CROSS COUNTRY HEALTHCARE INC
Form 10-K
March 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2018

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number 0-33169

Cross Country Healthcare, Inc.
(Exact name of registrant as specified in its charter)

Delaware	13-4066229
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5201 Congress Avenue, Suite 100B
Boca Raton, Florida 33487
(Address of principal executive offices, zip code)

Registrant’s telephone number, including area code: (561) 998-2232

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 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). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act: Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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 check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of Common Stock on June 30, 2018 of $11.25 as reported on the NASDAQ National Market, was $395,272,643. This calculation does not reflect a determination that persons are affiliated for any other purpose.

As of February 22, 2019, 36,139,876 shares of Common Stock, $0.0001 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement, for the 2019 Annual Meeting of Stockholders, which statement will be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Report, are incorporated by reference into Part III hereof.

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PART IV

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

Forward-Looking Statements

In addition to historical information, this Form 10-K 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", "appears", "seeks", "will" and variations of such words and similar exp 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. Factors that might cause such differences include, but are not limited to, those discussed in the section entitled "Item 1A - Risk Factors." Readers should also carefully review the "Risk Factors" section contained in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in fiscal year 2019.

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.

PART I

Item 1. Business.

Overview of Our Company

Cross Country Healthcare, Inc. (NASDAQ: CCRN) is a national leader in providing healthcare staffing, recruiting and value-added workforce solutions. Through a full suite of innovative workforce solutions and a national presence including 73 office locations throughout the United States (U.S.), we are able to meet the unique and dynamic needs of our clients. By utilizing our various solutions, clients are able to better plan their personnel needs, outsource recruitment processes, strategically flex their workforce, access quality healthcare personnel, and provide continuity of care for improved patient outcomes.
Our solutions are geared towards assisting our clients in maintaining high quality outcomes by addressing their healthcare workforce needs. We are increasingly being called upon by our clients to provide more creative and strategic talent sourcing strategies with respect to nurses, doctors, allied healthcare professionals, and healthcare executives, all on a temporary and permanent basis. Over the past several years, our workforce solutions have evolved into a total talent management relationship as our clients continue to focus on improving labor management to address complex financial, compliance, and other challenges in the healthcare industry. As part of this evolution of our services, we continue to consider the following: (1) solving the immediate and future needs of our customers and healthcare professionals; (2) enhancing our network of healthcare professionals and deepening our relationship with them; (3) expanding our service offerings to reduce sensitivity to economic cycles; (4) expanding our expertise with various healthcare solutions in various geographic areas of the U.S. and (5) continuing to diversify our client base to enhance our long-term business prospects. Today, our workforce solutions include:

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Managed Service Programs (MSPs). The market has continued to shift towards a centralized model for managing contingent labor for both clinical and non-clinical needs. We have been a market leader in this area since launching our first MSP in 2003, an account we continue to serve today. Over the past 15 years, we have grown our relationships and today service more than 70 clients across more than 900 facilities, with estimated spend under management of approximately $400 million annually. The benefits to our clients not only include reduced costs and increased visibility into their needs and usage, but they gain access and insight from our industry expertise on a broad range of topics. In 2017, we acquired Advantage RN, LLC (Advantage) to supplement the number of nurses we place at our MSP clients, increase our capture rate at those accounts, and reduce the number of positions we outsource to subcontractors. In addition, Advantage provides a vehicle for us to cross-sell our MSP solutions to Advantage's clients and increase our footprint in the Midwest where Advantage is located.

- Optimal Workforce Solutions (OWS). The acquisition of Medical Staffing Network in 2014 provided us with a platform to provide outsourced services to large hospital systems to more efficiently manage certain professionals.

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- Education Healthcare Staffing Services. In 2015, we acquired an education healthcare staffing company, Mediscan, which further diversified our customer base to staff speech language pathologists, physical therapists, and other healthcare workers in schools (public, charter and private) as mandated by the government. This business serves to reduce our sensitivity to economic cycles.
- Recruitment Process Outsourcing (RPO). In 2016, we acquired an RPO business, US Resources Healthcare, which allows us to deliver financial and operating efficiencies to our customers through labor optimization services while enhancing the quality of care. In 2018, we acquired American Personnel, Inc. (AP Staffing) which also provides RPO services in addition to other strategic solutions.
- Internal Resource Pool Consulting & Development (IRP). We strategically partner with our clients to set up, administer and manage an IRP or to optimize an existing IRP to create efficiencies for our clients by balancing their workforce mix to meet their current needs.
- Electronic Medical Record Transition Staffing (EMR). As healthcare facilities continue to enhance and optimize their electronic medical record technology, we provide a staffing plan and an organized volume of quality healthcare professionals during the process so that our clients may continue to deliver quality care.
- Consulting Services. In 2018, we acquired AP Staffing located in Boston. In addition to providing temporary and permanent staffing solutions and MSP solutions, AP Staffing acts as a consultative partner with clients to perform, among other things, talent acquisition assessments, the development of requests for proposals, the management of vendor selection processes, and employer branding strategies.

Through a combination of our national reach and industry leading local presence in key markets, we are able to place clinical and non-clinical professionals across a diverse customer base. We believe that our branches provide a unique value proposition to both large and small clients alike as we are able to offer them a high-touch, consultative based approach to understanding the market on both a national and local level. Our acquisition of Medical Staffing Network in 2014 expanded our local presence throughout the U.S. and provided a larger geographic footprint of 55 offices to provide per diem and local contract staffing and support MSP clients in those areas. In August 2018, Staffing Industry Analysts reported that Cross Country Healthcare was the largest per diem staffing company in the U.S. The acquisitions of Allied Health Group in 2013, Medical Staffing Network in 2014, Mediscan in 2015, Advantage in 2017, and American Personnel, Inc. (AP Staffing) in 2018 have expanded our recruiting capabilities and supply of nursing and allied professionals who desire to be engaged on a travel, per diem and/or permanent basis throughout the course of their careers.

We started centralizing our back office, including technology, human resource, finance, and risk management resources in 2013, and we continue to centralize these functions in order to streamline processes and create efficiencies in pursuit of growth and profitability. In an effort to further optimize our processes, from 2014 to 2016 we replaced the front office operating systems of our branch operations, our physician staffing business and our executive and physician search business. In 2018, we began a project to replace the front-end operating system of our travel nurse business to improve our candidate experience and be more efficient. As part of our growth strategy, we are also embracing the way content, messaging and communication generally are being consumed differently and we are continuing to make investments in social media, mobile applications and other technology which we believe will continue enhancing our recruiting capabilities and the experience of our healthcare professionals. These marketing and technology strategies to retain talent more efficiently should serve to give us more leverage in the business and make the company more user-friendly for our corporate employees, our healthcare professionals and our clients.

We believe our strategy will allow us to expand our current business and capture rate at our MSP clients, increase the number and types of new customers we serve, grow the supply and types of specialties of our healthcare professionals, improve our operating leverage through growth and cost containment, and strengthen and broaden our market presence. This will require us to focus on (i) expanding our workforce solutions offerings to deepen our relationships with current customers and to attract new customers; (ii) expanding our local branch network to grow our local market presence and our MSP business; (iii) further diversifying our customer base into the public and charter school market; (iii) continuing to diversify and deepen our customer base in the local ambulatory care and retail market, which provides more balance between our large volume-based customers and our small local customers; (iv) better positioning ourselves to take additional market share in our MSP business; (v) accessing more candidates; and (vi) continuing to modernize our technologies and processes to optimize our relationships with our healthcare professionals and clients.

To successfully execute our business strategy, we will rely on our experienced and focused executive and operational teams. Our executive team has extensive experience in the staffing and healthcare industries. We also foster a culture of performance, talented leadership and collegiality that promotes the achievement of both company and personal goals. In 2018, Cross Country Staffing® was recognized as Best of Staffing. Advantage RN, Cross Country Allied, Cross Country TravCorps, Medical Doctor Associates, Medical Staffing Network, MedStaff, PharmStaff all received 2018 Talent ClearlyRated Best of Staffing Awards.

Services

We provide our services on a national level or through any one of our 66 local branches throughout the United States or through a combination of both. We service a variety of clients, including public and private acute care hospitals, public and charter schools, outpatient clinics, ambulatory care facilities, single and multi-specialty physician practices, rehabilitation facilities, urgent care centers, correctional facilities, government facilities, retailers, and many other healthcare providers.
Our business consists of three business segments: (i) Nurse and Allied Staffing; (ii) Physician Staffing; and (iii) Other Human Capital Management Services. Fees for our services are paid directly by our clients and in certain instances by vendor managers, and as a result, we have no direct exposure to Medicare or Medicaid reimbursements. For additional financial information concerning our business segments, see Note 17 - Segment Data to the consolidated financial statements. Through our business segments, we provide our healthcare clients with a wide range of workforce solutions as described above and staffing services as set forth below.

(1) Nursing and Allied Staffing. The Nurse and Allied Staffing segment provides workforce solutions and traditional staffing, including temporary and permanent placement of travel nurses and allied professionals, branch-based local nurses, and allied staffing. We provide flexible workforce solutions to the healthcare and school markets through diversified offerings designed to meet the special needs of each client, including: MSP, OWS, Educational Healthcare Services, RPO, IRP, EMR and consulting services. We market our services to hospitals and other customers through our Cross Country Staffing®, MSN, Allied Health Group, Advantage, Mediscan, AP Staffing, and DirectEd brands. We also market our services to healthcare professionals using a multi-brand strategy to segment the market and maximize our outreach to healthcare professionals. Our Nurse and Allied Staffing revenue and contribution income is set forth in Note 17 - Segment Data to the consolidated financial statements.

A majority of our revenue is generated from staffing registered nurses on long-term contract assignments (typically 13 weeks in length) at hospitals and health systems using various brands. Additionally, we offer a short-term staffing solution of registered nurses, licensed practical nurses, certified nurse assistants, advanced practitioners, pharmacists, and more than 100 specialties of allied professionals on local per diem and short-term assignments in a variety of clinical and non-clinical settings through our national network of local branch offices. We also provide travel allied professionals on long-term contract assignments to hospitals, public and charter schools, and skilled nursing facilities under the Cross Country Staffing, Mediscan, and DirectEd brands.

(2) Physician Staffing. We provide physicians in many specialties, certified registered nurse anesthetists (CRNAs), nurse practitioners (NPs), and physician assistants (PAs) under our MDA brand as independent contractors on temporary assignments throughout the United States at various healthcare facilities, such as acute and non-acute care facilities, medical group practices, government facilities, and managed care organizations. We recruit these professionals nationally and place them on assignments varying in length from several days up to one year. Our Physician Staffing revenue and contribution income is set forth in Note 17 - Segment Data to the consolidated financial statements.

(3) Other Human Capital Management Services. We provide retained and contingent search services for physicians, healthcare executives, nurses, advanced practice, and allied health professionals. The revenue and contribution income of our Other Human Capital Management Services Segment is set forth in Note 17 - Segment Data to the consolidated financial statements. Our Cejka Search® brand recruits healthcare talent for organizations nationwide through a team of experienced professionals, advanced use of recruitment technology, and commitment to service excellence. Serving clients nationwide, Cejka completes hundreds of search assignments annually for organizations, including, but not limited to, physician group practices, hospitals and health systems, academic medical centers, accountable care organizations, managed care, and other healthcare organizations.

Our Business Model

The recruitment and retention of a sufficient number of qualified healthcare professionals to work temporary assignments on our behalf is critical to the success of our business. Healthcare professionals choose temporary assignments for a variety of reasons that include seeking flexible work opportunities, exploring diverse practice settings, building skills and experience by working at prestigious healthcare facilities, avoiding the demands and political environment of working as permanent staff, working through life and career transitions, and as a means of access into a permanent staff position.

(1) Our Healthcare Professionals. Within our Nurse and Allied segment, we operate differentiated brands to recruit nurses and allied professionals. We believe our multi-brand recruiting model helps us reach a larger volume and a more diverse group of candidates to fill open positions at our clients throughout the United States in various clinical and non-clinical settings and in many different geographic areas. Our company is well positioned, as nurses and allied professionals routinely seek a wide range of diverse assignments in attractive locations, with competitive compensation and benefit packages, scheduling options, as well as a high level of service. In addition, we believe nurses and allied professionals are confident we will have new assignments for them as they complete their current assignment. Our competitive benefits generally include professional liability insurance, a 401(k) plan, health insurance, reimbursed travel, per diem allowances, and housing. Each of our nurse and allied healthcare professionals is employed by us and is typically paid hourly wages and any other benefits they are entitled to receive during the assignment period.

Recruiters are an essential element of our Nurse and Allied Staffing business, and are responsible for establishing and maintaining key relationships with candidates for the duration of their assignments with us. Recruiters match the supply of qualified candidates in our databases with the demand for open orders posted by our clients. While we rely on word-of-mouth for referrals to access candidates, we also market our brands on the Internet, including extensive utilization of social media, which has become an increasingly important component of our recruitment efforts. We maintain a number of websites to allow potential applicants to obtain information about our brands and assignment opportunities, as well as to apply online.

MDA recruits and contracts with physicians and advanced practice professionals to provide medical services for its healthcare customers. Each physician or advanced practice professional is an independent contractor and enters into an agreement with MDA to provide medical services at a particular healthcare facility or physician practice group based on terms and conditions specified by that customer. Physicians and advanced practice professionals are engaged to provide medical services for a healthcare customer ranging from a few days up to a year. We believe physicians are attracted to us because we offer a wide variety of assignments, competitive fees, medical malpractice insurance, and a high level of service to them. MDA relies on word-of-mouth referrals, but also markets it brands on the Internet and through extensive social media campaigns.

(2) Sales and Marketing. We market our Nurse and Allied Staffing services to our hospitals, healthcare facilities, schools, and other clients using our Cross Country Staffing, Medical Staffing Network™, Advantage, Allied Health Group, Mediscan, AP Staffing, and DirectEd brands. Cross Country Staffing typically contracts with our nurse and allied healthcare clients on behalf of itself and our other brands. Mediscan contracts with its hospitals, public schools, and charter schools under the Mediscan and DirectEd brands. Our traditional staffing includes temporary and permanent placement of travel nurses and allied professionals, branch-based local nurses and allied staffing, and physicians. We provide flexible workforce solutions to the healthcare and school markets through diversified offerings meeting the special needs of each client. Orders for open positions and other services are entered into our various databases and are available to recruiters. Account managers, who develop relationships with our clients to understand their specific settings and culture, submit candidate profiles to clients, and confirm offers and placements with them.

MDA markets its Physician Staffing operations to hospitals and other healthcare facilities throughout the U.S. Our recruiters use our extensive database of physicians and their expertise in their given specialties to contact physicians to schedule short and long-term engagements at healthcare customers. MDA operates a multi-site business model with employees at several locations.

Cejka markets its retained and contingent search services to healthcare clients primarily through industry professional organizations, direct marketing, its website, and by word-of-mouth.

(3) Credentialing and Quality Management. We screen all of our candidates prior to placement through our credentialing departments. Our credentialing processes are designed to ensure that our professionals have the requisite skillsets required by our customers, as well as the aptitude to meet the day-to-day requirements and

challenges they would typically encounter on assignments where they are placed. The credentialing of our nurse and allied healthcare professionals is designed to align with the guidelines of The Joint Commission, a national accrediting body, to ensure quality care. Our Cross Country University division, accredited by the American Nurse Credentialing Center, provides training, assessment, and professional development to further ensure the quality of the personnel we place on assignment. Our physician credentialing entity, Credent, is also certified by the National Committee for Quality Assurance (NCQA).

(4) Payment for Services. We negotiate payment for services with our clients based on market conditions and needs. We generally bill our nurse and allied employees at an hourly rate which includes all employer costs, including payroll, withholding taxes, benefits, professional liability insurance, meals and incidentals, and other requirements, as well as any travel and housing arrangements, where applicable. Our shared service center processes hours worked by field employees in the time and attendance systems, which in turn generate the billable transactions to our clients. Hours worked by independent contractor physicians are reported to our MDA office. For our physician and executive search business, Cejka typically bills its clients a candidate acquisition fee and is reimbursed for certain marketing expenses.

(5) Operations. Our Nurse and Allied and Physician Staffing businesses are operated through a relatively centralized business model servicing all assignment needs of our healthcare professional employees, physicians, and client healthcare facilities primarily through operation centers located in Boca Raton, Florida; Newtown Square, Pennsylvania; West Chester, Ohio; Woodland Hills, California; and Berkeley Lake, Georgia. In addition to the key sales and recruitment activities, certain of these centers also perform support activities such as coordinating housing, payroll processing, benefits administration, billing and collections, travel reimbursement processing, customer service, and risk management. Cejka Search primarily operates its business from its headquarters located in Creve Coeur, Missouri. This business operates relatively independently, other than certain ancillary services that are provided from our Boca Raton, Florida headquarters, such as payroll, legal, and information systems support. On December 31, 2018, we had 73 office locations.

(6) Information Systems. Various information systems are utilized to run our customer relationship management, recruitment, and placement functions based on our different brands. Some of these sophisticated applications are proprietary and are hosted in Tier 1 hosting facilities while other systems are Software as a Service (SaaS) based and hosted by our vendor partners. Our systems maintain detailed information about our client required skillsets and status which assist us in enabling fulfillment and assignment renewals. Our databases contain an extensive pool of existing and potential customers and all related recruitment and sales activity. Our financial and human resource systems are managed on leading enterprise resource planning software suites that manage certain aspects of accounts payable, accounts receivable, general ledger, billing, and human capital management. All of our systems are managed by our onshore and offshore Information Technology team.

(7) Risk Management, Insurance, and Benefits. We have developed a risk management program that requires prompt notification of incidents by clients, clinicians, and independent contractors, educational training to our employees, loss analysis, and prompt reporting procedures to reduce our risk of exposure. While we cannot predict the future, we continuously review facts and incidents associated with professional liability and workers’ compensation claims in order to identify trends and reduce our risk of loss in the future where possible. We consider assessments provided by our clients and we work with clinicians and experts from our insurance carriers to determine employment eligibility and potential exposure.

We provide workers’ compensation insurance coverage, professional liability coverage, and healthcare benefits for our eligible employed temporary professionals. We record our estimate of the ultimate cost of, and reserves for, workers' compensation and professional liability benefits based on actuarial models prepared or reviewed by an independent actuary using our loss history as well as industry statistics. In determining our reserves, we include reserves for estimated claims incurred but not reported. We also estimate on a quarterly basis the healthcare claims that have occurred but have not been reported based on our historical claim submission patterns. The ultimate cost of workers’ compensation, professional liability, and health insurance claims will depend on actual amounts incurred to settle those claims and may differ from the amounts reserved for such claims.
The Company maintains a number of insurance policies including general liability, workers’ compensation, fidelity, employment practices liability, fiduciary, directors and officers, cyber, property, and professional liability policies.

These policies provide coverage subject to their terms, conditions, limits of liability, and deductibles, for certain liabilities that may arise from our operations. There can be no assurance that any of the above policies will be adequate for our needs, or that we will maintain all such policies in the future.

Our Geographic Markets and Client Base

In 2018, 2017 and 2016, all of our revenue was generated in the United States, and all of our long-lived assets were located in the United States and India. On a company-wide basis, we have approximately 7,500 active contracts with healthcare clients, and we provide our staffing services and workforce solutions in all 50 states. During 2018, the largest percentage of our revenue was concentrated in New York, Florida, and California. We provide services to public and private acute care hospitals, public and charter schools, outpatient clinics, ambulatory care facilities, single and multi-specialty physician practices, rehabilitation facilities, urgent care centers, correctional facilities, government facilities, retailers, and many other healthcare providers. In 2018, 2017, and 2016 no client accounted for more than 5% of our revenue.

Our Industry

We compete in the U.S. temporary healthcare staffing and workforce solutions markets. Staffing Industry Analysts September 2018 report estimates the healthcare staffing markets in which we operate had an aggregate market size of $16.8 billion in 2018 of which $5.3 billion was travel nursing, $3.5 billion was per diem nursing, $4.0 billion was allied health and $4.0 billion was locum tenens and advanced practitioners. The demand for our services is impacted by many factors, however, we believe the most significant are the following:

Industry Demand Drivers

Economic Backdrop. The U.S. economy had a strong year in 2018, and according to the U.S. Bureau of Labor Statistics the job market showed continued signs of continued growth with unemployment at 3.9% as of December 2018. The strong U.S. economy has led to solid job growth, which we expect will result in more individuals receiving healthcare from their employers - thus supporting the demand for healthcare services. A growing U.S. economy coupled with a low unemployment rate typically results in an increase in demand for our services

Increased Need for Healthcare and Special Education Services in Schools. The Individuals with Disabilities Education Act (IDEA), enacted in 1975, mandates that children and youth ages 3-21 with disabilities be provided a free and appropriate public school education. According to the U.S. Department of Education, National Center for Education Statistic Report titled “The Condition of Education" (April 2018), the number of children and youth ages 3-21 receiving special education services was 6.7 million, or about 13% of traditional public and charter school enrollment. The IDEA requires that these children and young adults receive care from speech language pathologists, physical therapists, occupational therapists, nurses and other healthcare professionals while at school. Based on the foregoing, we believe the demand for consulting and healthcare staffing services for public schools and charter schools will continue to be strong for agencies that can provide consulting services, healthcare personnel, technical assistance on policies, implementation, and training related to children and youth with special needs in school settings.

Creation of Healthcare Jobs Outpacing Other Industries and Occupations. Healthcare represented 14% of all jobs created in 2018 (HealthleadersMedia.com, January 4, 2019). According to the Bureau of Labor Statistics, overall, employment is expected to grow 7.4%, far outpaced by employment in the healthcare industry (18%) and among healthcare occupations (18%) (Staffing Industry Analysts, December 14, 2017). This projected 18% growth varies, however, among three categories that make up the healthcare industry: (i) ambulatory healthcare services; (ii) nursing and residential care; and (iii) hospitals. Employment for ambulatory healthcare services is projected to grow 31%; nursing and residential care is projected to grow 13%, and hospital employment is projected to grow 6.8%. We expect the creation of additional jobs in the healthcare market will increase demand for our services as our temporary staff are typically hired to replace healthcare workers taking vacation and leaves of absence.

Outpatient/Ambulatory Settings Services Outpace Inpatient Services. According to the U.S. Census Bureau, the ambulatory healthcare services sector added 37,800 jobs in December 2018, while hospitals added 7,400 jobs in the same. We believe certain government initiatives previously taken, such as Medicare reimbursement incentives for reduced readmissions, have had a direct correlation to the shift from inpatient services to outpatient/ambulatory settings and job growth in that area. We believe this growth will have a positive impact on demand for healthcare staffing services in outpatient/ambulatory settings.

Hospitals Seeking Efficiencies Through Various Workforce Solutions. Hospitals continue to face pressure to keep costs down. In addition, the national shift away from volume-based pricing to value-based pricing has continued. We believe these dynamics continue to put pressure on hospitals to find innovative solutions in order to better manage their workforce, which accounts for a large portion of their expenses. As a result, we believe healthcare facilities and providers will continue to utilize workforce solutions, such as MSP, RPO, IRP, and other talent management tools to help them solve these problems and maintain their quality of care.

Macro Drivers of Demand. The Affordable Care Act (ACA) increased the number of insured patients over the past few years, especially in states that expanded Medicaid. It has been reported that the effect of the ACA on healthcare utilization has been that 20 million people gained health insurance coverage. However, the elimination of the individual mandate and other efforts by the current administration may negatively impact the number of individuals with health insurance coverage. In addition, two other long-term macro drivers of our business, a growing and aging U.S. population, should continue to drive demand for our services. According to the U.S. Census Bureau, the number of persons aged 65 and over is expected to increase to 98 million in 2060, which is important because the utilization of healthcare services is generally higher among older people.

Supply of Nurses. The Georgetown University Center on Education and the Workforce (CEW) predicts a shortage of 192,620 nurses in 2020, which differs from the surplus of nurses predicted for 2025 by the Health Resources and Services Administration (HRSA) National Center for Health Workforce Analysis (Georgetown University Center on Education and the Workforce (CEW), Forecasts of Nursing Demand 2015). However, with healthcare now representing almost 20% of the U.S. economy, the aging of the U.S. population, and the expanded healthcare coverage under the ACA, both the CEW and HRSA agree that demand for healthcare services and healthcare workers will continue to grow. In addition, by 2030 it is expected that almost a million nurses will retire and leave the workforce taking with them the years of knowledge and experience they have accumulated (Modern Healthcare, Nursing Shortage In Perspective, January 1, 2018). There is also an imbalance of RNs at the state level where many states are projected to experience a smaller growth in RN supply relative to their state-specific demand, resulting in a geographical shortage of RNs by 2025. A shortfall of registered nurses in particular specialties is also expected over the next ten years (Georgetown University CEW, Forecasts of Nursing Demand 2015). We believe these geographic and specialty related shortages should have a positive effect on demand for our services as temporary nurse staffing orders typically increase when nurse vacancy rates rise.

Physician Shortage. According to the Association of American Medical Colleges (AAMC), the United States is expected to face a shortage of physicians over the next decade. The projections show a shortage ranging between 61,700 and 94,700 in 2025 as demand for physicians continues to outpace supply, according to AAMC, with a significant shortage showing among many surgical specialties. In addition, according to the Association of American Medical Colleges (AAMC), 44.1% of physicians in the U.S. is age 55 or older and nearing retirement and, while the number of applicants to U.S. medical schools is increasing, it is not expected to keep pace with expected future demand. This is a significant factor in the demand for locum tenens services.

Industry Competition

The workforce solutions and healthcare staffing industries are highly competitive. We compete on a national, regional, and local basis in both industries for healthcare clients and healthcare professionals. We are one of the largest providers in the U.S. of workforce solutions in the healthcare industry and nurse and allied healthcare staffing. In both of these industries, we compete with a few national competitors together with numerous smaller, regional, and local companies, particularly in the per diem business.

The principal competitive factors in attracting, retaining, and expanding business with healthcare clients nationally include: (i) understanding the client’s work environment; (ii) offering a comprehensive suite of services to assist the client in assessing its personnel needs and partnering with clients to design various customizable alternative solutions; (iii) the timely filling of clients' needs; (iv) price; (v) customer service; (vi) quality assurance and screening capabilities; (vii) risk management policies; (viii) insurance coverage; and (ix) general industry reputation.

We believe we benefit competitively from the breadth and expertise of value-added workforce solutions that we offer. We also have the ability to meet a national shift towards a more integrated delivery of healthcare through our extensive branch network which allows us to assist hospitals and health systems turning to lower-cost, more accessible alternatives, such as outpatient or ambulatory care centers. By offering travel, per diem, and permanent placement of a variety of healthcare professionals, we are able to offer many different types of personnel to hospitals and health systems at their main campuses and their ambulatory and outpatient facilities. In addition, our joint venture with a large health system's staffing subsidiary provides us with a unique insight into the challenges facing many of our hospital clients generally and this provides us with the opportunity to better serve all of our clients by designing and implementing workforce solutions to meet their needs.

The principal competitive factors in attracting qualified healthcare professionals for temporary employment include: (i) a large national pool of desirable assignments; (ii) pay and benefits; (iii) speed of placements; (iv) customer service; (v) quality of accommodations; and (vi) overall industry reputation. We focus on retaining healthcare professionals by providing high-quality customer service, long-term benefits (to employees), and medical malpractice insurance.

From a candidate attraction standpoint, we have an extensive client base with hospitals and healthcare facilities, and other healthcare providers, throughout the U.S. As a result, we have a diverse choice of assignments for our healthcare professionals to choose from. Healthcare professionals apply with us through our differentiated nursing, locum tenens, and allied healthcare recruitment brands. Our local branch network also provides us access to local healthcare professionals who are uniquely qualified to provide care in ambulatory and outpatient settings. We believe our access to such a large and diverse group of healthcare professionals makes us more attractive to healthcare institutions and facilities seeking healthcare staffing and workforce solutions in the current dynamic marketplace.

We believe we are one of only two large full-service healthcare staffing providers with a national footprint; one of the top five providers of physician staffing services in the U.S.; and one of the top providers of retained and contingent physician and healthcare executive search services in the healthcare marketplace. Some of our competitors in the workforce solutions, healthcare staffing, and search businesses include: AMN Healthcare Services, Inc., CHG Healthcare Services, Maxim Healthcare, Jackson Healthcare, Aya Healthcare, HealthTrust Workforce Solutions, and Witt Kiefer.

Certifications

The staffing businesses of our Cross Country Staffing, Medical Staffing Network, Mediscan, Advantage, and AP Staffing brands are certified by The Joint Commission under its Health Care Staffing Services Certification Program. In addition, Credent Verification and Licensing Services, a subsidiary of MDA, is certified by the NCQA.

Regulations

Our business is subject to regulation by numerous governmental authorities in the jurisdictions in which we operate. Complex federal and state laws and regulations govern, among other things, the licensure of professionals, the payment of our employees (e.g., wage and hour laws, employment taxes and income tax withholdings, etc.), and the operations of our business generally. We conduct business primarily in the U.S. and are subject to federal and state laws and regulations applicable to our business, which may be amended from time to time. Future federal and state legislation or interpretations thereof may require us to change our business practices. Compliance with all of these applicable rules and regulations require a significant amount of resources. We endeavor to be in compliance with all such rules and regulations.

Employees

As of December 31, 2018, we had approximately 1,750 corporate employees. During 2018, we employed an average of 7,154 full-time equivalent field employees in Nurse and Allied Staffing which does not include our Physician Staffing independent contractors, all of whom are not employees. During 2018, we became subject to a collective bargaining agreement covering approximately 450 of our employees at OWS, LLC with Local 1199 of the Service Employees International Union. We consider our relationship with employees to be good.

Additional Information

Financial reports and filings with the Securities and Exchange Commission (SEC), including this Annual Report on Form 10-K, are available free of charge as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC, on or through our corporate website at www.crosscountryhealthcare.com. The information found on our website is not part of this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

Item 1A. Risk Factors.

The following risk factors could materially and adversely affect our future operating results and could cause actual results to differ materially from those predicted in the forward-looking statements we make about our business. Our risks are identified primarily through dialogue with our leaders, including a formal Enterprise Risk assessment, industry trends, our experience, and consideration of the current external market and financial environment. These risk factors are considered in our overall strategy and execution of operations. Factors we currently consider immaterial and factors we currently do not know may also materially adversely affect our business or our consolidated results, financial condition, or cash flows.

Decreases in demand by our clients may adversely affect the profitability of our business.

Among other things, changes in the economy, a decrease or stagnation in the general level of in-patient admissions or out-patient services at our clients' facilities, uncertainty regarding or changes to federal healthcare law and the willingness of our hospital, healthcare facilities and physician group clients to develop their own temporary staffing pools and increase the productivity of their permanent staff may, individually or in the aggregate, significantly affect demand for our temporary healthcare staffing services and may hamper our ability to attract, develop and retain clients. When a hospital's admissions increase, temporary employees or other healthcare professionals are often added before full-time employees are hired. As admissions decrease, clients typically reduce their use of temporary employees or other healthcare professionals before undertaking layoffs of their permanent employees. In addition, if hospitals continue to consolidate in an effort to enhance their market positions, improve operational efficiency, and create organizations capable of managing population health, demand for our services could decrease. Decreases in demand for our services may also affect our ability to provide attractive assignments to our healthcare professionals.

Our clients may terminate or not renew their contracts with us.

Our arrangements with hospitals, healthcare facilities and physician group clients are generally terminable upon 30 to 90 days' notice. We may have fixed costs, including housing costs, associated with terminated arrangements that we will be obligated to pay post-termination, thus negatively impacting our profitability. In addition, the loss of one or more of our large clients could materially affect our profitability.

We may be unable to recruit enough quality healthcare professionals to meet our clients' demands.

We rely significantly on our ability to attract, develop and retain healthcare professionals who possess the skills, experience and, as required, licensure necessary to meet the specified requirements of our healthcare clients. We compete for healthcare staffing personnel with other temporary healthcare staffing companies as well as actual and potential clients such as healthcare facilities and physician groups, some of which seek to fill positions with either permanent or temporary employees. We rely on word-of-mouth referrals, as well as social media to attract qualified healthcare professionals. If our social media strategy is not successful, our ability to attract qualified healthcare professionals could be negatively impacted.

In addition, with a shortage of certain qualified nurses and physicians in many areas of the United States, competition for these professionals remains intense. Our ability to recruit and retain healthcare professionals depends on our ability to, among other things, offer assignments that are attractive to healthcare professionals and offer them competitive wages and benefits or payments, as applicable. Our competitors might increase hourly wages or the value of benefits to induce healthcare professionals to take assignments with them. If we do not raise wages or increase the value of benefits in response to such increases by our competitors, we could face difficulties attracting and retaining qualified healthcare professionals. If we raise wages or increase benefits in response to our competitors' increases and are unable to pass such cost increases on to our clients, our margins could decline. At this time, we still do not have enough nurses, allied professionals and physicians to meet all of our clients' demands for these staffing services. This shortage of healthcare professionals generally and the competition for their services may limit our ability to increase the number of healthcare professionals that we successfully recruit, decreasing our ability to grow our business.

If our healthcare facility clients increase the use of intermediaries it could impact our profitability.

We continue to see an increase in the use of intermediaries by our clients. These intermediaries typically enter into contracts with our clients and then subcontract with us and other agencies to provide staffing services, thus interfering to some extent in our relationship with our clients. Each of these intermediaries charges an administrative fee. In instances where we do not win new MSP opportunities or where other vendors win this MSP or VMS business with our current customers, the number of professionals we have on assignment at those clients could decrease. If we are unable to negotiate hourly rates with intermediaries for the services we provide at these clients which are sufficient to cover administrative fees charged by those intermediaries, it could impact our profitability. If those intermediaries become insolvent or fail to pay us for our services, it could impact our bad debt expense and thus our overall profitability. We also provide comprehensive MSP and other workforce solutions directly to certain of our clients. While such contracts typically improve our market share at these facilities, they could result in less diversification of our customer base, increased liability, and reduced margins.

Our costs of providing services may rise faster than we are able to adjust our bill rates and pay rates and, as a result, our margins could decline.

Costs of providing our services could change more quickly than we are able to renegotiate bill rates in our active contracts and pay rates with our thousands of healthcare professionals. For example, we offer housing subsidies to our healthcare professionals or provide actual housing to our healthcare professionals. At any given time, we have over a thousand apartments on lease throughout the U.S. because we provide housing for certain of our healthcare professionals when they are on an assignment with us. The cost of subsidizing housing or renting apartments and furniture for these healthcare professionals may increase faster than we are able to renegotiate our rates with our customers, and this may have a negative impact on our profitability. In addition, an increase in other incremental costs beyond our control, such as insurance could negatively affect our financial results. The costs related to obtaining and maintaining professional and general liability insurance, health insurance and workers' compensation insurance for healthcare providers has generally been increasing. This could have an adverse impact on our financial condition unless we are able to pass these costs through to our clients or renegotiate pay rates with our healthcare providers.

Our labor costs could be adversely affected by a shortage of experienced healthcare professionals and labor union activity.

Our operations are dependent on our ability to recruit and staff quality healthcare professionals. We compete with other healthcare staffing companies in recruiting and retaining qualified personnel. We may be required to enhance wages and benefits to our employees, which could negatively impact our profitability. Labor union activity is another factor that could adversely affect our labor costs or otherwise adversely impact us. To the extent a significant portion of our employee base unionizes, our labor costs could increase significantly.

If our labor costs increase, we may not be able to raise rates to offset these increased costs. Because a significant percentage of our revenues consists of fixed, prospective payments, our ability to pass along increased labor costs is constrained. In the event we are not entirely effective at recruiting and retaining qualified management, nurses and other medical support personnel, or in controlling labor costs, this could have an adverse effect on our results of operations.

We may face challenges competing in the marketplace if we are unable to anticipate and quickly respond to changing marketplace conditions, such as alternative modes of healthcare delivery, reimbursement, and client needs.

Patient delivery settings continue to evolve, giving rise to alternative modes of healthcare delivery, such as retail medicine, telemedicine and home health.

Our success is dependent upon our ability to develop innovative workforce solutions and quickly adapt to changing marketplace conditions and client needs, including making modifications to our technologies and evolving our technology platform that may differentiate our services and abilities from those of our competitors. The markets in which we compete are highly competitive and our competitors may respond more quickly to new or emerging client needs and marketplace conditions. The development of new service lines and business models requires us to be at the forefront of emerging trends in the healthcare industry. We may face challenges competing in the marketplace if we are unable to quickly adapt our business model and successfully implement innovative services to address these changes.

We may face difficulties integrating our acquisitions into our operations and our acquisitions may be unsuccessful, involve significant cash expenditures or expose us to unforeseen liabilities.

We continually evaluate opportunities to acquire companies that would complement or enhance our business. These acquisition opportunities involve numerous risks, including potential loss of key employees or clients of acquired companies; difficulties integrating acquired personnel and distinct cultures into our business; difficulties integrating acquired companies into our operating, financial planning and financial reporting systems; diversion of management attention from existing operations; and assumptions of liabilities and exposure to unforeseen liabilities of acquired companies, including liabilities for their failure to comply with healthcare and tax regulations. These acquisitions may also involve significant cash expenditures, debt incurrence and integration expenses that could have a material adverse effect on our financial condition and results of operations. Any acquisition may ultimately have a negative impact on our business and financial condition.

If applicable government regulations change, we may face increased costs that reduce our revenue and profitability.

The temporary healthcare staffing industry is regulated in many states. For example, in some states, firms such as our nurse staffing companies must be registered to establish and advertise as a nurse-staffing agency or must qualify for an exemption from registration in those states. If we were to lose any required state licenses, we could be required to cease operating in those states. The introduction of new regulatory provisions could also substantially raise the costs associated with hiring temporary employees. For example, some states could impose sales taxes or increase sales tax rates on temporary healthcare staffing services. These increased costs may not be able to be passed on to clients. In addition, if government regulations were implemented that limited the amount we could charge for our services, our profitability could be adversely affected. We continuously monitor changes in regulations and legislation for potential impacts on our business.

The healthcare industry is highly regulated. Any material changes in the political, economic or regulatory environment that affect the purchasing policies, practices and operations of healthcare organizations, or that lead to consolidation in the healthcare industry, could reduce the funds available to purchase our services or otherwise require us to modify our offerings.

We provide our services to hospitals and health systems which pay us directly. Accordingly, Medicare, Medicaid and insurance reimbursement policy changes generally do not directly impact us. However, indirectly, our business, financial condition and results of operations depend upon conditions affecting the healthcare industry generally and hospitals and health systems particularly. The healthcare industry is highly regulated by federal and state authorities and is subject to changing political, economic and regulatory influences. Factors such as changes in reimbursement policies for healthcare expenses, consolidation in the healthcare industry, regulation, litigation and general economic conditions could affect the purchasing practices, operations and the financial health of our customers which could have a negative impact on our business. In addition, insurance companies and managed care organizations seek to control costs by requiring healthcare providers, such as hospitals, to discount their services in exchange for exclusive or preferred participation in their benefit plans. While not affecting us directly, future federal and state legislation or evolving commercial reimbursement trends may further reduce or change conditions for our clients' reimbursement. Such limitations on reimbursement could reduce our clients' cash flows, hampering the pricing we can charge clients and their ability to pay us. Reimbursement changes in government programs, particularly Medicare and

Medicaid, can and do indirectly affect the demand and the prices paid for our services. The impact of any other legislation to repeal or amend or replace the ACA is uncertain and could adversely affect our business and financial condition.

We operate our business in a regulated industry and modifications, inaccurate interpretations or violations of any applicable statutory or regulatory requirements may result in material costs or penalties as well as litigation and could reduce our revenue and earnings per share.

Our industry is subject to many complex federal, state, local and international laws and regulations related to, among other things, the licensure of professionals, the payment of our field employees (e.g., wage and hour laws, employment taxes and income tax withholdings, etc.) and the operations of our business generally (e.g., federal, state and local tax laws). If we do not comply with the laws and regulations that are applicable to our business, we could incur civil and/or criminal penalties as well as litigation or be subject to equitable remedies.

We are subject to litigation, which could result in substantial judgment or settlement costs; significant legal actions could subject us to substantial uninsured liabilities.

We are party to various litigation, claims, investigations, and other proceedings. These matters primarily relate to employee-related matters that include individual and collective claims, professional liability, tax, and payroll practices. We evaluate these litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, if any, we establish reserves and/or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments are performed at least quarterly and are based on the information available to management at the time and involve a significant amount of management judgment. Based on the new information considered in our reviews, we adjust our loss contingency accruals and our disclosures. We may not have sufficient insurance to cover these risks. Actual outcomes or losses may differ materially from those estimated by our current assessments which would impact our profitability. Adverse developments in existing litigation claims or legal proceedings involving our Company or new claims could require us to establish or increase litigation reserves or enter into unfavorable settlements or satisfy judgments for monetary damages for amounts in excess of current reserves, which could adversely affect our financial results.

In recent years, healthcare providers have become subject to an increasing number of legal actions alleging malpractice, vicarious liability, violation of certain consumer protection acts, negligent hiring, negligent credentialing, product liability or related legal theories. We may be subject to liability in such cases even if our Company's contribution to the alleged injury was minimal or related to one of our subcontractors or its employees. Many of these actions involve large claims and significant defense costs. In addition, we may be subject to claims related to torts or crimes committed by our corporate employees or healthcare professionals that we place on assignment. In most instances, we are required to indemnify clients against some or all of these risks. A failure of any of our corporate employees or healthcare professional to observe our policies and guidelines, relevant client policies and guidelines or applicable federal, state or local laws, rules and regulations could result in negative publicity, payment of fines or other damages.

To protect ourselves from the cost of these types of claims, we maintain professional malpractice liability insurance, employment practices liability insurance, and general liability insurance coverage with terms and in amounts with deductibles that we believe are appropriate for our operations. We are partially self-insured for our workers' compensation coverage, health insurance coverage, and professional liability coverage for our locum tenens providers. If we become subject to substantial uninsured workers' compensation, medical coverage or medical malpractice liabilities, whether directly or indirectly, our financial results may be adversely affected. In addition, our insurance coverage may not cover all claims against us or continue to be available to us at a reasonable cost. If we are unable to pay our self-insured retention portion or maintain adequate insurance coverage, we may be exposed to substantial liabilities.

If provisions in our corporate documents and Delaware law delay or prevent a change in control, we may be unable to consummate a transaction that our stockholders consider favorable.

Our certificate of incorporation and by-laws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our certificate of incorporation authorizes our Board of Directors to issue up to 10,000,000 shares of “blank check” preferred stock. Without stockholder approval, the Board of Directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire us. Delaware law may also discourage, delay or prevent someone from acquiring or merging with us.

Market disruptions may adversely affect our operating results and financial condition.

Economic conditions and volatility in the financial markets may have an adverse impact on the availability of credit to us and to our customers and businesses generally. To the extent that disruption in the financial markets occurs, it has the potential to materially affect our and our customers’ ability to tap into debt and/or equity markets to continue ongoing operations, have access to cash and/or pay debts as they come due. These events could negatively impact our results of operations and financial conditions. Although we monitor our credit risks to specific clients that we believe may present credit concerns, default risk or lack of access to liquidity may result from events or circumstances that are difficult to detect or foresee. Conditions in the credit markets and the economy generally could adversely impact our business and limit or prohibit us from refinancing our credit agreements on terms favorable to us or at all when they become due.

Stock issuable under our stock incentive plans are presently in effect and sales of this stock could cause our stock price to decline.

We have registered 6,100,000 shares of common stock for issuance under our 2014 Omnibus Incentive Plan, and 4,398,001 shares of common stock for our predecessor 1999 stock option plan, all of which have been registered. Shares of restricted stock outstanding as of February 22, 2019 were 428,131. In addition, a target of 203,496 performance stock award grants were outstanding as of February 22, 2019. Fully vested stock appreciation rights of 51,500 were issued and outstanding as of February 22, 2019. See Note 14 - Stockholders' Equity to our consolidated financial statements. Vested restricted stock and issuance of common stock related to our awards as well as common stock issued upon exercise of stock options, and stock appreciation rights under these benefit plans, is eligible for resale in the public market without restriction. We cannot predict what effect, if any, market sales of shares held by any stockholder or the availability of these shares for future sale will have on the market price of our common stock.

We are dependent on the proper functioning of our information systems and applications hosted by our vendors.

We are dependent on the proper functioning of our information systems in operating our business, including those applications hosted by our vendors. Critical information systems used in daily operations identify and match staffing resources and client assignments and perform billing and accounts receivable functions. Additionally, we rely on our information systems in managing our accounting and financial reporting. These systems are subject to certain risks, including technological obsolescence. We are currently evaluating the technology platforms of our businesses. If our proprietary systems of Software as a Service applications fail or are otherwise unable to function in a manner that properly supports our business operations, or if these systems require significant costs to repair, maintain or further develop or update, we could experience business interruptions or delays that could materially and adversely affect our business and financial results.

In addition, our information systems are protected through a secure hosting facility and additional backup remote processing capabilities also exist in the event our primary systems fail or are not accessible. However, the business is still vulnerable to fire, storm, flood, power loss, telecommunications failures, physical or software break-ins and similar events which may prevent personnel from gaining access to systems necessary to perform their tasks in an automated fashion. In the event that critical information systems fail or are otherwise unavailable, these functions would have to be accomplished manually, which could impact our ability to, among other things, maintain billing and clinical records reliably, to bill for services efficiently and to maintain our accounting and financial reporting accurately.

We are dependent on third parties for the execution of certain critical functions.

We have outsourced certain critical applications or business processes to external providers, including but not limited to background screenings of our employees. We exercise care in the selection and oversight of these providers. However, the failure or inability to perform on the part of one or more of these critical suppliers could cause significant disruptions and increased costs to our business.

Our collection, use, and retention of personal information and personal health information create risks that may harm our business.

As part of our business model, we collect, transmit and retain personal information of our employees and contract professionals and their dependents, including, without limitation, full names, social security numbers, addresses, birth dates, and payroll-related information. We use commercially available information security technologies to protect such information in digital format and have security and business controls to limit access to such information. In addition, we periodically perform penetration tests and respond to those findings. However, employees or third parties may be able to circumvent these measures and acquire or misuse such information, resulting in breaches of privacy, and errors in the storage, use or transmission of such information. Privacy breaches may require notification and other remedies, which can be costly, and which may have other serious adverse consequences for our business, including regulatory penalties and fines, claims for breach of contract, claims for damages, adverse publicity, reduced demand for our services by clients and/or healthcare professional candidates, harm to our reputation, and regulatory oversight by state or federal agencies. The possession and use of personal information and data in conducting our business subjects us to legislative and regulatory burdens. We may be required to incur significant expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards, or contractual obligations.

Cyber security risks and cyber incidents could adversely affect our business and disrupt operations.

Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. The result of these incidents could include, but are not limited to, disrupted operations, misstated financial data, liability for stolen assets or information, increased cyber security protection costs, litigation and reputational damage adversely affecting customer or investor confidence. We have implemented systems and processes to focus on identification, prevention, mitigation and resolution. However, these measures cannot provide absolute security, and our systems may be vulnerable to cyber-security breaches such as viruses, hacking, and similar disruptions from unauthorized intrusions. In addition, we rely on third party service providers to perform certain services, such as payroll and tax services. Any failure of our systems or third party systems may compromise our sensitive information and/or personally identifiable information of our employees. While we have secured cyber insurance to potentially cover certain risks associated with cyber incidents, there can be no assurance the insurance will be sufficient to cover any such liability.

Losses caused by natural disasters, such as hurricanes and fires, could cause us to suffer material financial losses.

Catastrophes can be caused by various events, including, but not limited to, hurricanes, fires, and other severe weather. The incidence and severity of catastrophes are inherently unpredictable. With our headquarters and shared services located in South Florida, we are more vulnerable to possible disruptions from hurricanes and the impacts resulting therefrom, such as tornadoes, flooding, fuel shortages, and disruption of internet, and telecommunications services. The extent of losses from a catastrophe is a function of both the total amount of insured exposure and the severity of the event. We do not maintain business interruption insurance for these events. We could suffer material financial losses as a result of disruptions from hurricanes, fires, and other catastrophes.

We have a level of indebtedness which may have an adverse effect on our business or limit our ability to take advantage of business, strategic or financing opportunities.

As indicated below, we have and will continue to have a significant amount of indebtedness relative to our equity. The following table sets forth our total principal amount of debt and stockholders' equity.

	December 31, 2018 (amounts in thousands)
Total debt at par	$ 83,876
Total Cross Country Healthcare, Inc. stockholders' equity	$ 217,528

Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay the principal, interest or other amounts due on our indebtedness. Subject to certain restrictions under our existing indebtedness, we and our subsidiaries may also incur significant additional indebtedness in the future, some of which may be secured debt. This may have the effect of increasing our total leverage. As a consequence of our indebtedness; (1) demands on our cash resources may increase; (2) we are subject to restrictive covenants that limit our financial and operating flexibility. Our ability to generate profitability and maintain cash flow from operations could impact our compliance with these covenants; and (3) we may choose to institute self-imposed limits on our indebtedness based on certain considerations including market interest rates, our relative leverage and our strategic plans. For example, as a result of our level of indebtedness and the uncertainties arising in the credit markets and the U.S. economy:

- we may be more vulnerable to general adverse economic and industry conditions;
- we may have to pay higher interest rates upon refinancing or on our variable rate indebtedness if interest rates rise, thereby reducing our cash flows;
- we may find it more difficult to obtain additional financing to fund future working capital, capital expenditures, acquisitions, and other general corporate requirements that would be in our long-term interests;

- we may be required to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our debt, reducing the available cash flow to fund other investments;
- we may have limited flexibility in planning for, or reacting to, changes in our business or in the industry;
- we may have a competitive disadvantage relative to other companies in our industry that are less leveraged; and

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- we may be required to sell debt or equity securities or sell some of our core assets, possibly on unfavorable terms, in order to meet payment obligations.

These constraints could have a material adverse effect on our business.

We could fail to generate sufficient cash to fund our liquidity needs and/or fail to satisfy the financial and other restrictive covenants to which we are subject under our existing indebtedness.

We currently have sufficient liquidity to operate our business in the normal course. If, however, we were to make an acquisition or enter into a similar type of transaction, our liquidity needs may exceed our current capacity. In addition, our existing credit facilities currently contain financial covenants that require us to operate above a minimum fixed charge coverage ratio and below a consolidated leverage ratio. Deterioration in our operating results could result in our inability to comply with these covenants and would result in a default under our credit facility. If an event of default exists, our lenders could call the indebtedness and we may be unable to renegotiate or secure other financing.

We are subject to business risks associated with international operations.

We have international operations in India where our Cross Country Infotech, Pvt Ltd. (Infotech) subsidiary is located. Infotech provides in-house information systems development and support services as well as some back-office processing services. We have limited experience in supporting our services outside of North America. Operations in certain markets are subject to risks inherent in international business activities, including: fluctuations in currency exchange rates; changes in regulations; varying economic and political conditions; overlapping or differing tax structures; and regulations (pertaining to, among other things, compensation and benefits, vacation, and the termination of employment). Our inability to effectively manage our international operations or our violation of a regulation could result in increased costs and adversely affect our results of operations.

Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors and fraud, or in making all material information known in a timely manner to management.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the acts of an individual, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations, misstatements due to error or fraud may occur and not be detected.

Impairment in the value of our goodwill, trade names, or other intangible assets could negatively impact our net income and earnings per share.

We are required to test goodwill and intangible assets with indefinite lives (such as trade names) annually, to determine if impairment has occurred. Long-lived assets and other 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, we are required to record 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 the fair value of the indefinite-lived intangible asset in the period the determination is made. The testing of goodwill and other intangible assets for impairment requires us to make significant estimates about our future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, changes in competition or changes in our stock price and market capitalization. Changes in these factors, or changes in actual performance compared with estimates of our future performance, could affect the fair value of goodwill, trade names, or other intangible assets, which may result in an impairment charge. We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, there could be an adverse effect on us. At December 31, 2018, goodwill, trade names not subject to amortization, and other intangible assets represented 41% of our total assets. In 2018, 2017, and 2016, we recorded impairment charges of $22.4 million, $14.4 million, and $24.3 million, respectively.

We could suffer adverse tax and other financial consequences if taxing authorities do not agree with our tax positions, if there are further legislative tax changes, or if we are unable to utilize our net operating losses.

We are periodically subject to a number of tax examinations by taxing authorities in the states and countries where we do business. We also have significant deferred tax assets related to our net operating losses (NOLs) in U.S. federal and state taxing jurisdictions, which, generally, for U.S. federal and state tax purposes, carry forward for up to twenty years. Tax years generally remain subject to examination until three years after NOLs are used or expire. We expect that we will continue to be subject to tax examinations in the future. We recognize tax benefits of uncertain tax positions when we believe the positions are more likely than not of being sustained upon a challenge by the relevant tax authority. We believe our judgments in this area are reasonable and correct, but there is no guarantee that we will be successful if challenged by a taxing authority. If there are tax benefits, including, but not limited to, the use of NOLs, expense reimbursements, or other tax attributes, that are challenged successfully by a taxing authority, we may be required to pay additional taxes, interest, and penalties, or we may seek to enter into settlements with the taxing authorities, which could require significant payments or otherwise have a material adverse effect on our business, results of operations, and financial condition.

In addition, U.S. federal, state and local, as well as international, tax laws and regulations are extremely complex and subject to varying interpretations. Most recently, on December 22, 2017, the President signed the 2017 Tax Act into law. In the long-term, we anticipate that we will have an overall benefit from the reduction in the tax rate slightly offset by potential deductions disallowed under the current law. Although we are not aware of any provision in the 2017 Tax Act or any other pending tax legislation that would have a material adverse impact on our financial performance, the ultimate impact of the 2017 Tax Act may differ from our current assessment due to changes in interpretations and assumptions made by us as well as the issuance of any further regulations or guidance regarding the U.S. federal income tax code. At this time, it is unclear how many U.S. states will incorporate these federal law changes, or portions thereof, into their tax codes. There can be no assurance that the 2017 Tax Act or any other legislative changes will not negatively impact our operating results, financial condition, and future business operations.

In addition, we may be limited in our ability to utilize our NOLs to offset future taxable income and thereby reduce our otherwise payable income taxes. Our ability to utilize our NOLs is also dependent, in part, upon us having sufficient future earnings to utilize our NOLs before they expire. If market conditions change materially and we determine that we will be unable to generate sufficient taxable income in the future to utilize our NOLs, we could be required to record an additional valuation allowance. We review the valuation allowances for our NOLs periodically and make adjustments from time to time, which can result in an increase or decrease to the net deferred tax asset related to our NOLs. If we are unable to use our NOLs or use of our NOLs is limited, we may have to make significant payments or reduce our deferred tax assets, which could have a material adverse effect on our business, results of operations and financial condition.

If certain of our healthcare professionals are reclassified from independent contractors to employees our profitability could be materially adversely impacted.

Federal or state taxing authorities could re-classify our locum tenens physicians, CRNAs and other independent contractors as employees, despite both the general industry standard to treat them as independent contractors and many state laws prohibiting non-physician owned companies from employing physicians (e.g., the “corporate practice of medicine”). If they were re-classified as employees, we would be subject to, among other things, employment and payroll-related tax claims, as well as any applicable penalties and interest. Any such reclassification would have a material adverse impact on our business model for that business segment and would negatively impact our profitability.

If the method for paying locum tenens physicians changes, it could negatively impact our profitability.

The Medicare Access and CHIP Reauthorization Act of 2015 creates a new framework for rewarding physicians for providing higher quality care by establishing two tracks of payment: a merit-based incentive payment system, and Advanced Alternative Payment Models. If hospitals change the method for paying locum tenens physicians to meet their performance goals or other criteria for Medicaid or Medicare reimbursements, the profitability of our business could be adversely impacted.

Our financial results could be adversely impacted by the loss of key management.

We believe the successful execution of our business strategy and our ability to build upon significant recent investments and acquisitions depends on the continued employment of key members of our senior management team. If we were to lose any key personnel, we may not be able to find an appropriate replacement on a timely basis and our results of operations could be negatively affected. Further, the loss of a significant number of employees or our inability to hire a sufficient number of qualified employees could have a material adverse effect on our business.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We do not own any real property. Our principal leases as of February 1, 2019 are listed below.

Location	Function	Square Feet	Lease Expiration
Boca Raton, Florida	Nurse and Allied Staffing administration and general office use	70,406	December 31, 2025
Boca Raton, Florida	Corporate headquarters	48,154	November 30, 2025
Berkeley Lake, Georgia	Physician Staffing office	41,607	October 31, 2024
Creve Coeur, Missouri	Physician and Executive search headquarters	27,051	August 31, 2024

Item 3. Legal Proceedings.

From time to time, we are involved in various litigation, claims, investigations, and other proceedings that arise in the ordinary course of our business. These matters primarily relate to employee-related matters that include individual and collective claims, professional liability, tax, and payroll practices. We establish reserves when available information indicates that a loss is probable and an amount, or range of loss can be reasonably estimated. These assessments are performed at least quarterly and are based on the information available to management at the time and involve a significant management judgment to determine the probability and estimated amount of potential losses, if any. Based on the available information considered in our reviews, we adjust our loss contingency accruals and our disclosures as may be required. Actual outcomes or losses may differ materially from those estimated by our current assessments including available insurance recoveries, which would impact our profitability. Adverse developments in existing litigation claims or legal proceedings involving our Company or new claims could require us to establish or increase litigation reserves or enter into unfavorable settlements or satisfy judgments for monetary damages for amounts in excess of current reserves, which could adversely affect our financial results. With regard to the outstanding contingencies as of December 31, 2018, we believe the outcome of these matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock currently trades under the symbol “CCRN” on the NASDAQ Global Select Market (NASDAQ). Our common stock commenced trading on the NASDAQ National Market under the symbol “CCRN” on October 25, 2001.

The graph below compares the Company to the cumulative 5-year total return of holders of the Company's common stock with the cumulative total returns of the NASDAQ Composite index and the Dow Jones U.S. Business Training & Employment Agencies index. The graph assumes that the value of the investment in the Company's common stock and in each of the indexes (including reinvestment of dividends) was $100 on December 31, 2013 and tracks it through December 31, 2018.

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The stock price performance included in this graph is not necessarily indicative of future stock price performance.

As of February 22, 2019, there were 126 stockholders of record of our common stock. In addition, there were 4,089 beneficial owners of our common stock held by brokers or other institutions on behalf of stockholders.

We have never paid or declared cash dividends on our common stock. Covenants in our credit agreement limit our ability to repurchase our common stock and declare and pay cash dividends on our common stock. On February 28, 2008, our Board of Directors authorized our most recent stock repurchase program whereby we may purchase up to 1.5 million of our common shares, subject to the terms of our current credit agreement. The shares may be repurchased from time-to-time in the open market and the repurchase program may be discontinued at any time at our discretion. During the year ended December 31, 2018, the Company repurchased and retired 432,439 shares of its Common Stock at an average market price of $11.54 per share. At December 31, 2018, we had 510,004 shares of common stock left remaining to repurchase under this authorization, subject to the limitations of our credit agreement as described in Note 14 - Stockholders' Equity to our consolidated financial statements.

Item 6. Selected Financial Data.

The selected consolidated financial data as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017, and 2016 are derived from the audited consolidated financial statements of Cross Country Healthcare, Inc., included elsewhere in this Report. The selected consolidated financial data as of December 31, 2016, 2015, and 2014 and for the years ended December 31, 2015 and 2014 are derived from the consolidated financial statements of Cross Country Healthcare, Inc., that have been audited but not included in this Report on Form 10-K.

The following selected financial data should be read in conjunction with the consolidated financial statements and related notes of Cross Country Healthcare, Inc., “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other financial information included elsewhere in this report.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Amounts in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue from services	$816,484	$865,048	$833,537	$767,421	$617,825
(Loss) income from operations	(12,880)	11,748	6,184	20,565	(10,468)
Consolidated net (loss) income	(15,717)	38,802	8,731	4,954	(31,534)
Net (loss) income attributable to common shareholders	(16,951)	37,513	7,967	4,418	(31,783)
Per Share Data:					
Net (loss) income per share attributable to common shareholders - Basic	$(0.48)	$1.07	$0.25	$0.14	$(1.02)
Net (loss) income per share attributable to common shareholders - Diluted	$(0.48)	$1.01	$0.15	$0.14	$(1.02)
Weighted Average Common Shares Outstanding:					
Basic	35,657	35,018	32,132	31,514	31,190
Diluted	35,657	36,166	36,246	32,162	31,190
Other Operating Data:					
Cash and cash equivalents	$16,019	$25,537	$20,630	$2,453	$4,995
Total assets	427,003	467,687	388,378	365,595	324,502
Total debt at par	83,876	100,000	64,523	63,094	58,702
Total stockholders’ equity	218,198	237,719	151,802	141,344	130,332
Net cash provided by (used in) operating activities	20,997	45,508	30,145	18,235	(4,072)

The following items impact the comparability and presentation of our consolidated data:

- Consolidated net (loss) income for the years ended December 31, 2018, 2017, 2016, 2015, and 2014, respectively, includes amounts attributable to noncontrolling interest of $1.2 million, $1.3 million, $0.8 million, $0.5 million, and $0.2 million. See Note 1 - Organization and Basis of Presentation to our consolidated financial statements.

- We acquired AP Staffing effective December 1, 2018, all of the assets of Advantage effective July 1, 2017, all of the membership interests of Mediscan on October 30, 2015, and substantially all of the assets and certain liabilities of MSN on June 30, 2014. The results of these acquisition's operations have been included in our consolidated statements of operations since their respective effective dates of acquisition. For the years ended December 31, 2018, 2017, 2016, 2015, and 2014, we recognized $0.5 million, $2.0 million, $0.1 million, $0.9 million, and $8.0 million of acquisition and integration costs, respectively. See Note 4 - Acquisitions to our consolidated financial statements.

- The years ended December 31, 2018, 2017, and 2016 include $2.6 million, less than $0.1 million, and $0.8 million, respectively, of acquisition-related contingent consideration expense primarily due to valuation and accretion adjustments related to the contingent consideration liabilities of the USR and Mediscan acquisitions. See Note 4 - Acquisitions and Note 10 - Fair Value Measurements to our consolidated financial statements.

- We incurred restructuring costs in the years ended December 31, 2018, 2017, 2016, 2015, and 2014, for $2.8 million, $1.0 million, $0.8 million, $1.3 million, and $0.8 million, respectively. Restructuring costs relate to discrete cost savings initiatives in each year, and senior management employee severance pay in 2014.

- Pre-tax non-cash impairment charges of $22.4 million, $14.4 million, $24.3 million, $2.1 million, and $10.0 million, respectively, were incurred in the years ended December 31, 2018, 2017, 2016, 2015, and 2014. See Note 5 - Goodwill, Trade Names, and Other Intangible Assets to our consolidated financial statements.

- The years ended December 31, 2017 and 2016 include the impact of a gain on derivative liability of $1.6 million and $5.8 million, while the years ended December 31, 2015 and 2014 include the impact of a loss on derivative liability of $9.9 million and $16.7 million, respectively. The derivative liability related to the Convertible Notes issued in conjunction with the acquisition of MSN, which were paid in full on March 17, 2017. See Note 9 - Derivatives to our consolidated financial statements.

- We incurred a loss on sale of business of $2.2 million (an after-tax gain of $1.3 million), in the year ended December 31, 2015, related to the sale of our education seminars business, Cross Country Education, LLC on August 31, 2015.

- The years ended December 31, 2018, 2017, and 2016, include a loss on early extinguishment of debt of $0.1 million, $5.0 million, and $1.6 million, respectively, related to optional prepayments on our Amended Term Loan in 2018, extinguishment fees, and the write-off of unamortized loan fees and net debt discount and issuance costs related to prior credit agreements. See Note 8 - Debt to our consolidated financial statements.

- Income tax benefit for the years ended December 31, 2018 and 2017 included benefits of $6.0 million and $12.1 million, respectively, related to the non-cash impairment charges. The income tax benefit for the year ended December 31, 2017 was primarily the result of reducing federal and certain state valuation allowances on our deferred tax assets totaling $45.4 million, offset by an $8.0 million reduction in our net deferred tax assets (relating to the impact from the 2017 Tax Act signed into legislation on December 22, 2017). For the year ended December 31, 2018, we completed our 2017 federal and state income tax returns and recorded a discrete tax benefit associated with adjusting our net deferred tax asset. The valuation allowance was maintained and reflected in the years ended December 31, 2014 through December 31, 2016.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 1. Business, Item 6. Selected Financial Data, Item 1A. Risk Factors, Forward-Looking Statements and Item 15. Consolidated Financial Statements and the accompanying notes and other data, all of which appear elsewhere in this Annual Report on Form 10-K.

Business Overview

We provide healthcare staffing, recruiting and workforce solutions to our customers through a network of 73 office locations throughout the U.S. Our services include placing clinicians on travel and per diem assignments, local short-term contracts, and permanent positions. In addition, we offer flexible workforce management solutions to our customers including: MSP, education healthcare, RPO, and other outsourcing and value-added services as described in Item 1. Business. In addition, we provide both retained and contingent placement services for healthcare executives, physicians, and other healthcare professionals.

We manage and segment our business based on the nature of our services we offer to our customers. As a result, in accordance with the Segment Reporting Topic of the FASB ASC, we report three business segments – Nurse and Allied Staffing, Physician Staffing, and Other Human Capital Management Services.

Nurse and Allied Staffing – For the year ended December 31, 2018, Nurse and Allied Staffing represented approximately 88% of our total revenue. Nurse and Allied Staffing provides traditional staffing, recruiting, and value-added workforce solutions including: temporary and permanent placement of travel and local branch-based nurse and allied professionals, MSP services, education healthcare services, and outsourcing services. Substantially all of the results of the Advantage and AP Staffing acquisitions have been aggregated with our Nurse and Allied Staffing business segment. See Note 4 - Acquisitions to our consolidated financial statements.

Physician Staffing – For the year ended December 31, 2018, Physician Staffing represented approximately 10% of our total revenue. Physician Staffing provides physicians in many specialties, as well as CRNAs, NPs, and PAs under our Medical Doctor Associates (MDA) brand as independent contractors on temporary assignments throughout the U.S.

Other Human Capital Management Services – For the year ended December 31, 2018, Other Human Capital Management Services (OHCMS) represented approximately 2% of our total revenue. OHCMS is comprised of retained and contingent search services for physicians, healthcare executives, and other healthcare professionals within the U.S.

Summary of Operations

For the year ended December 31, 2018, revenue from services decreased 5.6% to $816.5 million, with declines in both our Nurse and Allied Staffing and our Physician Staffing reporting segments. The year-over-year decrease in Nurse and Allied Staffing was primarily due to volume declines in travel nurse and branch operations, partly offset by the impact of the acquisition of Advantage in July 2017. The decrease in Physician Staffing was primarily due to a decrease in volume of days filled. We continued to manage our selling, general, and administrative expenses as we remain committed to improving operating leverage and overall profitability. As part of our cost savings and efficiency initiatives, we incurred $2.8 million in restructuring charges during the year ended December 31, 2018. Net loss attributable to common shareholders was $17.0 million, or $0.48 per diluted share and was impacted by pre-tax non-cash impairment charges of $22.4 million related to Physician Staffing ($16.4 million after taxes).

For the year ended December 31, 2018, we generated cash flow from operating activities of $21.0 million, and pursuant to the current authorized share repurchase program, repurchased and retired 432,439 shares of Common Stock for $5.0 million, at an average market price of $11.54 per share. See Note 14 - Stockholders' Equity to our consolidated financial statements. As of December 31, 2018, we had $16.0 million of cash and cash equivalents and a principal balance of $83.9 million outstanding on our Term Loan. During the year ended December 31, 2018, we repaid $16.1 million on our Term Loan, including $10.0 million of optional prepayments. There were no borrowings drawn on our revolving credit facility, with $20.6 million of letters of credit outstanding as of December 31, 2018. Our ability to draw down on the revolving credit facility would be subject to continued compliance with our financial covenants, which may require us to, among other things, make additional optional principal debt prepayments. See Note 8 - Debt to our consolidated financial statements.

See Results of Operations, Segment Results, and Liquidity and Capital Resources sections that follow for further information.

Operating Metrics

We evaluate our financial condition by tracking operating metrics and financial results specific to each of our segments. Key operating metrics include hours worked, days filled, number of FTEs, revenue per FTE, and revenue per day filled. Other operating metrics include number of open orders, candidate applications, contract bookings, length of assignment, bill and pay rates, and renewal and fill rates, number of active searches, and number of placements. These operating metrics are representative of trends that assist management in evaluating business performance. Due to the timing of our business process and other factors, certain of these operating metrics may not necessarily correlate to the reported GAAP results for the periods presented. Some of the segment financial results analyzed include revenue, operating expenses, and contribution income. In addition, we monitor cash flow as well as operating and leverage ratios to help us assess our liquidity needs.

Business Segment	Business Measurement
Nurse and Allied Staffing	FTEs represent the average number of Nurse and Allied Staffing contract personnel on a full-time equivalent basis.

	Average revenue per FTE per day is calculated by dividing the Nurse and Allied Staffing revenue per FTE by the number of days worked in the respective periods. Nurse and Allied Staffing revenue also includes revenue from the permanent placement of nurses.
Physician Staffing	Days filled is calculated by dividing the total hours invoiced during the period, including an estimate for the impact of accrued revenue, by 8 hours. Prior periods have been recalculated to include the impact of the accrued revenue. Revenue per day filled is calculated by dividing revenue as reported by days filled for the period presented. Prior periods have been recalculated to include the impact of the accrued revenue and days.

Results of Operations

The following table summarizes, for the periods indicated, selected consolidated statements of operations data expressed as a percentage of revenue. Our historical results of operations are not necessarily indicative of future operating results.

	Year Ended December 31,		
	2018	2017	2016
Revenue from services	100.0 %	100.0 %	100.0 %
Direct operating expenses	74.3	73.6	73.4
Selling, general, and administrative expenses	22.1	21.7	21.5
Bad debt expense	0.3	0.2	0.1
Depreciation and amortization	1.4	1.2	1.1
Acquisition and integration costs	0.1	0.2	—
Acquisition-related contingent consideration	0.3	—	0.1
Restructuring costs	0.3	0.1	0.1
Impairment charges	2.8	1.6	2.9
(Loss) income from operations	(1.6)	1.4	0.8
Interest expense	0.7	0.5	0.7
Gain on derivative liability	—	(0.2)	(0.7)
Loss on early extinguishment of debt	—	0.6	0.2
Other income, net	(0.1)	—	—
(Loss) income before income taxes	(2.2)	0.5	0.6
Income tax benefit	(0.3)	(4.0)	(0.5)
Consolidated net (loss) income	(1.9)	4.5	1.1
Less: Net income attributable to noncontrolling interest in subsidiary	0.2	0.2	0.1
Net (loss) income attributable to common shareholders	(2.1)%	4.3 %	1.0 %

Comparison of Results for the Year Ended December 31, 2018 compared to the Year Ended December 31, 2017

	Year Ended December 31,			
	2018	2017	Increase (Decrease) $	Increase (Decrease) %
	(Dollars in thousands)			
Revenue from services	$816,484	$865,048	$(48,564)	(5.6)%
Direct operating expenses	606,921	636,462	(29,541)	(4.6)%
Selling, general, and administrative expenses	180,230	187,435	(7,205)	(3.8)%
Bad debt expense	2,204	1,828	376	20.6 %
Depreciation and amortization	11,780	10,174	1,606	15.8 %
Acquisition-related contingent consideration	2,557	44	2,513	NM
Acquisition and integration costs	491	1,975	(1,484)	(75.1)%
Restructuring costs	2,758	1,026	1,732	168.8 %
Impairment charges	22,423	14,356	8,067	56.2 %
(Loss) income from operations	(12,880)	11,748	(24,628)	(209.6)%
Interest expense	5,654	4,214	1,440	34.2 %
Gain on derivative liability	—	(1,581)	1,581	100.0 %
Loss on early extinguishment of debt	79	4,969	(4,890)	(98.4)%
Other income, net	(418)	(155)	(263)	(169.7)%
(Loss) income before income taxes	(18,195)	4,301	(22,496)	(523.0)%
Income tax benefit	(2,478)	(34,501)	32,023	92.8 %
Consolidated net (loss) income	(15,717)	38,802	(54,519)	(140.5)%
Less: Net income attributable to noncontrolling interest in subsidiary	1,234	1,289	(55)	(4.3)%
Net (loss) income attributable to common shareholders	$(16,951)	$37,513	$(54,464)	(145.2)%

NM - not meaningful

Revenue from services

Revenue from services decreased $48.6 million, or 5.6%, to $816.5 million for the year ended December 31, 2018, as compared to $865.0 million for the year ended December 31, 2017. The decrease was due primarily to volume declines in our Nurse and Allied and Physician Staffing segments. See further discussion in Segment Results.

Direct operating expenses

Direct operating expenses are comprised primarily of field employee compensation and independent contractor expenses, housing expenses, travel expenses, and related insurance expenses. Direct operating expenses decreased $29.5 million, or 4.6%, to $606.9 million for the year ended December 31, 2018, as compared to $636.5 million for the year ended December 31, 2017. As a percentage of total revenue, direct operating expenses increased to 74.3% compared to 73.6% in the prior year period, primarily due to lower bill-pay spread, primarily in our travel nurse operations, coupled with an increase in healthcare costs.

Selling, general, and administrative expenses

Selling, general, and administrative expenses decreased $7.2 million, or 3.8%, to $180.2 million for the year ended December 31, 2018, as compared to $187.4 million for the year ended December 31, 2017, primarily reflecting the cost savings and efficiency initiatives completed over the year, partly offset by higher professional service fees, such as legal and consulting. As a percentage of total revenue, selling, general, and administrative expenses were 22.1% and 21.7% for the year ended December 31, 2018 and December 31, 2017, respectively.

Depreciation and amortization expense

Depreciation and amortization expense in the year ended December 31, 2018 increased to $11.8 million as compared to $10.2 million for the year ended December 31, 2017, primarily due to the additional amortization of other intangible assets related to the Advantage acquisition. As a percentage of revenue, depreciation and amortization expense was 1.4% for the year ended December 31, 2018 and 1.2% for the year ended December 31, 2017.

Acquisition-related contingent consideration

Acquisition-related contingent consideration includes accretion and valuation adjustments on our contingent consideration liabilities for the Mediscan and USR acquisitions, and totaled $2.6 million and less than $0.1 million for the years ended December 31, 2018 and 2017, respectively. Both years included the reversal of an earnout liability which was determined would not be achieved, USR in 2018 and Mediscan in 2017. See Note 10 - Fair Value Measurements to our consolidated financial statements.

Acquisition and integration costs

During the years ended December 31, 2018 and 2017, we incurred acquisition and integration costs of $0.5 million and $2.0 million, respectively. The 2018 costs included integration costs related to the Advantage acquisition, and transaction-related costs related to the AP Staffing acquisition, while the 2017 costs related to the Advantage acquisition. See Note 4 - Acquisitions to our consolidated financial statements.

Restructuring costs

Restructuring costs include severance, exit costs, and other costs including write-offs related to abandoned locations incurred as part of separate and discrete cost savings initiatives. We recorded restructuring costs of $2.8 million for the year ended December 31, 2018 and $1.0 million for the year ended December 31, 2017.

Impairment charges

In the fourth quarter of 2018 and 2017, we recorded non-cash impairment charges of $22.4 million and $14.4 million, respectively, relating to the Physician Staffing reporting unit. We reduced our long-range forecast for the Physician Staffing business segment in the fourth quarter of both years. The lower than expected revenue was driven by lower booking volumes, partly due to the loss of customers. In addition, margins of the reporting unit were negatively impacted from investments in the business. As a result, we recorded non-cash impairment charges of $5.2 million and $8.7 million, respectively, related to trade names and $17.2 million and $5.7 million, respectively, related to goodwill.

Interest expense

Interest expense totaled $5.7 million for the year ended December 31, 2018 and $4.2 million for the year ended December 31, 2017. The increase was due primarily to the incremental debt resulting from the acquisition of Advantage, coupled with a higher effective interest rate. The effective interest rate on our borrowings increased to 5.1% for the year ended December 31, 2018 compared to 4.6% for the year ended December 31, 2017.

Gain on derivative liability

We incurred a gain on derivative liability of $1.6 million for the year ended December 31, 2017 related to the change in the fair value of embedded features of our Convertible Notes from the end of the prior quarter through the payoff date, primarily resulting from a decrease in our share price. There were no such charges incurred for the year ended December 31, 2018. See Note 8 - Debt and Note 9 - Derivatives to our consolidated financial statements.

Loss on early extinguishment of debt

Loss on early extinguishment of debt was not material for the year ended December 31, 2018 and relates to the optional prepayments of $5.0 million each made on our Amended Term Loan in the third and fourth quarters of 2018. Loss on early extinguishment of debt of $5.0 million for the year ended December 31, 2017 relates to the early repayment of our Convertible Notes. See Note 8 - Debt to our consolidated financial statements.

Income tax benefit

Income tax benefit totaled $2.5 million for the year ended December 31, 2018, compared to $34.5 million for the year ended December 31, 2017. The effective tax rate was 13.6% and negative 802.2%, including the impact of discrete items, for the years ended December 31, 2018 and 2017, respectively. The effective tax rate in 2018 was impacted by the non-deductibility of certain per diem expenses, the officers' compensation limitation, and international and state income taxes. Further, during the fourth quarter of 2018 the Company completed its 2017 federal and state income tax returns and recorded a discrete tax benefit associated with adjusting its net deferred tax asset. The effective tax rate in 2017 was impacted by the reversal of valuation allowances, partially offset by the changes in estimated deferred tax assets resulting from the 2017 Tax Act. On December 22, 2017, the 2017 Tax Act was signed into legislation which, among other changes, reduced the corporate federal income tax rate from 35% to 21%, effective for our year ended December 31, 2018. Because a change in tax law is accounted for in the period of enactment, we recorded income tax expense of $8.0 million, primarily due to a remeasurement of deferred tax assets and liabilities. See Note 13 - Income Taxes to our consolidated financial statements for further information.

Comparison of Results for the Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

	Year Ended December 31,			
			Increase (Decrease)	Increase (Decrease)
	2017	2016	$	%
	(Dollars in thousands)			
Revenue from services	$865,048	$833,537	$ 31,511	3.8 %
Direct operating expenses	636,462	611,802	24,660	4.0 %
Selling, general, and administrative expenses	187,435	179,820	7,615	4.2 %
Bad debt expense	1,828	593	1,235	208.3 %
Depreciation and amortization	10,174	9,182	992	10.8 %
Acquisition-related contingent consideration	44	814	(770)	(94.6)%
Acquisition and integration costs	1,975	78	1,897	NM
Restructuring costs	1,026	753	273	36.3 %
Impairment charges	14,356	24,311	(9,955)	(40.9)%
Income from operations	11,748	6,184	5,564	90.0 %
Interest expense	4,214	6,106	(1,892)	(31.0)%
Gain on derivative liability	(1,581)	(5,805)	4,224	72.8 %
Loss on early extinguishment of debt	4,969	1,568	3,401	216.9 %
Other income, net	(155)	(230)	75	32.6 %
Income before income taxes	4,301	4,545	(244)	(5.4)%
Income tax benefit	(34,501)	(4,186)	(30,315)	(724.2)%
Consolidated net income	38,802	8,731	30,071	344.4 %
Less: Net income attributable to noncontrolling interest in subsidiary	1,289	764	525	68.7 %
Net income attributable to common shareholders	$37,513	$7,967	$ 29,546	370.9 %

NM - not meaningful

Revenue from services

Revenue from services increased $31.5 million, or 3.8%, to $865.0 million for the year ended December 31, 2017, as compared to $833.5 million for the year ended December 31, 2016. The increase was entirely from Nurse and Allied Staffing primarily due to the Advantage acquisition, and partially offset by lower revenue from Physician Staffing and OHCMS. See further discussion in Segment Results.

Direct operating expenses

Direct operating expenses are comprised primarily of field employee compensation and independent contractor expenses, housing expenses, travel expenses, and field insurance expenses. Direct operating expenses increased $24.7 million, or 4.0%, to $636.5 million for the year ended December 31, 2017, as compared to $611.8 million for the year ended December 31, 2016, entirely due to the Advantage acquisition. As a percentage of total revenue, direct operating expenses increased to 73.6% compared to 73.4% in the prior year period.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased $7.6 million, or 4.2%, to $187.4 million for the year ended December 31, 2017, as compared to $179.8 million for the year ended December 31, 2016, partly due to the impact of the acquisition of Advantage. Excluding the impact of Advantage, the increase was primarily due to investments in revenue-producing headcount, higher marketing costs for candidate attraction, and higher compensation and benefit costs. As a percentage of total revenue, selling, general, and administrative expenses were 21.7% and 21.5% for the year ended December 31, 2017 and December 31, 2016, respectively.

Depreciation and amortization expense

Depreciation and amortization expense in the year ended December 31, 2017 increased to $10.2 million as compared to $9.2 million for the year ended December 31, 2016, partly due to the additional amortization of other intangible assets of Advantage. As a percentage of revenue, depreciation and amortization expense was 1.2% for the year ended December 31, 2017 and 1.1% for the year ended December 31, 2016.

Acquisition-related contingent consideration

Acquisition-related contingent consideration totaled less than $0.1 million for the year ended December 31, 2017, related to the accretion on earnouts, partly offset by the reversal of an earnout liability related to Mediscan which was determined would not be achieved, as compared to $0.8 million for the year ended December 31, 2016, primarily related to accretion of the Mediscan earnouts. In the fourth quarter of 2017, we also recognized a decrease in the fair value of the USR earnout liability of $1.3 million, driven by the decrease in the projected USR 2018 and 2019 revenue and EBITDA amounts, offset by a $1.2 million increase in the projected fair value of Mediscan's DirectEd earnout liability, as a result of an increase in their projected 2018 and 2019 gross profit amounts. See Note 10 - Fair Value Measurements to our consolidated financial statements.

Acquisition and integration costs

During the years ended December 31, 2017 and 2016, we incurred acquisition and integration costs of $2.0 million and $0.1 million, respectively. The 2017 costs consisted primarily of transaction, advisory, and legal fees related to the acquisition of Advantage. See Note 4 - Acquisitions to our consolidated financial statements.

Restructuring costs

Restructuring costs include severance and exit costs incurred as part of separate and discrete cost savings initiatives. We recorded restructuring costs of $1.0 million for the year ended December 31, 2017 and $0.8 million for the year ended December 31, 2016.

Impairment charges

In the fourth quarter of 2017, we recorded non-cash impairment charges of $14.4 million relating to the Physician Staffing reporting unit. We reduced our long-range forecast for the Physician Staffing business segment in the fourth quarter of 2017. The lower than expected revenue was driven by lower booking volumes, partly due to the loss of customers. In addition, margins of the reporting unit were negatively impacted from continued investments in the business. As a result, we recorded non-cash impairment charges of $8.7 million related to trade names and $5.7 million related to goodwill.

In the second quarter of 2016, we recorded non-cash impairment charges of $24.3 million relating to the Physician Staffing reporting unit. Based on its under-performance to plan through the six months ended June 30, 2016, we revised our growth assumptions for the Physician Staffing reporting unit which triggered our evaluation.

Interest expense

Interest expense totaled $4.2 million for the year ended December 31, 2017 and $6.1 million for the year ended December 31, 2016. The decrease was due to a lower effective interest rate partially offset by higher average borrowings. The effective interest rate on our borrowings decreased to 4.6% for the year ended December 31, 2017 compared to 8.4% for the year ended December 31, 2016, primarily due to the payoff of our $25.0 million 8% fixed rate Convertible Notes on March 17, 2017. See Note 8 - Debt to our consolidated financial statements.

Gain on derivative liability

Gain on derivative liability of $1.6 million and $5.8 million for the years ended December 31, 2017 and December 31, 2016, respectively, related to the change in the fair value of embedded features of our Convertible Notes. The gains in both periods primarily resulted from decreases in our share price from the end of the respective prior years through the 2017 payoff date and through December 31, 2016. The gain in 2016 was partially offset by a reduction in credit risk. See Note 8 - Debt and Note 9 - Derivatives to our consolidated financial statements.

Loss on early extinguishment of debt

Loss on early extinguishment of debt of $5.0 million for the year ended December 31, 2017 relates to the write-off of original issue discount and debt issuance costs of $4.4 million and a pre-payment fee of $0.6 million due to the early settlement of our Convertible Notes. Loss on early extinguishment of debt was $1.6 million for the year ended December 31, 2016 and related to the write-off of unamortized net debt discount and issuance costs, including a redemption premium of $0.6 million, related to our Second Lien Term Loan. See Note 8 - Debt to our consolidated financial statements.

Income tax benefit

Income tax benefit from continuing operations totaled $34.5 million for the year ended December 31, 2017, compared to $4.2 million for the year ended December 31, 2016. The effective tax rate was negative 802.2% and negative 92.1%, including the impact of discrete items, for the years ended December 31, 2017 and 2016, respectively. The effective tax rate in 2017 was impacted by the reversal of valuation allowances, partially offset by the changes in estimated deferred tax assets resulting from the 2017 Tax Act. The effective tax rate in 2016 is different than the statutory rates primarily due to the impact from amortization of indefinite-lived intangible assets for tax purposes and the partial non-deductibility of certain per diem expenses and international and state minimum taxes. See Note 13 - Income Taxes to our consolidated financial statements for further information.

Segment Results

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

	Year Ended December 31,		
	2018	2017	2016
	(amounts in thousands)		
Revenue from services:			
Nurse and Allied Staffing	$720,302	$758,267	$721,486
Physician Staffing	82,305	93,610	98,283
Other Human Capital Management Services	13,877	13,171	13,768
	$816,484	$865,048	$833,537
Contribution income (loss):			
Nurse and Allied Staffing	$66,365	$73,614	$71,992
Physician Staffing	4,755	5,256	8,265
Other Human Capital Management Services	598	(357)	(535)
	71,718	78,513	79,722
Unallocated corporate overhead	44,589	39,190	38,400
Depreciation and amortization	11,780	10,174	9,182
Acquisition and integration costs	491	1,975	78
Acquisition-related contingent consideration	2,557	44	814
Restructuring costs	2,758	1,026	753
Impairment charges	22,423	14,356	24,311
(Loss) income from operations	$(12,880)	$11,748	$6,184

See Note 17 - Segment Data.

Certain statistical data for our business segments for the periods indicated are as follows:

	Year Ended December 31,			Percent
	2018	2017	Change	Change
Nurse and Allied Staffing statistical data:				
FTEs	7,154	7,397	(243)	(3.3)%
Average Nurse and Allied Staffing revenue per FTE per day	$276	$281	$ (5)	(1.8)%
Physician Staffing statistical data:				
Days filled	53,039	60,161	(7,122)	(11.8)%
Revenue per day filled	$1,552	$1,556	$ (4)	(0.3)%

	Year Ended December 31,			Percent
	2017	2016	Change	Change
Nurse and Allied Staffing statistical data:				
FTEs	7,397	6,953	444	6.4 %
Average Nurse and Allied Staffing revenue per FTE per day	$281	$284	$ (3)	(1.1)%
Physician Staffing statistical data:				
Days filled	60,161	61,584	(1,423)	(2.3)%
Revenue per day filled	$1,556	$1,596	$ (40)	(2.5)%

See definition of Business Measurements under the Operating Metrics section of our Management's Discussion and Analysis.

Segment Comparison - Year Ended December 31, 2018 compared to the Year Ended December 31, 2017

Nurse and Allied Staffing

Revenue from the Nurse and Allied Staffing business segment decreased $38.0 million, or 5.0% to $720.3 million for the year ended December 31, 2018, from $758.3 million for the year ended December 31, 2017. The year-over-year decrease was primarily due to volume declines across both travel nurse and local staffing, partly offset by the impact of the July 2017 acquisition of Advantage. Excluding the impact of the Advantage acquisition, revenue declined 9.3%. The lower revenue in travel nurse and local staffing was partly offset by increases in travel allied and education healthcare staffing.

Contribution income from Nurse and Allied Staffing for the year ended December 31, 2018, decreased $7.2 million or 9.8%, to $66.4 million from $73.6 million in year ended December 31, 2017. As a percentage of segment revenue, contribution income margin decreased to 9.2% for the year ended December 31, 2018 from 9.7% for the year ended December 31, 2017, primarily due to lower travel nurse volumes, and to a lesser extent, lower travel nurse bill rates.

Operating Metrics

The average number of Nurse and Allied Staffing FTEs on contract during the year ended December 31, 2018 decreased 3.3% from the year ended December 31, 2017. Average Nurse and Allied Staffing revenue per FTE per day decreased approximately 1.8% in the year ended December 31, 2018 compared to the year ended December 31, 2017, reflecting lower average bill rates, primarily in our travel nurse operations.

Physician Staffing

Revenue from Physician Staffing decreased $11.3 million, or 12.1% to $82.3 million for the year ended December 31, 2018, compared to $93.6 million for the year ended December 31, 2017, primarily due to a decrease in volume of days filled.

Contribution income from Physician Staffing for the year ended December 31, 2018, decreased $0.5 million or 9.5% to $4.8 million compared to $5.3 million in the year ended December 31, 2017. As a percentage of segment revenue, contribution income was 5.8% for the year ended December 31, 2018 and 5.6% for the year ended December 31, 2017. The margin improvement was primarily due to lower selling, general and administrative costs, partly offset by a lower gross profit margin.

Operating Metrics

Physician Staffing days filled decreased 11.8% to 53,039 in the year ended December 31, 2018, compared to 60,161 in the year ended December 31, 2017. Revenue per day filled was $1,552 for the year ended December 31, 2018 and $1,556 for the year ended December 31, 2017, due to a shift in mix between advanced practice and physician staffing.

Other Human Capital Management Services

Revenue from OHCMS for the year ended December 31, 2018, increased $0.7 million, or 5.4%, to $13.9 million from $13.2 million in the year ended December 31, 2017, primarily due to growth in executive searches, partially offset by lower physician searches.

Contribution income from OHCMS for the year ended December 31, 2018, increased by $1.0 million, or 267.5%, to $0.6 million, compared to a loss of $0.4 million for the year ended December 31, 2017. The year-over-year improvement was due to lower selling, general and administrative expenses, partly offset by a lower gross profit margin.

Unallocated corporate overhead

Included in unallocated corporate overhead is corporate compensation and benefits, and general and administrative expenses including rent and utilities, computer supplies and expenses, insurance, professional expenses, corporate-wide projects (initiatives) and public company expenses. Unallocated corporate overhead increased to $44.6 million for the year ended December 31, 2018, from $39.2 million for the year ended December 31, 2017, primarily due to higher professional service fees, such as legal and consulting, partly offset by the impact of cost savings and efficiency initiatives. As a percentage of consolidated revenue, unallocated corporate overhead was 5.5% for the year ended December 31, 2018, and 4.5% for the year ended December 31, 2017.

Segment Comparison - Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

Nurse and Allied Staffing

Revenue from the Nurse and Allied Staffing business segment increased $36.8 million, or 5.1% to $758.3 million for the year ended December 31, 2017, from $721.5 million for the year ended December 31, 2016. The year-over-year increase was entirely due the impact of the Advantage acquisition. Excluding the impact of the Advantage acquisition, revenue declined 1.3%, primarily due to the impact of higher average bill rates partly related to specific project revenue in the prior year and lower premium rate business in 2017, partially offset by growth in our education healthcare staffing operations.

Contribution income from Nurse and Allied Staffing for the year ended December 31, 2017, increased $1.6 million or 2.3%, to $73.6 million from $72.0 million in year ended December 31, 2016. As a percentage of segment revenue, contribution income margin decreased to 9.7% for the year ended December 31, 2017 from 10.0% for the year ended December 31, 2016, primarily due to higher compensation packages for our field staff that were in place in the early part of the year.

Operating Metrics

The average number of Nurse and Allied Staffing FTEs on contract during the year ended December 31, 2017 increased 6.4% over the year ended December 31, 2016, in part due to the impact of the acquisition of Advantage. Average Nurse and Allied Staffing revenue per FTE per day decreased approximately 1.1% in the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to less premium rate business in 2017.

Physician Staffing

Revenue from Physician Staffing decreased $4.7 million, or 4.8% to $93.6 million for the year ended December 31, 2017, compared to $98.3 million for the year ended December 31, 2016, primarily due to a decrease in volume of days filled.

Contribution income from Physician Staffing for the year ended December 31, 2017, decreased $3.0 million or 36.4% to $5.3 million compared to $8.3 million in the year ended December 31, 2016. As a percentage of segment revenue, contribution income was 5.6% for the year ended December 31, 2017 and 8.4% for the year ended December 31, 2016. The margins were negatively impacted from continued investments in the business.

Operating Metrics

Physician Staffing days filled decreased 2.3% to 60,161 in the year ended December 31, 2017, compared to 61,584 in the year ended December 31, 2016, primarily due to a decline in physician specialties, partly offset by an increase in advanced practices. Part of the volume decline in physician specialties is due to a reduction in orders from government customers. Revenue per day filled was $1,556 and $1,596 for the years ended December 31, 2017 and 2016, respectively.

Other Human Capital Management Services

Revenue from OHCMS for the year ended December 31, 2017, decreased $0.6 million, or 4.3%, to $13.2 million from $13.8 million in the year ended December 31, 2016, primarily due to a decrease in executive searches and placements, partially offset by higher physician searches.

Contribution loss from OHCMS for the year ended December 31, 2017, decreased by $0.1 million, or 33.3%, to $0.4 million, compared to $0.5 million for the year ended December 31, 2016.

Unallocated corporate overhead

Unallocated corporate overhead was $39.2 million for the year ended December 31, 2017, compared to $38.4 million for the year ended December 31, 2016, primarily due to an increase in compensation and benefits. As a percentage of consolidated revenue, unallocated corporate overhead was 4.5% for the year ended December 31, 2017, and 4.6% for the year ended December 31, 2016.

Transactions with Related Parties

See Note 16 - Related Party Transactions to our consolidated financial statements.

Liquidity and Capital Resources

At December 31, 2018, we had $16.0 million in cash and cash equivalents, and $83.9 million of Term Loan outstanding, at par. Working capital decreased by $4.8 million to $109.5 million as of December 31, 2018, compared to $114.3 million as of December 31, 2017. Our net days' sales outstanding (DSO), which excludes amounts owed to subcontractors, increased 4 days to 62 days as of December 31, 2018, compared to 58 days as of December 31, 2017. The increase was due to clients' slow paying, predominantly among a few large customers and, to a lesser extent, clients' seeking extended payment terms.

Our operating cash flow constitutes our primary source of liquidity, and historically, has been sufficient to fund our working capital, capital expenditures, internal business expansion, and debt service, including our commitments as described in the Commitments table which follows. We expect to meet our future needs for working capital, capital expenditures, internal business expansion, and debt service from a combination of cash on hand, operating cash flows, and funds available through the revolving loan portion of our Amended and Restated Credit Agreement. See debt discussion which follows. In the third quarter of 2018, we launched a new initiative to replace our legacy system supporting our travel nurse staffing operations.

Based upon current projections, we will not satisfy the required leverage ratio under our Credit Agreement as of March 31, 2019. As a result, a debt prepayment of between $10 million and $12 million would be required to remain in compliance. We believe such prepayment will be sufficient to maintain compliance with the leverage ratio covenant and meet our obligations for the next twelve months. In the event actual results differ significantly from current projections, we may be required to make additional debt prepayments. Further, we may be able to amend our Credit Agreement, and as a result, would not be required to make any debt prepayments.

Cash Flow Comparisons

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net cash provided by operating activities during the year ended December 31, 2018 was $21.0 million compared to $45.5 million during the year ended December 31, 2017, primarily due to lower collections and timing of payments.

Net cash used in investing activities during the year ended December 31, 2018 was $6.7 million compared to $91.4 million in the year ended December 31, 2017. The lower cash used in the year ended December 31, 2018 is due to less cash used for acquisitions. During the year ended December 31, 2018, we used $1.9 million, net of cash acquired, for the AP Staffing acquisition compared to a use of $86.0 million to acquire Advantage in July 2017. See Note 4 - Acquisitions to our consolidated financial statements. In both years, cash used also includes capital expenditures and acquisition-related settlements.

Net cash used in financing activities during the year ended December 31, 2018 was $23.8 million, compared to net cash provided by financing activities of $50.8 million during the year ended December 31, 2017. During the year ended December 31, 2018, we repaid $16.1 million on our Term Loan, including $10.0 million of optional prepayments, and paid $0.3 million in debt issuance costs in connection with the First Amendment to our Amended and Restated Credit Facility. We also repurchased and retired shares of our Common Stock for $5.0 million, and used cash to pay $0.9 million for shares withheld for taxes, $1.2 million for noncontrolling shareholder payments, and $0.3 million of contingent consideration. During the year ended December 31, 2017, in the first quarter, we paid off our Convertible Notes with a partial cash payment of $5.0 million and extinguishment fees of $0.6 million. We also funded the acquisition of Advantage using our Senior Credit Facility and subsequently refinanced, resulting in net borrowings of $68.5 million on the Senior Credit Facility ($62.0 million in Term Loans and $6.5 million on the Revolving Credit Facility which was subsequently repaid) and debt issuance costs of $0.9

million. In addition, we used cash to repay $1.5 million on our Term Loan, pay $1.8 million for shares withheld for taxes, $1.2 million for noncontrolling shareholder payments, and $0.3 million of contingent consideration.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net cash provided by operating activities during the year ended December 31, 2017 was $45.5 million compared to $30.1 million during the year ended December 31, 2016, primarily due to higher collections partly offset by the timing of payments for the year ended December 31, 2017.

Investing activities used a net of $91.4 million in the year ended December 31, 2017 compared to $9.8 million in the year ended December 31, 2016. Net cash used in the year ended December 31, 2017 was for the Advantage acquisition and for capital expenditures, of which $2.9 million was reimbursed from our landlord for tenant improvements and is reflected in operating activities. Net cash used in investing activities in the year ended December 31, 2016 included $6.5 million for capital expenditures, $1.9 million for the acquisition of USR, and $1.9 million of other acquisition-related settlements, which was partially offset by the receipt of $0.5 million related to proceeds from the sale of CCE. See Note 3 - Acquisitions and Note 4 - Disposal to our consolidated financial statements.

Net cash provided by financing activities during the year ended December 31, 2017 was $50.8 million, compared to $2.2 million net cash used during the year ended December 31, 2016. During the year ended December 31, 2017, in the first quarter, we paid off our Convertible Notes with a partial cash payment of $5.0 million and extinguishment fees of $0.6 million. We also funded the acquisition of Advantage using our Senior Credit Facility and subsequently refinanced, resulting in net borrowings of $68.5 million on the Senior Credit Facility ($62.0 million in Term Loans and $6.5 million on the Revolving Credit Facility which was subsequently repaid) and debt issuance costs of $0.9 million. In addition, we used cash to repay $1.5 million on our Term Loan, pay $1.8 million for shares withheld for taxes, $1.2 million for noncontrolling shareholder payments, and $0.3 million of contingent consideration. During the year ended December 31, 2016, we entered into the 2016 Senior Credit Facility which provided us with $40.0 million of borrowings under the Term Loan Facility. Part of the proceeds from the borrowings were used to prepay our $30.0 million Second Lien Term Loan including a prepayment penalty of $0.6 million and $1.2 million of debt issuance costs. During the year ended December 31, 2016, we also repaid a net of $8.0 million on our senior secured asset-based credit facility and $0.5 million on our term loan facility, and used cash to pay $0.9 million for shares withheld for taxes, $0.7 million for noncontrolling shareholder payments, and $0.2 million of contingent consideration.

Debt
Credit Facilities

As more fully described in Note 8 - Debt to our consolidated financial statements, our Amended and Restated Credit Agreement, entered into on August 1, 2017, provides us with a $215.0 million committed facility, including a term loan of $100.0 million (Amended Term Loan) and a $115.0 million revolving credit facility (Amended Revolving Credit Facility) (together with the Amended Term Loan, the Amended Credit Facilities). As of December 31, 2018, the Applicable Margin, as defined in the Amended and Restated Credit Agreement, was 2.50% for Eurodollar Loans and LIBOR Index Rate Loans and 1.50% for B