options and restricted stock (as calculated utilizing the treasury stock method).

Certain shares of common stock that are issuable upon the exercise of options and vesting of restricted stock have been excluded from the per share calculations because their effect would have been anti-dilutive. Such shares amounted to: 1,030,542 and 689,182 during the three and six months ended June 30, 2014, respectively, and 1,807,044 and 1,780,294 during the three and six months ended June 30, 2013, respectively. For purposes of calculating net (loss) income per common share, the Company excluded potentially dilutive shares of: 212,880 and 332,561 for the three and six months ended June 30, 2014, respectively, and 155,760 and 165,567 for the three and six months ended June 30, 2013, respectively, from the calculation as their effect would have been anti-dilutive due to the Company's net loss from continuing operations in those periods.

Contingently issuable shares of 3,521,126 as of June 30, 2014, related to Convertible Notes, as defined in Note 8-Debt, if converted, would have had an anti-dilutive effect, and as such, have been excluded from the per share calculations for the three and six months ended June 30, 2014.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(amounts in thousands, except per share data)			
Loss from continuing operations	$(3,181)	$(1,435)	$(3,964)	$(2,781)
(Loss) income from discontinued operations, net of tax	—	(22)	—	2,482
Net loss	$(3,181)	$(1,457)	$(3,964)	$(299)
Basic (loss) income per common share from:				
Continuing operations	$(0.10)	$(0.05)	$(0.13)	$(0.09)
Discontinued operations	—	—	—	0.08
Net loss	$(0.10)	$(0.05)	$(0.13)	$(0.01)
Diluted (loss) income per common share from:				
Continuing operations	$(0.10)	$(0.05)	$(0.13)	$(0.09)
Discontinued operations	—	—	—	0.08
Net loss	$(0.10)	$(0.05)	$(0.13)	$(0.01)
Weighted average common shares outstanding:				
Basic	31,151	30,961	31,125	30,932
Diluted	31,151	30,961	31,125	30,932

7. GOODWILL, TRADE NAMES AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

As of June 30, 2014 and December 31, 2013, the Company had the following acquired intangible assets:

	June 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Gross Carrying Amount	Net Carrying Amount
	(amounts in thousands)					
Intangible assets subject to amortization (a):						
Databases	$22,625	$12,336	$10,289	$15,925	$12,103	$3,822
Customer relationships	38,804	16,440	22,364	37,304	15,125	22,179
Non-compete agreements	3,603	3,427	176	3,603	3,406	197
	$65,032	$32,203	$32,829	$56,832	$30,634	$26,198
Intangible assets not subject to amortization (a):						
Goodwill			$96,034			$77,266
Trade Names			46,501			42,301
			$142,535			$119,567

(a)

Based on the timing of the MSN Acquisition, the estimated fair value of the intangible assets was recorded based on a preliminary valuation analysis. See Note 3 - Acquisitions.

As of June 30, 2014, estimated annual amortization expense for continuing operations is as follows:

Year Ending December 31:	(amounts in thousands)
2014	$2,280
2015	3,694
2016	3,694
2017	3,649
2018	3,565
Thereafter	15,947
	$32,829

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

	Nurse And Allied Staffing	Physician Staffing	Other Human Capital Management Services	Total
	(amounts in thousands)			
Balances as of December 31, 2013				
Aggregate goodwill acquired	$274,286	$43,405	$19,307	$336,998
Accumulated impairment loss (a)	(259,732)	—	—	(259,732)
Goodwill, net of impairment loss	14,554	43,405	19,307	77,266
Changes to aggregate goodwill in 2014				
Goodwill acquired (b)	18,768	—	—	18,768
Balances as of June 30, 2014				
Aggregate goodwill acquired	293,054	43,405	19,307	355,766
Accumulated impairment loss	(259,732)	—	—	(259,732)
Goodwill, net of impairment loss	$33,322	$43,405	$19,307	$96,034

(a) A non-cash pretax impairment charge of approximately $241.0 million was recorded to reduce the carrying value of goodwill to its estimated fair value in the fourth quarter of 2008 for its nurse and allied staffing business segment. The majority of the goodwill impairment was attributable to the Company’s initial capitalization in 1999, which was accounted for as an asset purchase, and subsequent nurse staffing acquisitions made through 2003. In addition, in the second quarter of 2012, a non-cash pretax impairment charge of approximately $18.7 million was recorded for the Company’s nurse and allied staffing reporting unit.

(b) Preliminary goodwill acquired from the acquisition of Medical Staffing Network. Due to the time of the acquisition, the final goodwill calculation is incomplete. See Note 3 - Acquisitions.

8. DEBT

At June 30, 2014 and December 31, 2013, long-term debt consists of the following:

	June 30, 2014	December 31, 2013
	(amounts in thousands)	
Senior Secured Asset-Based, interest 1.77% and 3.27% at June 30, 2014 and December 31, 2013, respectively	$ 11,605	$ 8,400
Second Lien Term Loan, net of unamortized discount of $1,125, interest 7.50% at June 30, 2014	28,875	—
Convertible Notes, net of unamortized discount of $7,702, interest 8.00% at June 30, 2014	17,298	—
Convertible note derivative liability	6,765	—
Capital lease obligations	254	176
Total debt	64,797	8,576
Less current portion	(11,711)	(8,483)
Long-term debt	$ 53,086	$ 93

Senior Credit Facility

On January 9, 2013, the Company entered into a First Lien Loan and Security Agreement, (the First Lien Loan Agreement of Senior Secured Asset-Based), by and among the Company and certain of its subsidiaries, as borrowers, and Bank of America, N.A., as agent. The First Lien Loan Agreement was subsequently amended to allow for the sale of its clinical trials services business in February 2014 and for administrative matters.

The initial proceeds from the revolving credit facility were used to finance the repayment of existing indebtedness of the Company under its prior credit agreement and the payment of fees and expenses. The repayment of the term loan portion of the Company’s debt outstanding in the first quarter of 2013 was treated as extinguishment of debt, and, as a result, the Company recognized a loss on extinguishment in the first quarter of 2013, related to the write-off of unamortized net debt issuance costs of approximately $0.3 million. The repayment of the revolver portion of the Company’s debt outstanding in the first quarter of 2013 was treated partially as extinguishment and partially as a modification. The fees related to the modified portion of $0.1 million relate to the continuation of credit provided by Bank of America, N.A. in its First Lien Loan Agreement. The Company wrote-off the remaining unamortized net debt issuance costs of approximately $1.1 million in the first quarter of 2013.

On June 30, 2014, the Company and certain of its subsidiaries, as borrowers, entered into a third amendment (the Amendment) to the Company’s First Lien Loan Agreement with Bank of America, N.A., as agent, in order to, among other things, increase the Company’s borrowing capacity under the First Lien Loan Agreement and to consent to the consummation of the MSN acquisition and the incurrence by the Company of the indebtedness contemplated pursuant to the Second Lien Term Loan Agreement and the Note Purchase Agreement. The Amendment provides for, among other things, increasing the revolving credit facility under the First Lien Loan Agreement from $65.0 million to $85.0 million and increasing the letter of credit subline under the First Lien Loan Agreement from $20.0 million to $35.0 million. In addition, the termination date of the revolving credit facility under the First Lien Loan Agreement has been extended to June 30, 2017.

The Company used the increased availability under the letter of credit subline to collateralize certain insurance obligations related to the MSN acquisition. The revolving credit facility and letter of credit subline will be used to provide ongoing working capital and for other general corporate purposes of the Company and its subsidiaries.

As of June 30, 2014 the First Lien Loan Agreement provides for: a three-year senior secured asset-based revolving credit facility in the aggregate principal amount of up to $85.0 million (as described below), which includes a subfacility for swingline loans up to an amount equal to 10% of the aggregate Revolver Commitments, as defined in the agreement, and a $35.0 million subfacility for standby letters of credit. Swingline loans and letters of credit issued under the First Lien Loan Agreement reduce available revolving credit commitments on a dollar-for-dollar basis. Pursuant to the First Lien Loan Agreement, the aggregate amount of advances under the revolving credit facility (Borrowing Base) cannot exceed the lesser of (a) (i) $85.0 million, or (ii) 85% of eligible billed accounts receivable as defined in the First Lien Loan Agreement; plus (b) the lesser of (i) 85% of eligible unbilled accounts receivable and (ii) $18.0 million; minus (c) reserves as defined by the First Lien Loan Agreement, which include one week's worth of W-2 payroll and fees payable to independent contractors.

The revolving credit facility can be used to provide ongoing working capital and for other general corporate purposes of the Company and its subsidiaries. As of June 30, 2014, the interest rate spreads and fees under the First Lien Loan Agreement are based on LIBOR plus 1.50% or Base Rate plus 0.50%. The LIBOR and Base Rate margins are subject to performance pricing adjustments, pursuant to a pricing matrix based on the Company’s excess availability under the revolving credit facility, and could increase by 200 basis points if an event of default exists. The Company is required to pay a monthly commitment fee on the average daily unused portion of the revolving loan facility, which, as of June 30, 2014, was 0.375%.

The First Lien Loan Agreement contains customary representations, warranties, and affirmative covenants. The First Lien Loan Agreement also contains customary negative covenants, including covenants with respect to, among other things: (i) indebtedness, (ii) liens, (iii) investments, (iv) significant corporate changes, including mergers and acquisitions, (v) dispositions, (vi) dividend, distributions and other restricted payments, (vii) transactions with affiliates and (viii) restrictive agreements. In addition, if the Company’s availability under the revolving credit facility is less than the greater of (i) 12.5% of the Loan Cap, as defined, and (ii) $8.25 million, or availability is less than $4.0 million, the Company is required to meet a minimum fixed charge coverage ratio of 1.0, as defined in the First Lien Loan Agreement. The First Lien Loan Agreement also contains customary events of default, such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control and the failure to observe covenants or conditions under the credit facility documents.

The Company’s obligations under the First Lien Loan Agreement are guaranteed by all material domestic subsidiaries of the Company that are not co-borrowers (Subsidiary Guarantors). As collateral security for their obligations under the First Lien Loan Agreement and guarantees thereof, the Company and the Subsidiary Guarantors have granted to Bank of America, N.A. a security interest in substantially all of their tangible and intangible assets.

As of June 30, 2014, the gross availability under the First Lien Loan Agreement was approximately $73.0 million based on the Company's May accounts receivable balance pro forma including MSN accounts receivable. The Company had $31.5 million letters of credit outstanding and $11.6 million drawn under its revolving credit facility, leaving $29.9 million available as of June 30, 2014. The letters of credit relate to the Company’s workers’ compensation and professional liability insurance policies and included a backstop letter of credit of $8.0 million related to the acquisition of MSN which was subsequently released in July 2014.

Second Lien Term Loan

On June 30, 2014, the Company entered into a second lien loan and security agreement (the Second Lien Term Loan Agreement), by and among the Company, as borrower, certain of its domestic subsidiaries, as guarantors, and BSP Agency, LLC, as agent.

The Second Lien Term Loan Agreement provides for a five-year senior secured term loan facility in an aggregate principal amount of $30.0 million (the Second Lien Term Loan Facility, and the loans thereunder, the Second Lien Term Loans). The proceeds from the Second Lien Term Loan Facility were used by the Company to pay a portion of the consideration paid in the MSN Acquisition and related fees and expenses.

Amounts borrowed under the Second Lien Term Loan Facility that are repaid or prepaid may not be re-borrowed. The Second Lien Term Loans bear interest at a rate equal to adjusted LIBOR (defined as the 3-month London interbank offered rate for U.S. dollars, adjusted for customary Eurodollar reserve requirements, if any, and subject to a floor of 1.00%) plus 6.50%. The interest rate would increase by 200 basis points if an event of default exists under the Second Lien Term Loan Agreement.

The Company may, at its option, elect to prepay the Second Lien Term Loans on or before June 30, 2015, subject to a prepayment premium in an amount equal to (i) the amount of the principal amount of the Second Lien Term Loans being repaid, plus (ii) the accrued but unpaid interest on the principal amount so prepaid, if any, to the date of the prepayment, plus (iii) any associated administrative amounts or charges owed to the lenders as a result of the redeployment of funds or fees payable to terminate matching deposits, plus (iv) a “make whole” amount equal to the excess, if any, of (a) the present value at the prepayment date of (1) 103% of the aggregate principal amount of the Second Lien Term Loans then being prepaid, plus (2) all remaining scheduled interest payments due on the principal amount of such Second Lien Term Loans being prepaid through June 30, 2015 (excluding accrued but unpaid interest to the date of such prepayment), computed using a discount rate equal to the Treasury rate as of such prepayment date plus 50 basis points over (b) the outstanding principal amount of such Second Lien Term Loans being prepaid. The Company may, at its option at any time after June 30, 2015, prepay the Second Lien Term Loans in whole or in part at the redemption prices set forth therein, which range from 103% of the principal amount thereof for prepayments during the period July 1, 2015 through June 30, 2016, 102% of the principal amount thereof for prepayments during the period July 1, 2016 through June 30, 2017, and 100% of the principal amount thereof for prepayments after such date. If the Company completes a public offering on or prior to November 27, 2014, however, the Company may apply the proceeds of such public offering to prepay the Term Loans (plus accrued and unpaid interest thereon), in whole but not in part, without premium or penalty.

Subject to certain exceptions, the Second Lien Term Loans are required to be prepaid with: (a) 50% of excess cash flow (as defined in the Second Lien Term Loan Agreement) above $5.0 million for each fiscal year of the Company (commencing with the fiscal year ending December 31, 2015), provided that voluntary prepayments of the Second Lien Term Loans made during such fiscal year will reduce the amount of excess cash flow prepayments required for such fiscal year on a dollar-for-dollar basis; (b) 100% of the net cash proceeds of all asset sales or other dispositions of property by the Company and its subsidiaries, as set forth in the agreement, in excess of a defined threshold and subject to the right of the Company to reinvest such proceeds within 12 months; (c) 100% of the net cash proceeds of issuances of debt offerings of the Company and its subsidiaries (except the net cash proceeds of any permitted debt); and (d) 50% of the net cash proceeds of equity offerings of the Company.

The Second Lien Term Loan Agreement contains customary representations, warranties, and affirmative covenants. Among other things, the agreement also includes a financial covenant limiting the Company's maximum "debt" to "EBITDA" (each, as defined therein) ratio to no greater than 4.50:1.00, subject to customary equity cure rights. The financial covenant will be tested quarterly, commencing with the quarter ended June 30, 2015 and each quarter thereafter for so long as any Second Lien Term Loans are outstanding. The agreement also contains customary negative covenants; including covenants with respect to, among other things, (i) indebtedness, (ii) liens, (iii) investments, (iv) fundamental corporate changes, (v) dispositions, (vi) dividends, distributions and other restricted payments, (vii) transactions with affiliates and (viii) restrictive agreements. The agreement contains customary events of default, such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control and the failure to observe covenants or conditions under the Second Lien Term Loan Facility documents.

The Company's obligations under the Second Lien Term Loan Agreement are guaranteed by all material domestic subsidiaries of the Company (Subsidiary Guarantors). As collateral security for their obligations under the Second Lien Term Loan Agreement and guarantees thereof, the Company and the Subsidiary Guarantors have granted a second-priority security interest in substantially all their tangible and intangible assets.

Private Placement of Convertible Notes

On June 30, 2014, the Company and certain of its domestic subsidiaries entered into a Convertible Note Purchase Agreement (the Note Purchase Agreement), with certain note holders (collectively, the Noteholders). Pursuant to the Note Purchase Agreement, the Company sold to the Noteholders an aggregate of $25.0 million of convertible senior notes (the Convertible Notes). The proceeds from the Note Purchase Agreement were used by the Company to pay a portion of the consideration paid in the MSN Acquisition and related fees and expenses.

The Convertible Notes are convertible at the option of the holders thereof at any time into shares of the Company's common stock, par value $0.0001 per share (Common Stock), at an initial conversion price of $7.10 per share, or 3,521,126 shares of Common Stock. After three years, the Company has the right to force a conversion of the Convertible Notes if the volume-weighted average price (VWAP) per share of its Common Stock exceeds 125% of the then conversion price for 20 days of a 30 day trading period. The conversion price is subject to adjustment pursuant to customary weighted average anti-dilution provisions including adjustments for the following: Common Stock dividends or distributions; issuance of any rights, warrants of options to acquire Common Stock; distributions of property; tender offer or exchange offer payments; cash dividends; or certain issuances of Common Stock at less than the conversion price. Upon conversion of the Convertible Notes, the Company will exchange, for the applicable conversion amount thereof a number of shares of Common Stock equal to the amount determined by dividing (i) such conversion amount by (ii) the conversion price in effect at the time of conversion. No fractional shares of Common

Stock will be issued upon conversion of the Conversion Notes. In lieu of fractional shares, the Company shall pay cash in respect of each fractional share equal to such fractional amount multiplied by the Thirty Day VWAP as of the closing of business on the Business Day immediately preceding the conversion date as well as any unpaid accrued interest.

The Convertible Notes bear interest at a rate of 8.00% per annum, payable in quarterly cash installments; provided, however, that, at the Company's option, up to 4.00% of the interest payable may be "paid-in-kind" through a quarterly addition of such "paid-in-kind" interest amount to the principal amount of the Convertible Notes. The Convertible Notes will mature on June 30, 2020, unless earlier repurchased, redeemed or converted. Subject to certain exceptions, the Company is not permitted to redeem the Convertible Notes until June 30, 2017. If the Company redeems the Convertible Notes on or after June 30, 2017, the Company is required to pay a premium equal to the greater of (i) the sum of (a) the amount of principal of the Convertible Notes redeemed, plus (b) the accrued but unpaid interests on the principal amount so redeemed to the date of the redemption, plus (c) 15% of the amount of principal of the Convertible Notes redeemed and (ii) the sum of (x) the average thirty day VWAP per share of Common Stock multiplied by the number of shares of Common Stock that the redeemed Convertible Notes are then convertible into and (y) the accrued but unpaid interest on the Convertible Notes.

If the Convertible Notes are redeemed prior to June 30, 2017, the Company is required to pay a premium equal to the greater of (i) the sum of (a) the amount of principal of the Convertible Notes redeemed, plus (b) the accrued but unpaid interests on the principal amount so redeemed to the date of the redemption, plus (c) a “make whole” amount (described below) and (ii) the sum of (x) the average thirty day volume-weighted average price per share of Common Stock multiplied by the number of shares of Common Stock that the redeemed Convertible Notes are then convertible into and (y) the accrued but unpaid interest on the Convertible Notes. The “make whole” amount is equal to the excess, if any, of (1) the present value at the date of redemption of (A) 115% of the principal amount of the Convertible Notes redeemed, plus (B) all remaining scheduled interest due on the principal amount of the notes being redeemed through June 30, 2017 computed using a discount rate equal to the Treasury rate as of the date of redemption plus 50 basis points over (2) the outstanding principal amount of the Convertible Notes then redeemed.

The Company has granted the Noteholders preemptive rights with respect to future equity issuances by the Company, subject to
customary exceptions.

In connection with the placement of the Convertible Notes, on June 30, 2014, the Company entered into a registration rights agreement (the Registration Rights Agreement) with the Noteholders, which sets forth the rights of the Noteholders to have the shares of Common Stock issuable upon conversion of the Convertible Notes registered with the Securities and Exchange Commission (the SEC) for public resale under the Securities Act of 1933, as amended. Pursuant to the Registration Rights Agreement, the Company is required to file a registration statement with the SEC (the Initial Registration Statement) on or prior to January 2, 2015, registering the shares of Common Stock issuable upon conversion of the Convertible Notes. The Company is required to use its reasonable best efforts to have the Initial Registration Statement declared effective as promptly as possible following the filing thereof and, in any event, by no later than by March 31, 2015. In addition, the agreement gives the Noteholders the ability to exercise certain piggyback registration rights in connection with registered offerings by the Company.

9. CONVERTIBLE NOTES DERIVATIVE LIABILITY

Derivative financial instruments, as defined in ASC 815, Accounting for Derivative Financial Instruments and Hedging Activities, consist of financial instruments or other contracts that contain a notional amount and one or more underlyings (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets.

The Company does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company has issued Convertible Notes with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by ASC 815, in certain instances, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

The Convertible Notes issued in conjunction with the MSN acquisition are subject to anti-dilution adjustments that allow for the reduction in the Conversion Price, as defined in the agreement, in the event the Company subsequently issues equity securities including Common Stock or any security convertible or exchangeable for shares of Common Stock for a price less than the current conversion price. In addition, the Convertible Notes allows the issuer to exercise optional redemption features and the holder to exercise an offer to purchase feature, under certain conditions. The Company accounted for the conversion option in accordance with ASC 815. Since this conversion feature is not considered to be solely indexed to the Company’s own stock the derivative was recorded as a liability.

The Company’s Convertible Notes derivative liability has been measured at fair value at June 30, 2014 using a trinomial lattice model. The optional redemption features along with the offer to purchase features are incorporated in to the valuation model. In addition, since the conversion price contains an anti-dilution adjustment, the probability that the Conversion Price of the Notes would decrease as the share price decreased was also incorporated into the valuation calculation.

The inputs into the valuation model are as follows:

	June 30, 2014
Closing share price	$6.52
Conversion price	$7.10
Risk free rate	1.94%
Expected volatility	40%
Dividend yield	—%
Expected life	6 years

The fair value of the convertible note payable derivative liability was $6.8 million at June 30, 2014.

10. FAIR VALUE MEASUREMENTS

ASC 820, Fair Value Measurements and Disclosures, 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.

Items Measured at Fair Value on a Recurring Basis:

At June 30, 2014 and December 31, 2013, the Company's financial assets/liabilities required to be measured on a recurring basis were its deferred compensation liability included in other long-term liabilities, Convertible Notes derivative liability and contingent consideration receivable related to the sale of its clinical trial services business.

Deferred compensation —The Company utilizes Level 1 inputs to value its deferred compensation liability. The Company's deferred compensation liability is measured using publicly available indices that define the liability amounts, as per the plan documents.

Convertible Notes derivative liability - The Company utilizes Level 3 inputs to value its Convertible Notes derivative liability. See Note 9 - Convertible Notes Derivative Liability for further information.

Contingent consideration receivable—The earn out related to the Company's sale of its clinical trial services business is treated as a contingent consideration receivable for accounting purposes. The Company utilizes Level 3 inputs to value its contingent consideration receivable as significant unobservable inputs are used in the calculation of its fair value and are related to future performance of the disposed business. The fair value of the contingent consideration receivable will be adjusted to its fair value on a quarterly basis with the adjustment to the related receivable and the gain/loss on the sale of assets (included in discontinued operations). The future performance of the disposed business directly impacts the contingent consideration that could be paid to the Company, thus performance that exceeds target could result in a higher payout, and a performance under target could result in a lower payout. As of June 30, 2014, the Company assigned no value to the performance earn-out based on recent information available to the Company. See Note 4 - Discontinued Operations for further information.

The table which follows summarizes the estimated fair value of the Company’s financial assets and liabilities measured on a recurring basis as of June 30, 2014 and December 31, 2013:

Fair Value Measurements
(amounts in thousands)

	June 30, 2014	December 31, 2013
Financial Liabilities:	(amounts in thousands)	
(Level 1)		
Deferred compensation	$ 1,424	$ 1,638
(Level 3)		
Convertible Notes derivative liability (a)	6,765	—

(a) Embedded derivative included in long-term debt on the condensed consolidated balance sheets. See Note 9 - Convertible Notes Derivative Liability for further information.

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

As required by ASC 805, Business Combinations, the Company estimated the fair value of the net assets acquired of the MSN acquisition. Refer to Note 3 - Acquisitions for further information.

If required by ASC 350, Intangibles-Goodwill and Other, the Company’s goodwill and other identifiable intangible assets are measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). Goodwill and other identifiable intangible assets with indefinite lives are reviewed for impairment annually, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets and identifiable intangible assets are also reviewed for impairment whenever events or changes in circumstances indicate that amounts may not be recoverable. If the testing performed indicates that impairment has occurred, the Company records a non-cash impairment charge for the difference between the carrying amount of the goodwill or other intangible assets and the implied fair value of the goodwill or other intangible assets in the period the determination is made.

Other Fair Value Disclosures:

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

The Company recorded the $3.75 million indemnity escrow funds related to the sale of its clinical trial services business as an escrow receivable (see Note 4 - Discontinued Operations for more information), and will adjust the amount to the estimated fair value each reporting period based on any known information. As of June 30, 2014, the fair value of the escrow receivable approximates its carrying amount based on the short-term nature of the receivable.

The following table represents the carrying amounts and estimated fair values of the Company's significant financial instruments that were not measured at fair value:

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Level 2)		(amounts in thousands)		
Financial Assets:				
Escrow Receivable	$3,750	$3,750	$3,750	$3,700
Financial Liabilities:				
Second Lien Term Loan, net	$28,875	$28,875	$—	$—
Convertible Notes, net	$17,298	$17,298	$—	$—
Senior Secured Asset-Based (a)	$11,605	$11,605	$8,400	$8,400

(a) Carrying value of the Senior Secured Asset-Based approximates estimated fair value based on the short-term nature and the pricing at varying interest rates.

Concentration of Risk:

The Company has invested its excess cash in highly-rated overnight funds and other highly-rated liquid accounts. The Company has been exposed to credit risk associated with these investments. The Company minimizes its credit risk relating to these positions by monitoring the financial condition of the financial institutions involved and by primarily conducting business with large, well established financial institutions and diversifying its counterparties.

The Company generally does not require collateral and mitigates its credit risk by performing credit evaluations and monitoring at-risk accounts. The allowance for doubtful accounts represents the Company's estimate of uncollectible receivables based on a review of specific accounts and the Company's historical collection experience. The Company writes off specific accounts based on an ongoing review of collectability as well as past experience with the customer. The Company's contract terms typically require payment between 15 to 60 days from the date services are provided and are considered past due based on the particular negotiated contract terms. Overall, based on the large number of customers in differing geographic areas, throughout the United States and its territories, the Company believes the concentration of credit risk is limited.

11. STOCKHOLDERS' EQUITY

Stock Repurchase Program

During both the six months ended June 30, 2014 and 2013, the Company did not repurchase any shares of its Common Stock under its February 2008 Board authorization.

As of June 30, 2014, the Company may purchase up to an additional 942,443 shares of Common Stock under the February 2008 Board authorization, subject to certain conditions in the Company's First Lien Loan Agreement and Second Lien Term Loan Agreement. At June 30, 2014, the Company had 31,238,871 shares of Common Stock outstanding.

Share-Based Payments

On March 11, 2014, the Board of Directors approved an amendment and restatement of the Company's 2007 Stock Incentive Plan (amended and restated effective March 20, 2013) (the "Stock Incentive Plan"), which was renamed the 2014 Omnibus Incentive Plan. The Stock Incentive Plan as amended and restated is referred to below as the Omnibus

Plan. The Omnibus Plan approval was subject to, and became effective upon, stockholder approval at the Annual Meeting held on May 13, 2014 (the date of such approval is referred to below as the “2014 Restatement Date”). The Omnibus Plan generally incorporates the provisions of the Stock Incentive Plan as currently in effect and includes the following key modifications:

- Increase of the Aggregate Share Reserve. The aggregate share reserve was increased by an additional 600,000 shares for a total share reserve of 4,100,000 shares under the Omnibus Plan.

- Removal of Non-Appreciation Award Limit. In connection with the increase in the aggregate share reserve, the limit on the number of awards that are not “appreciation awards” (i.e., restricted stock and restricted stock units) that may be granted under the Omnibus Plan was removed.

- Performance-Based Cash Awards. The Omnibus Plan includes performance-based cash awards that may be granted with the intent to comply with the “performance-based compensation” exception under Section 162(m) of the Internal Revenue Code.

- Term Extension. The term of the Amended Plan was extended until March 10, 2024 (the 2007 Stock Incentive Plan was scheduled to expire on April 5, 2017).

- Added pre-tax income as a metric to measure performance based equity awards.

During the six months ended June 30, 2014, 351,240 restricted stock awards and 239,585 performance stock awards were granted under the Omnibus Plan to the Company's non-employee Directors and management team. Pursuant to the Onmibus Plan the number of target shares that are issued for performance stock awards are determined based on the level of attainment of the targets. If the minimum level of performance is attained, restricted stock will be issued and with a vesting date of December 31, 2016, subject to the employee’s continuing employment.

The following table summarizes restricted stock awards and performance stock awards activity for the six months ended June 30, 2014:

	Restricted Stock Awards		Performance Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Target Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock awards, January 1, 2014	552,231	$5.37	—	$—
Granted	351,240	$6.03	239,585	$5.81
Vested	(173,479)	$5.78	—	$—
Forfeited	(78,623)	$5.37	(14,623)	$5.77
Unvested restricted stock awards, June 30, 2014	651,369	$5.62	224,962	$5.82

During the three and six months ended June 30, 2014, $0.1 million and $0.5 million, respectively, was included in selling, general and administrative expenses related to share-based payments. In addition, a net of 135,534 restricted shares of Common Stock vested in the three and six months ended June 30, 2014.

During the three and six months ended June 30, 2013, $0.6 million and $1.2 million, respectively, was included in selling, general and administrative expenses related to share-based payments. In addition, a net of 180,613 restricted shares of Common Stock vested in the three and six months ended June 30, 2013.

12. SEGMENT DATA

In accordance with the ASC 280, Segment Reporting Topic of the FASB ASC, the Company reports three business segments – nurse and allied staffing, physician staffing, and other human capital management services, described below:

Nurse and allied staffing - The nurse and allied staffing segment provides traditional staffing, including temporary and permanent placement of travel nurses and allied professionals, and branch-based local nurses and allied staffing. Its clients include: public and private acute-care and non-acute care hospitals, government facilities, schools, outpatient clinics, ambulatory care facilities, retailers, and many other healthcare providers throughout the U.S. The Company aggregates its various brands that it markets to its customers in this business segment.

Physician staffing – The physician staffing business segment provides physicians in many specialties, certified registered nurse anesthetists (CRNAs), nurse practitioners (NPs) and physician assistants (PAs) under the Company's Medical Doctor Associates (MDA) brand as independent contractors on temporary assignments throughout the U.S. at various healthcare facilities, such as acute and non-acute care facilities, medical group practices, government facilities, and managed care organizations. The physician staffing business also provides certain other employees on a temporary basis to its customers.

Other human capital management services - The other human capital management services business segment provides education and training programs to the healthcare industry and retained search services for physicians and healthcare executives within the U.S.

The Company's management evaluates performance of each segment primarily based on revenue and contribution income. The Company's management does not evaluate, manage or measure performance of segments using asset information; accordingly, asset information by segment is not prepared or disclosed. The information in the following table is derived from the segments' internal financial information as used for corporate management purposes. Certain corporate expenses are not allocated to and/or among the operating segments.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013 (a)	2014	2013 (a)
	(amounts in thousands)			
Revenues:				
Nurse and allied staffing	$82,616	$65,656	$162,809	$136,729
Physician staffing	30,849	34,837	59,985	64,580
Other human capital management services	9,191	10,275	17,953	19,775
	$122,656	$110,768	$240,747	$221,084
Contribution income (b):				
Nurse and allied staffing (c)	$6,652	$3,493	$12,621	$8,667
Physician staffing	1,874	2,562	2,625	4,788
Other human capital management services	(232)	534	(66)	824
	8,294	6,589	15,180	14,279
Unallocated corporate overhead (c)	5,057	5,486	11,380	11,787
Depreciation	817	1,040	1,791	2,062
Amortization	784	566	1,569	1,132
Acquisition and integration costs	2,747	—	3,042	—
Restructuring costs	755	375	755	375
Legal settlement charge	—	750	—	750
Loss from operations	$(1,866)	$(1,628)	$(3,357)	$(1,827)

(a) Prior year data has been reclassified to conform to the current year's presentation. Effective January 1, 2014, the Company merged its Allied Health Group, LLC subsidiary with its Medical Doctor Associates, LLC subsidiary. The decision to merge these companies was based on a number of factors including the consolidation of back office processes and other operational efficiencies. Along with this merger, the Company evaluated the Allied Health Group trade name and determined that it would be more valuable to use it for the Company's nurse and allied staffing business, and as a result, transferred the trade name effective January 1, 2014.

The allied health staffing business of MDA has primarily consisted of higher-level allied professionals, such as physician assistants and nurse practitioners, whose job functions are becoming increasingly more similar to those of physicians than to other allied health professionals. The 2014 change in legal structure and processes, along with the current market dynamics has changed the Company’s approach/conclusion to aggregate this business with its nurse and allied staffing business segment for 2014. The Company has revised its segments for 2014 reporting to include this business with its physician staffing business segment.

(b) The Company defines contribution income as income or loss from operations before depreciation, amortization, acquisition and integration costs, restructuring costs, legal settlement charges, impairment charges 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 ASC 280, Segment Reporting.

(c) In 2014, the Company refined its methodology for allocating certain corporate overhead expenses to its nurse and allied staffing segment to more accurately reflect this segment's profitability. Prior year information has been reclassified to conform to current year presentation.

13. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has entered into non-cancelable operating lease agreements for the rental of office space and equipment. Certain of these leases include options to renew as well as rent escalation clauses and in certain cases, incentives from the landlord for rent-free months and allowances for tenant improvements.

Future minimum lease payments, as of June 30, 2014, associated with these agreements with terms of one year or more are as follow:

Through Year Ending December 31:	(amounts in thousands)
2014	$3,868
2015	6,774
2016	5,381
2017	3,778
2018	1,619
Thereafter	2,623
	$24,043

Legal Contingencies

On December 4, 2012, the Company's subsidiary, CC Staffing, Inc. (now known as Travel Staff, LLC) became the subject of a purported class action lawsuit (Alice Ogues, on behalf of herself and all others similarly situated, Plaintiffs, vs. CC Staffing, Inc., a Delaware corporation; and DOES 1-50, inclusive, Defendants) filed in the United States District Court, Northern District of California. Plaintiff alleges that traveling employees were denied meal periods and rest breaks, that they should have been paid overtime on reimbursement amounts, various other wage and hour claims, and that they are entitled to associated penalties. In 2013, the parties agreed to settle this lawsuit for $0.8 million with the understanding that such settlement is not an admission by the Company of any liability, negligence or wrong doing. The settlement amount has been accrued for and is included in other current liabilities on its consolidated balance sheets. The United States District Court, Northern District of California granted preliminary approval of the settlement on January 17, 2014, subject to the inclusion of language requiring a five-day cure period for deficient requests for exclusion from class members. On February 6, 2014, the parties amended the settlement agreement to include such language. A hearing for final approval of the settlement agreement was held in May 2014. The Company expects the Court to grant final approval of the settlement during the fourth quarter of 2014.

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.

Sales & Other State Non-income Tax Liabilities

The Company's sales and other state non-income tax filings are subject to routine audits by authorities in the jurisdictions where it conducts business in the United States which may result in assessments of additional taxes. The Company accrues sales and other non-income tax liabilities based on the Company's best estimate of its probable liability utilizing currently available information and interpretation of relevant tax regulations. Given the nature of the Company's business, significant subjectivity exists as to both whether sales and other state non-income taxes can be assessed on its activity and how the sales tax will ultimately be measured by the relevant jurisdictions. The Company makes a determination for each reporting period whether the estimates for sales and other non-income taxes in certain states should be revised. The expense is included in selling, general and administrative expenses on its condensed consolidated statements of operations and the liability is reflected in sales tax payable as of December 31, 2013 and June 30, 2014, on its condensed consolidated balance sheets.

14. INCOME TAXES

When projected taxable income for the full year is close to break-even, the expected annual effective tax rate becomes volatile and will distort the income tax provision for an interim period. When this happens the Company calculates the income tax provision or benefit using the year-to-date effective tax rate in accordance with the ASC 740, Income Taxes, paragraphs 270-30-18. This cut-off method results in an income tax provision or benefit based solely on the year-to-date pretax income or loss as adjusted for permanent differences on a pro rata basis.

For the periods ended June 30, 2014 and 2013 the Company has calculated its effective tax rate based on year-to-date results (under ASC 740-280-30-18) as opposed to estimating its annual effective tax rate. The Company’s effective tax rate for continuing operations for the three and six months ended June 30, 2014 was (46.3)% and 1.6%, respectively, including the impact of discrete items. Excluding discrete items, the Company’s effective tax rate for continuing operations for the three and six