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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

CROSS COUNTRY HEALTHCARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	0-33169	13-4066229
(State or other jurisdiction of Incorporation or organization)	Commission file number	(I.R.S. Employer Identification Number)

5201 Congress Avenue, Suite 100B
Boca Raton, Florida 33487
(Address of principal executive offices)(Zip Code)
(561) 998-2232
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act:
Large accelerated filer ¨ Accelerated filer þ
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller Reporting Company ¨
Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ

The registrant had outstanding 36,494,303 shares of Common Stock, par value $0.0001 per share, as of July 31, 2017.

INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

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

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

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

CROSS COUNTRY HEALTHCARE, INC.

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FORM 10-Q

June 30, 2017

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

See accompanying notes to the condensed consolidated financial statements
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CROSS COUNTRY HEALTHCARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, amounts in thousands, except per share data)

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

See accompanying notes to the condensed consolidated financial statements

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

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

See accompanying notes to the condensed consolidated financial statements

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

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Consolidated net income	$3,502	$2,091
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,476	4,877
Amortization of debt discount and debt issuance costs	429	902
Provision for allowances	1,935	2,254
Deferred income tax expense	1,200	(6,288)
Gain on derivative liability	(1,581)	(12,865)
Acquisition-related contingent consideration	551	470
Impairment charges	—	24,311
Loss on early extinguishment of debt	4,969	1,568
Equity compensation	2,015	1,767
Other non-cash costs	22	5
Changes in operating assets and liabilities:		
Accounts receivable	15,783	9
Prepaid expenses and other assets	279	565
Accounts payable and accrued expenses	(8,449)	(5,007)
Other liabilities	394	(1,792)
Net cash provided by operating activities	25,525	12,867
Cash flows from investing activities		
Acquisition-related settlements	—	(1,858)
Purchases of property and equipment	(3,386)	(2,616)
Net cash used in investing activities	(3,386)	(4,474)
Cash flows from financing activities		
Debt issuance costs	—	(990)
Repayments of debt	(6,509)	(95,247)
Borrowings on debt	—	97,200
Extinguishment fees	(578)	(641)
Other	(1,769)	(914)
Net cash used in financing activities	(8,856)	(592)
Effect of exchange rate changes on cash	23	(25)
Change in cash and cash equivalents	13,306	7,776
Cash and cash equivalents at beginning of period	20,630	2,453
Cash and cash equivalents at end of period	$33,936	$10,229

See accompanying notes to the condensed consolidated financial statements

CROSS COUNTRY HEALTHCARE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Cross Country Healthcare, Inc. and its direct and indirect wholly-owned subsidiaries (collectively, the Company). The condensed consolidated financial statements include all assets, liabilities, revenue, and expenses of Cross Country Talent Acquisition Group, LLC (formerly InteliStaf of Oklahoma, LLC), which is controlled by the Company but not wholly-owned. The Company records the ownership interest of the noncontrolling shareholder as noncontrolling interest in subsidiary. All intercompany transactions and balances have been eliminated in consolidation. In the opinion of management, all entries necessary for a fair presentation of such unaudited condensed consolidated financial statements have been included. These entries consisted of all normal recurring items.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. These operating results are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The December 31, 2016 condensed consolidated balance sheet included herein was derived from the December 31, 2016 audited consolidated balance sheet included in the Company's Annual Report on Form 10-K.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. Significant estimates and assumptions are used for, but not limited to: (1) the valuation of accounts receivable; (2) goodwill, trade names, and other intangible assets; (3) other long-lived assets; (4) share-based compensation; (5) accruals for health, workers' compensation and professional liability claims; (6) valuation of deferred tax assets; (7) purchase price allocation; (8) derivative liability; (9) legal contingencies; (10) contingent considerations; (11) income taxes; and (12) sales and other non-income tax liabilities. Accrued insurance claims and reserves include estimated settlements from known claims and actuarial estimates for claims incurred but not reported. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. This update intended to reduce the diversity that has resulted from the lack of consistent principles on this topic by adding or clarifying guidance on eight cash flow issues, including: debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption was permitted. The Company elected to early adopt this standard in its first quarter of 2017, applying the guidance retrospectively with no material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The Company adopted this guidance in the first quarter of 2017. ASU 2016-09 eliminates the requirement to delay the recognition of excess tax benefits until they reduce current taxes payable. Required method of adoption is modified retrospective transition method. Upon adoption, previously unrecognized excess tax benefits of $1.3 million had no impact on the Company's accumulated deficit balance as the related deferred tax assets were fully offset by a valuation allowance. ASU 2016-09 also requires excess tax benefits and deficiencies to be recognized prospectively in the provision for income taxes rather than additional paid-in capital. As a result of the adoption, the Company's provision for income taxes was not impacted due to its full valuation allowance. Additionally, as permitted by the ASU, the Company elected to account for forfeitures as they occur rather than estimate expected forfeitures using a modified retrospective transition method. As a result, the Company recorded a cumulative-effect adjustment of $0.5 million to accumulated deficit and lower share-based compensation expense of $0.1 million compared to the amount of expense that would have been recorded for its first quarter of 2017. Share-based compensation expense compared to the amount that would have been recorded for the second quarter of 2017 was less than $0.1 million. Under ASU 2016-09, the threshold for awards to qualify for equity treatment permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. Prior to the adoption of ASU 2016-09, the Company did not allow an award to be partially settled in cash in excess of the minimum statutory withholding requirements. Subsequent to the adoption of the standard, the Company will allow awards to be partially settled at the maximum applicable statutory rates. Finally, ASU 2016-09 requires excess tax benefits to be presented as a component of operating cash flows rather than financing cash flows. The Company elected to adopt this requirement prospectively and accordingly, prior periods have not been adjusted. Excess tax benefits were not material for all periods presented.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments, to clarify the steps required to assess whether a call or put option meets the criteria for bifurcation as an embedded derivative. ASU 2016-06 is effective for interim and annual periods beginning after December 15, 2016, and requires a modified retrospective approach to adoption. The Company adopted this guidance in the first quarter of 2017. The adoption of this guidance had no impact on the Company's results of operations.

3. ACQUISITIONS

US Resources Healthcare

On December 1, 2016, the Company completed the acquisition of a recruitment process outsourcing business, US Resources Healthcare, LLC (USR). This acquisition expands the Company's workforce solutions offerings to deliver financial and operating efficiencies through labor optimization services while enhancing the quality of care.

The acquisition was deemed immaterial and has been accounted for in accordance with the Business Combinations Topic of the FASB ASC, using the acquisition method of accounting. USR's results of operations are included in the consolidated statements of operations from December 1, 2016 and have been included in the Company's Nurse and Allied Staffing business segment. See Note 6 - Goodwill, Trade Names, and Other Intangible Assets and Note 9 - Fair Value Measurements.

Mediscan

On October 30, 2015, the Company completed the acquisition of all of the membership interests of New Mediscan II, LLC, Mediscan Diagnostic Services, LLC, and Mediscan Nursing Staffing, LLC (collectively, Mediscan) for a purchase price of $29.9 million in cash ($28.0 million plus working capital estimate) and $4.7 million in shares (or 349,871 shares) of the Company's Common Stock, subject to a net working capital adjustment. The shares of Common Stock issued in connection with the acquisition were subject to a lockup period, which ended April 30, 2016. In the first quarter of 2016, the net working capital adjustment was settled consistent with the receivable balance as of December 31, 2015. An amount of $5.0 million of the purchase price was held in escrow to cover any post-closing liabilities, which was released to the seller on May 3, 2017.

The agreement also specified that the sellers were eligible to receive additional purchase price consideration of $7.0 million, with $3.5 million per year based on attainment of specific performance criteria in 2016 and 2017. As of December 31, 2016, the Company determined that the first year earnout was not achieved for 2016 and as a result, only $3.5 million remains as a potential earnout for 2017. As of June 30, 2017, the fair value of the remaining obligation was estimated at $0.8 million.

In connection with the Mediscan acquisition, the Company also assumed additional contingent purchase price liabilities for a previously acquired business that are payable annually based on specific performance criteria for the 2016 through 2019 years. Payments related to the 2016 through 2018 years are limited to $0.3 million per year and 2019 is uncapped. During the six months ended June 30, 2017, the Company paid $0.1 million. As of June 30, 2017, the fair value of the remaining obligations on an undiscounted basis was estimated at $3.8 million.

As of June 30, 2017, a total of $4.6 million was estimated as the fair value of these contingent consideration payments and is included in other current liabilities and contingent consideration on the condensed consolidated balance sheets. See Note 9 - Fair Value Measurements.

Medical Staffing Network

On June 30, 2014, the Company acquired substantially all of the assets and certain liabilities of Medical Staffing Network Healthcare, LLC (MSN). Of the purchase price, $2.5 million was deferred and due to the seller 21 months from the acquisition date, less any COBRA expenses incurred by the Company on behalf of former MSN employees over that period. The Company incurred $0.4 million in COBRA expenses since the MSN acquisition and, on April 1, 2016, released to the seller the remaining liability of $2.1 million.

4. COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) includes net income or loss and foreign currency translation adjustments, net of any related deferred taxes. Certain of the Company's foreign subsidiaries use their respective local currency as their functional currency. In accordance with the Foreign Currency Matters Topic of the FASB ASC, assets and liabilities of these operations are translated at the exchange rates in effect on the balance sheet date. Income statement items are translated at the average exchange rates for the period. The cumulative impact of currency fluctuations related to the balance sheet translation is included in accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets and was approximately $1.2 million at both June 30, 2017 and December 31, 2016.

There was no income tax impact related to foreign currency translation adjustments for the three and six month periods ended June 30, 2017 and June 30, 2016.

5. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(amounts in thousands, except per share data)			
Numerator:				
Net income (loss) attributable to common shareholders - Basic	$4,850	$(17,237)	$2,840	$1,785
Interest on Convertible Notes	—	*	694	1,677
Gain on derivative liability	—	*	(1,581)	(12,865)
Net income (loss) attributable to common shareholders - Diluted	$4,850	$(17,237)	$1,953	$(9,403)
Denominator:				
Weighted average common shares - Basic	35,651	32,085	34,269	32,021
Effective of diluted shares:				
Share-based awards	370	—	522	652
Convertible Notes	—	—	1,459	3,521
Weighted average common shares - Diluted	36,021	32,085	36,250	36,194
Net income (loss) per share attributable to common shareholders - Basic	$0.14	$(0.54)	$0.08	$0.06
Net income (loss) per share attributable to common shareholders - Diluted	$0.13	$(0.54)	$0.05	$(0.26)

* For the three months ended June 30, 2016, the Convertible Notes would have been anti-dilutive if converted at the beginning of the period and therefore, amounts are not applicable.

For the periods presented, no tax benefits have been assumed in the weighted average share calculation due to a full valuation allowance on the Company's deferred tax assets.

The Convertible Notes were paid in full on March 17, 2017. Applying the if-converted method, 1,459,030 shares and 3,521,126 shares were included in diluted weighted average shares for the six months ended June 30, 2017 and 2016 because their effect was dilutive.

6. GOODWILL, TRADE NAMES, AND OTHER INTANGIBLE ASSETS

As of June 30, 2017 and December 31, 2016, the Company had the following acquired intangible assets:

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(amounts in thousands)					
Intangible assets subject to amortization:						
Databases	$31,609	$ 17,162	$14,447	$31,609	$ 16,147	$15,462
Customer relationships	41,724	24,270	17,454	41,724	23,316	18,408
Non-compete agreements	3,619	3,548	71	3,619	3,527	92
Trade names, definite-lived	3,216	498	2,718	3,216	343	2,873
Other intangible assets, net	$80,168	$ 45,478	$34,690	$80,168	$ 43,333	$36,835
Intangible assets not subject to amortization:						
Trade names			35,402			35,402
			$70,092			$72,237

As of June 30, 2017, estimated annual amortization expense is as follows:

Years Ending December 31:	(amounts in thousands)
2017	$ 2,103
2018	4,148
2019	4,111
2020	4,007
2021	3,799
Thereafter	16,522
	$ 34,690

The June 30, 2017 and December 31, 2016 carrying amount of goodwill by segment is as follows:

	June 30, 2017	December 31, 2016
	(amounts in thousands)	
Nurse and Allied Staffing	$44,545	$ 44,545
Physician Staffing	25,685	25,685
Other Human Capital Management Services	9,418	9,418
Goodwill	$79,648	$ 79,648

During the three and six months ended June 30, 2017, the Company noted no indicators at any of its reporting units that warranted impairment testing.

During an evaluation of goodwill and other identified intangible assets at June 30, 2016, the Company determined that indicators were present in the Physician Staffing reporting unit which would suggest the fair value of the reporting unit may
have declined below the carrying value. The Physician Staffing reporting unit continued to underperform relative to management's expectations, driven by lower booking volumes partly due to the loss of customers, and margins being

impacted

from continued investments in the business all through the first half of 2016. The evaluation resulted in the carrying value of goodwill and other intangible assets for Physician Staffing to exceed the estimated fair value. As a result, the Company recorded pre-tax impairment charges totaling $24.3 million with $17.7 million related to goodwill, $0.6 million related to trade names, and $6.0 million related to customer relationships.

7. DEBT

At June 30, 2017 and December 31, 2016, long-term debt consists of the following:

	June 30, 2017		December 31, 2016	
	Principal	Unamortized Discount and Debt Issuance Costs	Principal	Unamortized Discount and Debt Issuance Costs
	(amounts in thousands)			
Term Loan, interest 2.80% and 2.62% at June 30, 2017 and December 31, 2016, respectively	$38,000	$ (412)	$39,500	$ (363)
Convertible Notes, fixed rate interest of 8.00%	—	—	25,000	(4,669)
Convertible Notes derivative liability	—	—	27,532	—
Capital lease obligations	14	—	23	—
Total debt	38,014	(412)	92,055	(5,032)
Less current portion	(2,258)	—	(2,263)	—
Long-term debt	$35,756	$ (412)	$89,792	$ (5,032)

As of June 30, 2017, the aggregate scheduled maturities of debt are as follows:

	Term Loan	Capital Leases
	(amounts in thousands)	
Through Years Ending December 31:		
2017	$750	$ 4
2018	3,750	8
2019	3,500	2
2020	4,000	—
2021	26,000	—
Total	$38,000	$ 14

Convertible Notes

The Company and certain of its domestic subsidiaries entered into a Convertible Note Purchase Agreement (the Note Purchase Agreement), with certain note holders (collectively, the Noteholders) on June 30, 2014. Pursuant to the Note Purchase Agreement, the Company sold to the Noteholders an aggregate of $25.0 million of convertible senior notes (the Convertible Notes). On March 17, 2017, the Company paid in full the Convertible Notes. In connection with the repayment, the Company issued to the Noteholders an aggregate of 3,175,584 shares of Common Stock, par value $0.0001, and cash in the aggregate amount of $5.6 million (of which $5.0 million is included in repayment of debt and $0.6 million is presented as extinguishment fees, both within financing activities on the condensed consolidated statements of cash flows). Upon derecognition of the net carrying amounts of the Convertible Notes (the remaining $20.0 million after the $5.0 million cash payment) and derivative liability ($26.0 million), the Company recognized a non-cash charge of $5.0 million as loss on early extinguishment and a non-cash addition to additional paid-in capital of $46.0 million for the fair value of the shares, which is not presented on the condensed consolidated statements of cash flows. The loss on early extinguishment of debt includes the write-off of unamortized loan fees and remaining interest due through the Forced Conversion date (defined below) of June 30, 2017.

The Convertible Notes were convertible at the option of the holders thereof at any time into shares of the Common Stock at a conversion price of $7.10 per share, or 3,521,126 shares of Common Stock. After three years from the issuance date, the Company had the right to force a conversion of the Convertible Notes if the volume-weighted average price (VWAP) per share of its Common Stock exceeded 125% of the then conversion price for 20 days of a 30 day trading period (Forced Conversion date).

The Convertible Notes bore interest at a rate of 8.00% per annum, payable in quarterly cash installments. The Convertible Notes would have matured on June 30, 2020, unless earlier repurchased, redeemed or converted. Subject to certain exceptions, the Company was not permitted to redeem the Convertible Notes until June 30, 2017.

Prior Credit Facilities

At December 31, 2015, the Company had a senior secured asset-based revolving credit facility (First Lien Loan), with a termination date of June 30, 2017, in the aggregate principal amount of up to $85.0 million, which included a subfacility for swingline loans up to an amount equal to 10% of the aggregate Revolver Commitments, as defined in the agreement, and a $35.0 million subfacility for standby letters of credit. The Company also had a five-year second lien term loan facility (Second Lien Term Loan) in an aggregate principal amount of $30.0 million. The Company had the ability, at its option at any time, to prepay the Second Lien Term Loan in whole or in part at the redemption prices set forth therein, which ranged from 103% of the principal amount thereof for prepayments during the period July 1, 2015 through June 30, 2016, 102% of the principal amount thereof for prepayments during the period July 1, 2016 through June 30, 2017, and 100% of the principal amount thereof for prepayments after June 30, 2017.

2016 Senior Credit Facilities

On June 22, 2016, the Company entered into a senior credit agreement (Credit Agreement), which provided for an initial term loan of $40.0 million (Term Loan) and a revolving credit facility of up to $100.0 million (Revolving Credit Facility) (together with the Term Loan, the Senior Credit Facilities) both of which would have matured on June 22, 2021. Subsequent to June 30, 2017, this Credit Agreement has been amended and restated. See Note 16 - Subsequent Events.

The Revolving Credit Facility included a subfacility for swingline loans up to an amount not to exceed $15.0 million, and a $35.0 million sublimit for the issuance of standby letters of credit. The Credit Agreement also included a provision permitting the Company, subject to certain conditions, to increase the aggregate amount of the commitments under the Revolving Credit Facility or establish one or more additional term loans in an aggregate amount of up to $50.0 million with optional additional commitments from existing lenders or new commitments from additional lenders. The Term Loan was payable in quarterly installments, with the first payment made September 30, 2016, and each such installment being in the aggregate annual principal amount (subject to adjustment as a result of prepayments) equal to 1.25% of the principal amount for the first four installments, 1.875% for the next eight installments, and 2.50% of the principal amount for the remaining installments. The Revolving Credit Facility could be used to provide ongoing working capital, fund permitted acquisitions and for other general corporate purposes of the Company and its subsidiaries.

Proceeds of the Senior Credit Facilities were used primarily to refinance the Company's First Lien Loan and Second Lien Term Loan and to pay related transaction fees and expenses, including a prepayment penalty of $0.6 million. In addition, $23.1 million of standby letters of credit issued under the First Lien Loan were rolled into and deemed issued under the Revolving Credit Facility. The Revolving Credit Facility could be used to provide ongoing working capital, fund permitted acquisitions, and for other general corporate purposes of the Company and its subsidiaries.

The repayment of the Second Lien Term Loan was treated as extinguishment of debt and, as a result, the Company recognized a loss on extinguishment of debt of approximately $1.6 million in the second quarter of 2016, related to the write-off of unamortized net debt discount and issuance costs as well as transaction fees and expenses.

Subject to the Credit Agreement, the Company paid interest on (i) each Base Rate Loan at the Base Rate (as defined therein) plus the Applicable Margin in effect from time to time, (ii) each LIBOR Index Rate Loan at the One Month LIBOR Index Rate (as defined therein) plus the Applicable Margin in effect from time to time and (iii) each

Eurodollar Loan at the Adjusted LIBOR for the applicable Interest Period (as defined therein) in effect for such Loan plus the Applicable Margin in effect from time to time. The Applicable Margin, as of any date, was a percentage per annum determined by reference to the applicable Consolidated Net Leverage Ratio (as defined by the agreement) in effect on such date as set forth in the table below.

Level	Consolidated Net Leverage Ratio	Eurodollar Loans, LIBOR Index Rate Loans and Letter of Credit Fee	Base Rate Loans	Commitment Fee
I	Less than 1.50:1.00	1.75%	0.75%	0.25%
II	Greater than or equal to 1.50:1.00 but less than 2.00:1.00	2.00%	1.00%	0.30%
III	Greater than or equal to 2.00:1.00 but less than 2.50:1.00	2.25%	1.25%	0.30%
IV	Greater than or equal to 2.50:1.00 but less than 3.00:1.00	2.50%	1.50%	0.35%
V	Greater than or equal to 3.00:1.00	2.75%	1.75%	0.40%

As of June 30, 2017, the Term Loan and Revolving Credit Facility bore interest at a rate equal to One Month LIBOR plus 175 basis points. The interest rate was subject to an increase of 200 basis points if an event of default existed under the Credit Agreement. The Company was required to pay a commitment fee on the average daily unused portion of the Revolving Credit Facility, based on the Applicable Margin which was 0.25% as of June 30, 2017.

The Company had the right at any time and from time to time to prepay any borrowing, in whole or in part, without premium or penalty, by giving irrevocable written notice (or telephonic notice promptly confirmed in writing) except that such notice shall be revocable if a prepayment is being made in anticipation of concluding a financing arrangement, and the Company was ultimately unable to secure such financing arrangement. The Company was required to prepay the Senior Credit Facilities under certain circumstances including from net cash proceeds from asset sales or dispositions in excess of certain thresholds, as well as from net cash proceeds from the issuance of certain debt by the Company.

The Credit Agreement contained customary representations, warranties, and affirmative covenants. The Credit Agreement also contained customary negative covenants, subject to some exceptions, on (i) indebtedness and preferred equity, (ii) liens, (iii) fundamental changes, (iv) investments, (v) restricted payments, and (vi) sale of assets and certain other restrictive agreements. The Credit Agreement also contained customary events of default, such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control and the failure to observe the negative covenants and other covenants related to the operation of the Company's business.

The Credit Agreement also included two financial covenants: (i) limiting a maximum Consolidated Total Leverage ratio (as defined therein) to be no greater than 3.50:1.00 for the fiscal quarters ending September 30, 2016 through June 30, 2017, 3.25:1.00 for the fiscal quarters ending September 30, 2017 through June 30, 2018, and 3.00:1.00 for each fiscal quarter ending thereafter and as adjusted pursuant to a Qualified Permitted Acquisition (as defined therein); and (ii) requiring a minimum Consolidated Fixed Charge Coverage ratio (as defined therein) as of the end of each fiscal quarter of 1.50:1.00. As of June 30, 2017, the Company was in compliance with the financial covenants and other covenants contained in the Credit Agreement.

The obligations under the Credit Agreement were guaranteed by all of the Company's domestic wholly-owned subsidiaries and were secured by a first-priority security interest in the Collateral (as defined therein).
As of June 30, 2017, the Company had $21.6 million letters of credit outstanding and $78.4 million available under the Revolving Credit Facility. The letters of credit related to the Company's workers' compensation and professional liability insurance policies.

8. CONVERTIBLE NOTES DERIVATIVE LIABILITY

On March 17, 2017, the Company paid in full its Convertible Notes and, as a result, derecognized the derivative liability. See Note 7 - Debt. The Company does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company issued Convertible Notes with features that were either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by the Accounting for Derivative Financial Instruments and Hedging Activities Topic of the FASB ASC, in certain instances, these instruments were required to be carried as derivative liabilities, at fair value, in the financial statements.

The Convertible Notes were subject to anti-dilution adjustments that allowed for the reduction in the Conversion Price, as defined in the agreement, in the event the Company subsequently issued equity securities including Common Stock or any security convertible or exchangeable for shares of Common Stock for a price less than the then current conversion price. In addition, the Convertible Notes allowed the issuer to exercise optional redemption features and the holder to exercise an offer to purchase feature, under certain conditions. The Company accounted for the conversion option in accordance with the Accounting for Derivative Financial Instruments and Hedging Activities Topic. Since this conversion feature is not considered to be solely indexed to the Company’s own stock the derivative was recorded as a liability in the line item long-term debt on the Company's condensed consolidated balance sheets.

The Company’s Convertible Notes derivative liability was measured at fair value using a trinomial lattice model. The optional redemption features, along with the offer to purchase features were incorporated into the valuation model. Inputs into the model required estimates, including such items as estimated volatility of the Company's stock, estimated credit risk of the Company, estimated probabilities of change of control and issuance of additional financing, risk-free interest rate, and the estimated life of the financial instruments being fair valued. In addition, since the conversion price contained an anti-dilution adjustment, the probability that the Conversion Price of the Notes would decrease as the share price decreased was incorporated into the valuation calculation.

The fair value of the derivative liability was primarily determined by fluctuations in our stock price. In addition, changes in our credit risk profile impacted the fair value determination. These fluctuations resulted in a current period gain or loss that was presented on the condensed consolidated statements of operations as loss (gain) on derivative liability.

9. FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Fair Value Measurements and Disclosures Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Items Measured at Fair Value on a Recurring Basis:

The Company’s financial assets/liabilities required to be measured on a recurring basis were its: deferred compensation liability included in other long-term liabilities, Convertible Notes derivative liability included in long-term debt and capital lease obligations, and contingent consideration liabilities.

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

Convertible Notes derivative liability—The Company utilized Level 3 inputs to value its Convertible Notes derivative liability. See Note 7 - Debt and Note 8 - Convertible Notes derivative liability.

Contingent consideration liabilities—Potential earnout payments related to the acquisition of Mediscan and USR are contingent upon meeting certain performance requirements through 2019. See Note 3 - Acquisitions. The long-term portion of these liabilities is included in contingent consideration, and the short-term portion is included in other current liabilities on the condensed consolidated balance sheets. The Company utilized Level 3 inputs to value these contingent consideration liabilities as significant unobservable inputs were used in the calculation of their fair value. The Mediscan contingent consideration is recorded as a liability and measured at fair value using a discounted cash flow model in a Monte Carlo simulation setting, utilizing significant unobservable inputs, including the expected volatility of the acquisitions' gross profits and an estimated discount rate commensurate with the risks of the expected gross profit stream. The USR contingent consideration is recorded as a liability and measured at fair value using a discounted cash flow model utilizing significant unobservable inputs, including the probability of achieving each of the potential milestones and an estimated discount rate commensurate with the risks of the expected cash flows attributable to the milestones.

The fair value of contingent consideration and the associated liabilities will be adjusted to fair value at each reporting date until actual settlement occurs, with the changes in fair value and related accretion reflected as acquisition-related contingent consideration on the condensed consolidated statements of operations. Significant increases (decreases) in the volatility or in any of the probabilities of success, or decreases (increases) in the discount rate would result in a significantly higher (lower) fair value, respectively, and commensurate changes to these liabilities.

The table which follows summarizes the estimated fair value of the Company’s financial assets and liabilities measured on a recurring basis as of June 30, 2017 and December 31, 2016:

Fair Value Measurements

	June 30, 2017	December 31, 2016
Financial Liabilities:	(amounts in thousands)	
(Level 1)		
Deferred compensation	$1,303	$ 1,472
(Level 3)		
Convertible Notes derivative liability	$—	$ 27,532
Contingent consideration liabilities	$6,054	$ 5,603

The table which follows reconciles the opening balances to the closing balances for fair value measurements categorized within Level 3 of the fair value hierarchy:

	Contingent Consideration Liabilities (a)	Convertible Notes Derivative Liability
	(amounts in thousands)	
December 31, 2016	$5,603	$ 27,532
Settlements	(100)	(25,951)
Accretion expense	270	—
Valuation gain for the period	—	(1,581)
March 31, 2017	5,773	—
Accretion expense	281	—
June 30, 2017	$6,054	$ —

(a) Related to the Mediscan acquisition on October 30, 2015 and the USR acquisition on December 1, 2016. See Note 3 - Acquisitions. Valuation gain and accretion expense is included as acquisition-related contingent consideration on the condensed consolidated statements of operations.

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

The Company's non-financial assets, such as goodwill, trade names, other intangible assets, and property and equipment, are measured at fair value when there is an indicator of impairment and are recorded at fair value only when an impairment charge is recognized. As of June 30, 2017 and December 31, 2016, no impairment charges were deemed necessary.

Other Fair Value Disclosures:

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

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

	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities:		(amounts in thousands)		
(Level 2)				
Term Loan, net	$37,588	$39,500	$39,137	$41,500
Convertible Notes, net	$—	$—	$20,331	$27,250

Concentration of Risk:

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

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

10. STOCKHOLDERS’ EQUITY

Stock Repurchase Program

During the six months ended June 30, 2017 and 2016, the Company did not repurchase any shares of its Common Stock under its February 2008 Board authorization.

As of June 30, 2017, the Company may purchase up to an additional 942,443 shares of Common Stock under the February 2008 Board authorization, subject to certain conditions in the Company's Credit Agreement. The Company may repurchase up to an aggregate amount not to exceed $2.5 million in any fiscal year, or an unlimited amount if the Company meets certain conditions as described in its Credit Agreement. At June 30, 2017, the Company had 35,740,394 shares of Common Stock outstanding.

Shares Issued

The Company issued 3,175,584 shares to its prior Convertible Notes noteholders. See Note 7 - Debt.

Share-Based Payments

On May 23, 2017, the Company's shareholders approved an amendment and restatement of its 2014 Omnibus Incentive Plan (2014 Plan), which, among others, included the following modifications: (i) a 2,000,000 share increase of the aggregate share reserve to 6,100,000 shares, (2) extension of the 2014 Plan until May 23, 2027, and (3) re-approval of the Section 162(m) performance goals so that certain incentive awards granted to certain executive officers of the Company may qualify as exempt performance-based compensation.

During the six months ended June 30, 2017, 300,047 of restricted stock awards and 181,067 targeted performance stock awards were granted under the 2014 Plan to the Company's non-employee directors and management team. The restricted stock awards vest ratably over a three year period and vesting is subject to the employee's continuing employment. The number of shares that are issued for the performance-based stock awards are determined based on the level of attainment of the performance targets. If the minimum level of performance is attained for the 2017 awards, restricted stock will be issued with a vesting date of March 31, 2020, subject to the employee’s continuing employment.

During the first quarter of 2017, the Company's Compensation Committee of the Board of Directors approved a 48% level of attainment for the 2016 performance-based share awards, resulting in the issuance of 86,784 performance shares that will vest on December 31, 2018.

The following table summarizes restricted stock awards and performance stock awards activity issued under the 2014 Plan for the six months ended June 30, 2017:

	Restricted Stock Awards		Performance Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Target Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock awards, January 1, 2017	532,294	$ 9.98	332,092	$ 11.73
Granted	300,047	$ 13.77	181,067	$ 14.36
Vested	(287,259)	$ 8.65	—	$ —
Forfeited	(34,287)	$ 9.56	(118,371)	$ 11.78
Unvested restricted stock awards, June 30, 2017	510,795	$ 12.98	394,788	$ 12.92

During the three and six months ended June 30, 2017, $1.3 million and $2.0 million, respectively, was included in selling, general and administrative expenses related to share-based payments, and a net of 126,798 and 201,676 shares, respectively, of Common Stock were issued upon the vesting of restricted stock.

During the three and six months ended June 30, 2016, $1.1 million and $1.8 million, respectively, was included in selling, general and administrative expenses related to share-based payments, and a net of 164,274 and 215,365 shares, respectively, of Common Stock were issued upon the vesting of restricted stock.

11. SEGMENT DATA

In accordance with the Segment Reporting Topic of the FASB ASC, the Company reports three business segments – Nurse and Allied Staffing, Physician Staffing, and Other Human Capital Management Services. The Company manages and segments its business based on the services it offers to its customers as described below:

Nurse and Allied Staffing – 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. Its clients include: public and private acute-care and non-acute care hospitals, government facilities, public schools and charter schools, outpatient clinics, ambulatory care facilities, physician practice groups, retailers, and many other healthcare providers throughout the United States.

Physician Staffing – Physician Staffing provides physicians in many specialties, as well as certified registered nurse anesthetists (CRNAs), nurse practitioners (NPs), and physician assistants (PAs) as independent contractors on temporary assignments throughout the U.S. at various healthcare facilities, such as acute and non-acute care facilities, medical group practices, government facilities, and managed care organizations.

Other Human Capital Management Services – Other Human Capital Management Services includes retained and contingent search services for physicians, healthcare executives and other healthcare professionals within the United States.

The Company’s management evaluates performance of each segment primarily based on revenue and contribution income. The Company defines contribution income as income or loss from operations before depreciation and amortization, loss on sale of business, acquisition-related contingent consideration, acquisition and integration costs, restructuring costs, impairment charges, and corporate expenses not specifically identified to a reporting segment. Contribution income is a financial measure used by management when assessing segment performance and is provided in accordance with the Segment Reporting Topic of the FASB ASC. The Company’s management does not evaluate, manage or measure performance of segments using asset information; accordingly, total asset information by segment is not prepared or disclosed. The information in the following table is derived from the segments’ internal financial information as used for corporate management purposes. Certain corporate expenses are not allocated to and/or among the operating segments.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(amounts in thousands)			
Revenues:				
Nurse and Allied Staffing	$180,927	$172,048	$364,035	$340,813
Physician Staffing	24,720	23,927	46,184	48,380
Other Human Capital Management Services	3,666	3,468	6,667	6,833
	$209,313	$199,443	$416,886	$396,026
Contribution income:				
Nurse and Allied Staffing	$18,141	$17,615	$33,763	$34,405
Physician Staffing	2,047	2,050	2,867	3,603
Other Human Capital Management Services	241	69	(199)	(42)
	20,429	19,734	36,431	37,966
Unallocated corporate overhead	10,827	9,791	21,113	20,159
Depreciation and amortization	2,285	2,465	4,476	4,877
Acquisition-related contingent consideration	281	183	551	470
Acquisition and integration costs	587	—	587	—
Impairment charges	—	24,311	—	24,311
Income (loss) from operations	$6,449	$(17,016)	$9,704	$(11,851)

12. COMMITMENTS AND CONTINGENCIES

Contingencies:

Legal Proceedings

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. The Company does not believe the outcome of these matters will have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

Sales and Other State Non-Income Tax Liabilities

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The Company's sales and other state non-income tax filings are subject to routine audits by authorities in the jurisdictions where it conducts business in the United States which may result in assessments of additional taxes. The Company accrues sales and other non-income tax liabilities based on the Company's best estimate of its probable liability utilizing currently available information and interpretation of relevant tax regulations. Given the nature of the Company's business, significant subjectivity exists as to both whether sales and other state non-income taxes can be assessed on its activity and how the sales tax will ultimately be measured by the relevant jurisdictions. The Company makes a determination for each reporting period whether the estimates for sales and other non-income taxes in certain states should be revised. The expense is included in selling, general and administrative expenses on its condensed consolidated statements of operations and the liability is reflected in other current liabilities as of June 30, 2017 and December 31, 2016, on its condensed consolidated balance sheets.

13. INCOME TAXES

For the periods ended June 30, 2017 and 2016, the Company has calculated its effective tax rate based on year-to-date results as opposed to estimating its annual effective tax rate. The Company’s effective tax rate for the three and six months ended June 30, 2017 was 12.6% and 24.2%, respectively, including the impact of discrete items. Excluding discrete items, the Company’s effective tax rate for the three and six months ended June 30, 2017 was 12.4% and 31.7%, respectively. The effective tax rates are different than the statutory rates primarily due to the impact from amortization of indefinite-lived intangible assets for tax purposes, the partial non-deductibility of certain per diem expenses, and international and state taxes.

The Company records valuation allowances to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The assessment of whether or not a valuation allowance is required often requires significant judgment, including the long-range forecast of future taxable income and the evaluation of tax planning initiatives. Any conclusions made related to the deferred tax valuation allowance are based on a detailed evaluation of all available positive and negative evidence and the weight of such evidence. The Company believes it is necessary to see further positive evidence, such as sustained achievement of cumulative profits, before these valuation allowances can be released. Based on the Company's forecast, it is possible that the Company may release all or a portion of the remaining valuation allowance, within the next twelve months. The Company will continue to assess the realizability of its deferred tax assets.

As of June 30, 2017, the Company had approximately $1.0 million of unrecognized tax benefits included in other current liabilities and other long-term liabilities ($5.5 million, net of deferred taxes, which would affect the effective tax rate if recognized). During the six months ended June 30, 2017, the Company had gross increases of $0.6 million to its current year unrecognized tax benefits related to federal and state tax issues.

The tax years of 2004, 2005, 2008, and 2010 through 2016 remain open to examination by certain taxing jurisdictions to which the Company is subject to tax, other than certain states in which the statute of limitations has been extended.

14. RELATED PARTY TRANSACTIONS

The Company provides services to hospitals which are affiliated with certain members of the Company’s Board of Directors. Management believes services with related parties were conducted on terms equivalent to those prevailing in an arm's-length transaction. Revenue related to these transactions was $0.9 million and $2.6 million for the three and six months ended June 30, 2017, respectively, and $1.3 million and $2.7 million for the three and six months ended June 30, 2016, respectively. Accounts receivable due from these hospitals at June 30, 2017 and December 31, 2016 were approximately $0.8 million and $1.0 million, respectively.

In connection with the acquisition of MSN, the Company acquired a 68% ownership interest in Cross Country Talent Acquisition Group, LLC (formerly InteliStaf of Oklahoma, LLC), a joint venture between the Company and a hospital system. The Company generated revenue providing staffing services to the hospital system of $4.5 million and $8.7 million for the three and six months ended June 30, 2017, respectively, and $2.9 million and $6.0 million for the three and six months ended June 30, 2016, respectively. At June 30, 2017 and December 31, 2016, the Company had a receivable balance of $1.0 million and $1.5 million, respectively, and a payable