

CROSS COUNTRY HEALTHCARE INC

Form 10-Q

November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2018

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 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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The registrant had outstanding 36,250,734 shares of Common Stock, par value \$0.0001 per share, as of October 26, 2018.

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, 2017, 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.

CROSS COUNTRY HEALTHCARE, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,065	\$ 25,537
Accounts receivable, net of allowances of \$3,263 in 2018 and \$3,688 in 2017	167,200	173,603
Prepaid expenses	5,870	5,287
Insurance recovery receivable	3,287	3,497
Other current assets	1,821	963
Total current assets	206,243	208,887
Property and equipment, net of accumulated depreciation of \$33,808 in 2018 and \$30,678 in 2017	13,431	14,086
Goodwill	117,589	117,589
Trade names	26,702	26,702
Other intangible assets, net	55,599	60,976
Non-current deferred tax assets	17,160	20,219
Other non-current assets	20,214	19,228
Total assets	\$ 456,938	\$ 467,687
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 50,268	\$ 50,597
Accrued compensation and benefits	31,666	34,271
Current portion of long-term debt	7,454	6,875
Other current liabilities	2,567	2,845
Total current liabilities	91,955	94,588
Long-term debt, less current portion	83,132	92,259
Long-term accrued claims	30,566	28,757
Contingent consideration	5,257	5,088
Other long-term liabilities	8,773	9,276
Total liabilities	219,683	229,968
Commitments and contingencies		
Stockholders' equity:		
Common stock	4	4
Additional paid-in capital	302,007	305,362
Accumulated other comprehensive loss	(1,033)	(1,166)
Accumulated deficit	(64,371)	(67,111)
Total Cross Country Healthcare, Inc. stockholders' equity	236,607	237,089
Noncontrolling interest in subsidiary	648	630
Total stockholders' equity	237,255	237,719

Total liabilities and stockholders' equity	\$ 456,938	\$ 467,687
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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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue from services	\$200,717	\$228,488	\$615,577	\$645,374
Operating expenses:				
Direct operating expenses	149,155	168,008	456,573	475,091
Selling, general and administrative expenses	44,086	47,346	135,004	141,182
Bad debt expense	502	433	1,312	1,082
Depreciation and amortization	2,892	2,849	8,764	7,325
Acquisition-related contingent consideration	16	(605)	449	(54)
Acquisition and integration costs	70	1,366	261	1,953
Restructuring costs	1,351	724	1,979	724
Total operating expenses	198,072	220,121	604,342	627,303
Income from operations	2,645	8,367	11,235	18,071
Other expenses (income):				
Interest expense	1,512	1,221	4,225	2,975
Gain on derivative liability	—	—	—	(1,581)
Loss on early extinguishment of debt	36	—	36	4,969
Other income, net	(170)	(57)	(369)	(116)
Income before income taxes	1,267	7,203	7,343	11,824
Income tax expense	1,385	159	3,717	1,278
Consolidated net (loss) income	(118)	7,044	3,626	10,546
Less: Net income attributable to noncontrolling interest in subsidiary	323	321	886	983
Net (loss) income attributable to common shareholders	\$(441)	\$6,723	\$2,740	\$9,563
Net (loss) income per share attributable to common shareholders - Basic	\$(0.01)	\$0.19	\$0.08	\$0.28
Net (loss) income per share attributable to common shareholders - Diluted	\$(0.01)	\$0.19	\$0.08	\$0.24
Weighted average common shares outstanding:				
Basic	35,594	35,748	35,682	34,768
Diluted	35,594	36,036	35,881	36,179

See accompanying notes to the condensed consolidated financial statements

CROSS COUNTRY HEALTHCARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Consolidated net (loss) income	\$(118)	\$7,044	\$3,626	\$10,546
Other comprehensive income, before income tax:				
Unrealized foreign currency translation (loss) gain	(94)	(15)	(184)	43
Unrealized gain on interest rate contracts	203	—	222	—
Reclassification adjustment to interest expense	62	—	148	—
	171	(15)	186	43
Taxes on other comprehensive income:				
Income tax benefit related to foreign currency translation adjustments	(24)	—	(41)	—
Income tax expense related to unrealized gain on interest rate contracts	51	—	56	—
Income tax expense related to reclassification adjustment to interest expense	16	—	38	—
	43	—	53	—
Other comprehensive income (loss), net of tax	128	(15)	133	43
Comprehensive income	10	7,029	3,759	10,589
Less: Net income attributable to noncontrolling interest in subsidiary	323	321	886	983
Comprehensive (loss) income attributable to common shareholders	\$(313)	\$6,708	\$2,873	\$9,606

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)

	Nine Months Ended	
	September 30,	2017
	2018	
Cash flows from operating activities		
Consolidated net income	\$ 3,626	\$ 10,546
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,764	7,325
Provision for allowances	3,658	3,071
Deferred income tax expense	3,046	1,609
Gain on derivative liability	—	(1,581)
Loss on early extinguishment of debt	36	4,969
Write-off of property and equipment	643	—
Equity compensation	2,364	3,083
Other non-cash costs	775	508
Changes in operating assets and liabilities:		
Accounts receivable	2,745	3,337
Prepaid expenses and other assets	(1,145))