

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

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**FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended December 31, 2003  
Commission File No.: 001-16753

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**AMN HEALTHCARE SERVICES, INC.**

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**06-1500476**  
*(I.R.S. Employer  
Identification No.)*

**12400 High Bluff Drive, Suite 100**  
**San Diego, California**  
*(Address of principal executive offices)*

**92130**  
*(Zip Code)*

**Registrant's Telephone Number, Including Area Code: (866) 871-8519**

**Securities registered pursuant to Section 12(b) of the Act: Common Stock, \$0.01 par value**

**Name of each exchange on which registered: New York Stock Exchange**

**Securities registered pursuant to Section 12(g) of the Act:**  
**None.**

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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

As of June 30, 2003, the approximate aggregate market value of voting stock held by non-affiliates of the registrant was \$253,456,237 based on a closing sale price of \$12.70 per share. As of March 9, 2004, there were 28,120,340 shares of common stock, \$0.01 par value, outstanding.

Documents Incorporated By Reference: Portions of the registrant's definitive Proxy Statement for the annual meeting of shareholders to be held on May 18, 2004 have been incorporated by reference into part III of this Form 10-K.

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**PART I**

**Item 1. Business**

**Our Company**

AMN Healthcare Services, Inc. is a leading temporary healthcare staffing company and the largest nationwide provider of travel nurse staffing services. We recruit nurses and allied health professionals, nationally and internationally, our “temporary healthcare professionals,” and place them on temporary assignments of variable lengths at acute care hospitals and healthcare facilities throughout the United States. Approximately 94% of our temporary healthcare professionals are nurses, while the remainder are technicians, therapists and technologists. We are actively working with a pre-screened pool of prospective temporary healthcare professionals, of whom an average of over 6,300 were on assignment during the fourth quarter of 2003.

Our services are marketed to two distinct customer bases: (1) temporary healthcare professionals and (2) hospital and healthcare facility clients. We use a multi-brand recruiting strategy to enhance our ability to successfully attract temporary healthcare professionals in the United States and internationally. Our seven separate recruitment brands, American Mobile Healthcare, Medical Express, NursesRx, Preferred Healthcare Staffing, HRMC, Thera Tech Staffing and O’Grady-Peyton International, have distinct geographic market strengths and brand reputations. Nurses and allied healthcare professionals join us for a variety of reasons that include: seeking flexible work opportunities, traveling to different areas of the country, building their clinical skills and resume by working at prestigious healthcare facilities, and escaping the demands and political environment of working as a permanent staff nurse. Our large number of hospital and healthcare facility clients allows us to offer traveling positions in all 50 states and in a variety of work environments. In addition, we provide our temporary healthcare professionals with an attractive benefits package, including free or subsidized housing, travel reimbursement, professional development opportunities, a 401(k) plan and health insurance. We believe that we attract temporary healthcare professionals due to our long-standing reputation for providing a high level of service, our numerous job opportunities, our benefit packages, our innovative marketing programs and, our most effective recruiting tool, word-of-mouth referrals from our thousands of current and former temporary healthcare professionals.

We market our services to hospitals and healthcare facilities under one brand, AMN Healthcare, as a single staffing provider with access to temporary healthcare professionals from seven recruitment brands. At the end of 2003, we had over 4,300 hospital and healthcare facility clients. Over 97% of our temporary healthcare professional assignments are at acute-care hospitals. Our clients include hospitals and healthcare systems such as Georgetown University Hospital, HCA, NYU Medical Center, Stanford Health Care, UCLA Medical Center and The University of Chicago Hospitals. We also provide services to sub-acute healthcare facilities, dialysis centers, clinics and schools. Our hospital and healthcare facility clients utilize our services to cost-effectively manage shortages in their staff due to a variety of circumstances, such as the Family Medical Leave Act (FMLA), new unit openings, seasonal patient census variations and other short and long-term staffing needs. In addition to providing continuity of care and quality patient care, we believe hospitals and healthcare facilities contract with us due to our high-quality temporary healthcare professionals, our ability to meet their specific staffing needs, our flexible staffing assignment lengths, our reliable and deep infrastructure, our superior customer service and our ability to offer a large national network of temporary healthcare professionals.

We believe that we have organized our operating model to deliver consistent, high-quality sales and service efforts to our two distinct client bases. Processes within our operating model have been developed and are in place with the intent to maximize the quantity and quality of assignment requests, or “orders,” from our hospital and healthcare facility clients and increase the expediency and probability of successfully placing our temporary healthcare professionals. The consistent quality of the benefit and support services which we provide to our temporary healthcare professionals is also critical to our success, since the majority of our temporary healthcare professionals stay with us for multiple assignments and we believe our largest source of new candidates is word-of-mouth referrals from satisfied current and former temporary healthcare professionals.

## Industry Overview

In 2003, total healthcare expenditures in the United States were estimated at \$1.7 trillion, representing approximately 15% of the U.S. gross domestic product, and had grown approximately 8% over 2002 according to the Centers for Medicare & Medicaid Services. Over the next decade, an aging U.S. population and advances in medical technology are expected to drive increases in hospital patient populations and the consumption of healthcare services. As a result, total healthcare expenditures are projected to increase to approximately \$3.3 trillion during the next decade.

Within the healthcare staffing sector, temporary staffing has emerged over the last several years as a business practice to efficiently deliver healthcare services. In the mid-1990s, several factors prompted the increased usage of temporary staffing at hospitals. A principal factor was cost containment. Managed care, Medicare, Medicaid and competitive pressures created renewed emphasis on cost containment. Among other industry responses, this led acute-care hospitals to redesign their staffing models to reduce their levels of fixed staffing and to include a variable staffing component.

The temporary healthcare staffing industry accounted for approximately \$10.4 billion in revenue in 2003 according to estimates by *The Staffing Industry Report*. Approximately 70% of the temporary healthcare staffing industry is comprised of nurse staffing and approximately 30% is comprised of allied health, physicians and other healthcare professionals. Temporary healthcare staffing has experienced strong historical growth from 1998 through estimated 2003, growing at a compound annual rate of 16.5%.

### **Demand and Supply Drivers**

Since the mid-1990s, changes in the healthcare industry prompted a fundamental shift in staffing models that led to an increased usage of temporary staffing at hospitals and other healthcare facilities. The supply of professionals choosing travel healthcare as a short-term or long-term career option has also grown alongside increased demand for temporary healthcare professionals. We believe that this expanded demand and supply pattern will continue over the long-term, particularly in the travel nurse staffing sector, because of the following drivers:

#### *Demand Drivers*

- *Demographics and Advances in Medicine and Technology.* As the U.S. population ages and as advances in medicine result in longer life expectancy, it is likely that chronic illnesses and hospital populations will continue to increase. We believe that these factors will increase the demand for both temporary and permanent nurses, as well as for allied health professionals. In addition, advances in healthcare technology have increased the demand for specialty nurses who are qualified to operate advanced medical equipment or perform complex medical procedures.
- *Shift to Flexible Staffing Models.* Nurse wages comprise the largest percentage of hospitals' labor expenses. Cost containment initiatives and a renewed focus on cost-effective healthcare service delivery continue to lead many hospitals and other healthcare facilities to adopt flexible staffing models that include utilization of flexible staffing sources, such as traveling nurses.
- *Nursing Shortage.* Most regions of the United States are experiencing a pronounced shortage of registered nurses. In 2002, the *U.S. Department of Health and Human Services* projected that up to 136,000 position vacancies would exist in 2003 for registered nurses, representing a shortage of approximately 7%. The *U. S. Department of Health and Human Services* has also reported that the registered nurse workforce is expected to be 29% below projected requirements by 2020. Faced with increasing demand for and a shrinking supply of nurses, hospitals are utilizing more temporary nurses to meet staffing requirements. Factors contributing to the current and projected declining supply of nurses include:
  - *Nurses Leaving Patient Care Environments for Less Stressful and More Flexible Careers.* Career opportunities for nurses have expanded beyond the traditional bedside role. Pharmaceutical companies, insurance companies, HMOs and hospital service and supply companies increasingly offer nurses attractive positions which involve less demanding work schedules and physical requirements.

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- *Changes in Nurse Population.* The average age of a registered nurse was estimated to be 45.2 years old in 2000, an increase of 8.4% since 1988. By 2010, 40% of the nurse population is expected to be older than 50, as compared to 29% of nurses that were older than 50 in 2000. The number of first-time nursing school graduates who sat for the NCLEX examination decreased by 28% for the six-year period ending in 2001. Although these numbers have increased 14% and 6% in 2002 and 2003, respectively, we believe that the number of nurses taking the NCLEX examination is still well below the number of nurses needed in order to eliminate the projected long-term nursing shortage.
- *Seasonality.* Hospitals in regions that experience significant seasonal fluctuations in population, such as Florida or Arizona during the winter months, must be able to efficiently adjust their staffing levels to accommodate the change in patient census. Many of these hospitals utilize temporary healthcare professionals to satisfy these seasonal staffing needs.
- *Family and Medical Leave Act.* The adoption of the Family and Medical Leave Act in 1993, which mandates 12-week job-protected maternity and dependent care leave, continues to create temporary nursing vacancies at healthcare facilities. Approximately 94% of the registered nurses working at healthcare facilities in the United States are women.
- *State Legislation Requiring Healthcare Facilities to Utilize More Nurses.* In response to concerns by nursing and consumer organizations over the quality of care provided in healthcare facilities and the increased workloads and pressures placed upon nurses, several states have passed or introduced legislation that is expected to increase the demand for nurses.
  - *Minimum Nurse-to-Patient Ratios.* Effective January 2004, California hospitals are required to staff units at government mandated nurse-to-patient ratios. Similar legislation has been introduced in several other states.
  - *Limitation of Mandatory Overtime.* Many healthcare facilities require their permanent staff to work overtime to cover staffing shortages. Seven states have passed legislation that limits mandatory overtime for nurses, and similar legislation has already been introduced in several other states. In addition, federal legislation has been introduced that would limit the ability of many healthcare facilities to require nurses to work mandatory overtime, except in limited circumstances.

### *Supply Drivers*

- *Traditional Reasons for a Healthcare Professional to Work on a Travel Assignment.* Traveling allows healthcare professionals to explore new areas of the United States, work at prestigious hospitals, learn new skills, build their resumes and avoid unwanted workplace politics that may accompany a permanent position. Other benefits to temporary healthcare professionals include free or subsidized housing, professional development opportunities, competitive wages, health insurance and completion bonuses for some assignments. All of these opportunities have been constant supply drivers, attracting a growing number of new healthcare professionals into traveling.
- *Word-of-Mouth Referrals.* New applicants are most often referred to travel staffing companies by current or former temporary healthcare professionals. Growth in the number of healthcare professionals that have traveled, as well as the increased number of hospital and healthcare facilities that utilize temporary healthcare professionals, creates more opportunities for referrals.
- *More Nurses Choosing Traveling Due to the Nursing Shortage.* In times of nursing shortages, nurses with permanent jobs generally feel more secure about their employment prospects. They have a higher degree of confidence that they can leave their permanent position to take a travel assignment and have the ability to return to a permanent position in the future. Additionally, during a nursing shortage, permanent staff nurses are often required to assume greater responsibility and patient loads, work

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overtime and deal with increased pressures within the hospital. Many experienced nurses consequently choose to leave their permanent employer and look for a more flexible and rewarding position.

- *New Legislation Allowing Nurses to Become More Mobile.* The Mutual Recognition Compact Legislation, promoted by the National Council of State Boards of Nursing, allows nurses to work more freely within states participating in the Compact Legislation without obtaining new state licenses. The recognition legislation began in 1999 and has been passed in 20 states as of January 2004.

### **Growth Strategy**

Our goal is to expand our leadership position within the temporary healthcare staffing sector in the United States. The key components of our business strategy include:

- *Expanding Our Network of Qualified Temporary Healthcare Professionals.* Through our recruiting efforts both in the United States and internationally, we continue to expand our network of qualified temporary healthcare professionals. We have exhibited substantial growth in our temporary healthcare professional network over the past five years primarily through referrals from our current and former temporary healthcare professionals, as well as through advertising and internet initiatives.
- *Strengthening and Expanding Our Relationships with Hospitals and Healthcare Facilities.* We continue to strengthen and expand our existing relationships with our hospital and healthcare facility clients, and to develop new relationships. Hospitals and healthcare facilities are seeking a strong business partner for outsourcing who can fulfill the quantity and quality of their staffing needs and help them develop strategies for the most cost-effective staffing methods. In order to establish deeper and more collaborative partnerships, we have recently expanded our client services and account management team. This expansion allows us to better understand and serve the needs of our hospital and healthcare facility clients. Furthermore, because we possess one of the largest national networks of temporary nurse and allied health professionals, we are well positioned to offer our hospital and healthcare facility clients effective solutions to meet their staffing needs.
- *Leveraging Our Business Model and Large Hospital and Healthcare Facility Client Base to Increase Productivity.* We seek to increase our productivity through our proven multi-brand recruiting strategy, large network of temporary healthcare professionals, established hospital and healthcare facility client relationships, proprietary information systems, innovative marketing and recruitment programs, training programs and centralized administrative support systems. Our multi-brand recruiting strategy allows a recruiter in any of our brands to take advantage of all of our nationwide placement opportunities. In addition, our information systems and support personnel permit our recruiters to spend more time focused on temporary healthcare professionals' needs and placing them on appropriate assignments in hospitals or healthcare facilities. Implementation of our business model at our acquired brands has resulted in increases in their productivity.
- *Expanding Service Offerings Through New Staffing Solutions.* In order to further enhance the growth in our business and improve our competitive position in the healthcare staffing sector, we continue to explore new service offerings. As our hospital and healthcare clients' needs change, we constantly explore what additional services we can provide to better serve our clients.
- *Providing Innovative Technology.* We continue to be an innovation leader in healthcare staffing by providing on-line tools to hospital and healthcare clients, to help them streamline their communications and process flow for securing staffing services. We recently introduced our Staffing Service Center, an online resource and tool to help our clients manage outsourced staffing more efficiently.
- *Building the Strongest Management Team to Optimize Our Business Model.* In addition to a tenured senior management team who has successfully led us through a period of rapid growth and successful integration of five acquisitions, we have increased our focus on training and professional development for all levels of management.

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- *Capitalizing on Strategic Acquisition Opportunities.* In order to enhance our competitive position, we will continue to selectively explore strategic acquisitions. After previous acquisitions, we have sought to leverage our hospital relationships and orders across our brands, integrate back-office functions and maintain brand differentiation for temporary healthcare professional recruitment purposes. We also have implemented our proven business model in order to achieve greater productivity, operating efficiencies and financial results.

### **Recent Trends**

From 1996 through 2000, the temporary healthcare staffing industry grew at a compound annual growth rate of approximately 13%, and this growth accelerated to a compound annual growth rate of approximately 21% from 2000 to 2002. Over the last year, the demand for temporary healthcare professionals has declined due to a number of factors. In particular, we believe hospitals have increased their nurse recruitment efforts, stretched the productivity of permanent staff and maximized the cost-effectiveness of outsourced staffing solutions. In addition, because of the recent economic conditions, we believe permanent staff at our hospital and healthcare facility clients have been more likely to work overtime and less likely to leave their positions, creating fewer vacancies and fewer opportunities for us to place our temporary healthcare professionals.

The number of temporary healthcare professionals on assignment for the year decreased 9% from an average of 7,783 in 2002 to an average of 7,113 in 2003. Additionally, during the fourth quarter of 2003, we had an average of 6,339 temporary healthcare professionals on assignment. As a result of this decline, revenue and net income decreased throughout 2003. Demand for our services stabilized from April 2003 through October 2003, and has increased since then, throughout many regions. We believe that this increase in the number of orders placed by our hospital and healthcare facility clients is a result of increased hospital admission growth and legislation impacting healthcare staffing throughout the United States, such as the California nurse staffing ratios that went into effect in January 2004. In addition, we believe signs of an improving economy and our increased focus on our hospital and healthcare facility clients have driven the recent increase in demand. We believe we will continue to experience a lag between when changes in demand occur and when our operations processes translate into changes in the number of temporary healthcare professionals on assignment and our financial results. Therefore, the changes in demand experienced in our industry could also result in continued changes in revenue and net income in subsequent quarters, and it is uncertain whether the recent increase in demand will drive increases in the average number of temporary healthcare professionals on assignment.

### **Business Overview**

#### *Services Provided*

Hospitals and healthcare facilities generally obtain supplemental staffing from two sources, local temporary (per diem) agencies and national travel healthcare staffing companies. Per diem staffing, which has historically comprised the majority of the temporary healthcare staffing industry, involves the placement of locally-based healthcare professionals on daily (per diem) shift work, on an as needed basis. Hospitals and healthcare facilities often give only a few hours notice of their per diem assignments, and require a quick turnaround from their staffing agencies, generally less than 24 hours. Travel staffing, on the other hand, provides healthcare facilities with staffing solutions to address anticipated staffing requirements, typically for 8, 13 or 26 weeks. In contrast to per diem agencies, travel staffing companies select from a national (and in some cases international) skilled labor pool and provide pre-screened candidates to their hospital and healthcare facility clients, often at a lower cost. We focus on the travel segment of the temporary healthcare staffing industry, and provide both nurse and allied health temporary healthcare professionals to our hospital and healthcare facility clients.

*Nurses.* We provide medical nurses, surgical nurses, specialty nurses, licensed practical or vocational nurses and advanced practice nurses in a wide range of specialties for travel assignments throughout the United States. We place our qualified nurse professionals with premier, nationally recognized hospitals and hospital

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systems. The majority of our assignments are in acute-care hospitals, including teaching institutions, trauma centers and community hospitals. Nurses comprise approximately 94% of the total temporary healthcare professionals currently working for us. We typically place the majority of our nurses on 13-week assignments, but offer a longer term, typically 18-month staffing solution with our international nurses that we recruit primarily from English speaking countries.

*Allied Health Professionals.* We also provide allied health professionals to acute-care hospitals and other healthcare facilities such as skilled nursing facilities, rehabilitation clinics and schools. Allied health professionals include such disciplines as surgical technologists, respiratory therapists, medical and radiology technologists, dialysis technicians, speech pathologists and rehabilitation assistants. Allied health professionals comprise approximately 6% of the total temporary healthcare professionals currently working for us.

### ***Multi-Brand Recruiting***

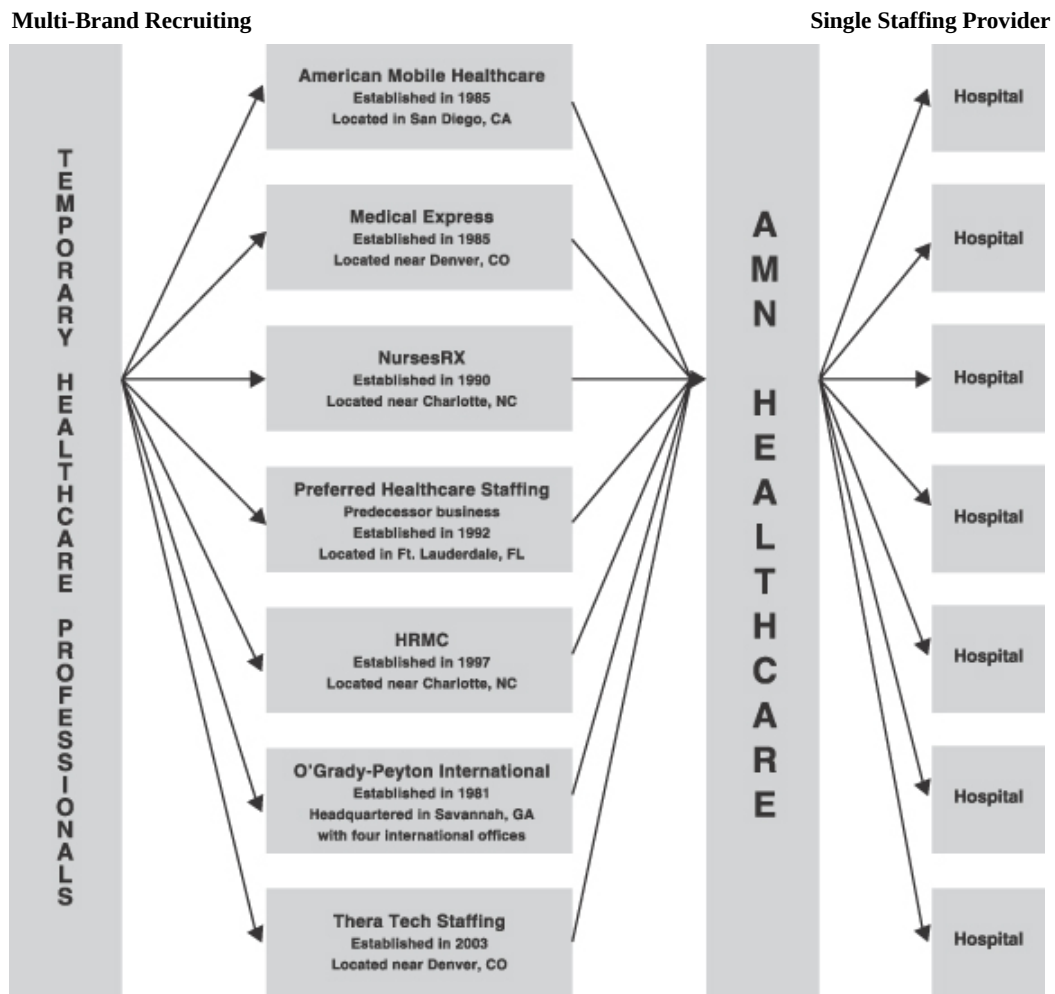
In order to enhance our opportunities to expand our network of traveling professionals, we recruit temporary healthcare professionals in the United States and internationally under each of our seven recruitment brand names: American Mobile Healthcare, Medical Express, NursesRx, Preferred Healthcare Staffing, HRMC, Thera Tech Staffing and O'Grady-Peyton International. While all of our brands have the capability to place temporary healthcare professionals on assignments that we have throughout the United States using the same placement opportunities, our brands have distinct geographic market strengths and brand reputations, which enhance our recruitment opportunities.

It is common for temporary healthcare professionals to register with more than one brand in order to utilize more than one recruiter. Our multi-brand recruiting strategy provides us with a competitive advantage, as potential temporary healthcare professionals are able to work with more than one of our brand recruiters. Accordingly, we believe that our probability of successfully placing the temporary healthcare professional on assignment is enhanced.

To our hospital and healthcare facility clients, however, we market and administer our services under the single corporate brand of AMN Healthcare. Hospitals and healthcare facility clients, in turn, have the advantage of managing one contract with us, but receiving the benefit of seven nationally known brands that recruit temporary healthcare professionals for their open positions.



The following chart depicts our single staffing provider and multi-brand recruiting model:



***National Presence and Diversified Hospital and Healthcare Facility Client Base***

We offer our temporary healthcare professionals nationwide placement opportunities and provide temporary staffing solutions to our hospital and healthcare facility clients that are located throughout the United States. We typically have open temporary healthcare professional requests, or “orders,” in all 50 states. The largest percentages of these open orders are typically concentrated in heavily populated states such as Arizona, California, Florida, New York and Texas.

The number of our hospital and healthcare facility clients that we serve has grown from approximately 600 in 1993 to over 3,600 and 4,300 at the end of 2002 and 2003, respectively. Over 97% of our temporary healthcare professional assignments are at acute-care hospitals. In addition to acute-care hospitals, we also provide services to sub-acute healthcare facilities, dialysis centers, clinics and schools. Our clients include hospitals and healthcare systems such as Georgetown University Hospital, HCA, NYU Medical Center, Scripps Health Systems, Stanford Health Care, Swedish Health Services, Texas Children’s Hospital, UCLA Medical Center and

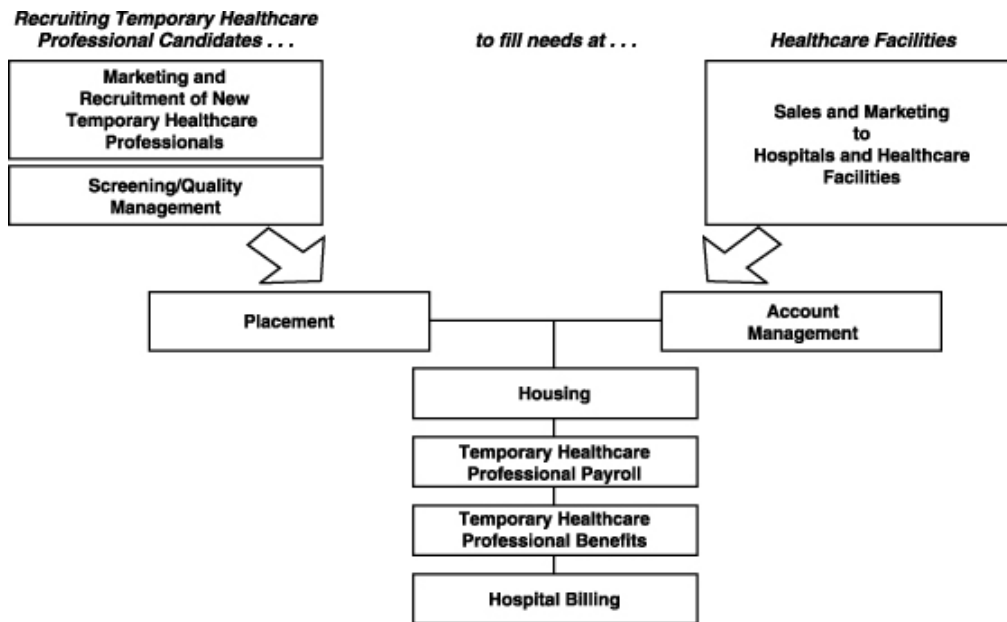
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The University of Chicago Hospitals. As of December 31, 2003, no single client, including affiliated groups, comprised more than 10% of our temporary healthcare professionals on assignment and no single client facility comprised more than 3% of our temporary healthcare professionals on assignment.

**Our Business Model**

We have developed and continually refined our business model to achieve greater levels of productivity and efficiency. Our model is designed to optimize the communication with, and service to, both our temporary healthcare professionals and our hospital and healthcare facility clients.

The following graph illustrates the elements of our business model:



**Marketing and Recruitment of New Temporary Healthcare Professionals**

We believe that nursing and allied health professionals are attracted to us because of our customer service and relationship-oriented approach, our competitive compensation and benefits package, and our large and diverse offering of work assignments that provide the opportunity to travel to numerous attractive locations throughout the United States.

We believe that our multi-brand recruiting strategy makes us more effective at reaching a larger number of temporary healthcare professionals. Because it is common for these healthcare professionals to register with more than one brand in the industry, we believe that by offering seven distinct brands we increase our ability to recruit temporary healthcare professionals. Each brand has its own distinct identity to prospective temporary healthcare professionals, allowing us to segment the nursing population. We have conducted research to identify and categorize our temporary healthcare professionals into several categories, which allows us to market to specific nurses that meet the specific needs of our hospital clients. We tailor the marketing of each of our brands through a combination of websites, journal advertising, conferences and conventions, direct mail, printed marketing material and, most importantly, through personal word-of-mouth referrals from current and former temporary healthcare professionals. We also operate NurseZone.com and RN.com, two leading nurse community websites. NurseZone.com caters to the professional and personal lives of nurses, offering nursing news and updates, links to

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other Internet sites, discounted products and services, continuing education courses and career opportunities sponsored by our recruitment brands, including an online temporary healthcare professional application process. RN.com offers online education opportunities for nurses, other online nurse related services and an online temporary healthcare professional application process. In addition, we operate a variety of other websites, including Travelnursing.com and Nursingjobs.com. Our leading recruitment brands are featured on each website, and each website includes an easy and efficient online application process where temporary healthcare professionals can complete one application online and have it sent to each of the brands of their choice.

### ***Screening and Quality Management***

Through our quality management department, we screen all candidates prior to their placement, and we continue to evaluate our temporary healthcare professionals after they are placed to ensure adequate performance as well as to determine feasibility for future placements. Our internal processes are designed to ensure that our temporary healthcare professionals have the appropriate experience, credentials and skills for the assignments that they accept. Our experience has shown us that well-matched placements result in satisfied temporary healthcare professionals and healthcare facility clients. Our screening and quality management process includes three principal stages:

*Initial screening.* Each new temporary healthcare professional candidate who submits an application with us must meet certain criteria, including appropriate prior work experience and proper educational and licensing credentials. We independently verify each applicant's work history and references to reasonably ensure that our hospital and healthcare facility clients may depend on our temporary healthcare professionals for clinical competency and personal reliability. Our proprietary clinical skills checklists, developed for each healthcare specialty area, are used by our hospital and healthcare facility clients' hiring managers as a basis for evaluating candidates and conducting interviews, and for facilitating the selection of a temporary healthcare professional who can meet the hospital or healthcare facility client's specific needs.

*Assignment specific screening.* Once an assignment is accepted by a temporary healthcare professional, our quality management department tracks the necessary documentation and license verification required for the temporary healthcare professional to meet the requirements set forth by us, the hospital or healthcare facility and, when required, the applicable state board of health or nursing. Additionally, where state and federal laws apply with regard to the employment of healthcare workers, we have in place the necessary procedures to ensure compliance with these requirements. These requirements may include obtaining copies of specific health records, drug screening, criminal background checks and certain certifications or continuing education courses.

*Ongoing evaluation.* We continually evaluate our temporary healthcare professionals' performance through a verbal and written evaluation process. We receive these evaluations directly from our hospital and healthcare facility clients, and use the feedback to determine appropriate future assignments for each temporary healthcare professional.

### ***Sales, Marketing and Account Management***

We market our services to hospitals and healthcare facilities under one corporate brand name, AMN Healthcare, a single staffing provider with seven recruitment sources of temporary healthcare professionals: American Mobile Healthcare, Medical Express, NursesRx, Preferred Healthcare Staffing, HRMC, Thera Tech Staffing and O'Grady-Peyton International. Furthermore, we utilize a team approach to servicing our hospital and healthcare facility clients. This team includes:

*Regional Client Service Director.* Our team of regional client service directors markets our services to prospective hospital and healthcare facility clients, and supervises ongoing contract management and business development of existing clients in each of their territories.

*Hospital Account Manager.* Once hospital and healthcare facility contracts are obtained by our regional client service directors, our hospital account managers are responsible for soliciting and receiving orders from

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these clients and working with our recruiters to fill those orders with qualified temporary healthcare professionals. An “order” is a request from a client hospital or healthcare facility for a temporary healthcare professional to fill an assignment. Depending upon their size and specific needs, one hospital or healthcare facility client may have from one to over 50 open orders at one time.

Because hospitals often list their orders with multiple service providers, open orders may also be listed with our competitors. An order will generally be filled by the company that provides a suitable candidate first, highlighting the need for a large network of temporary healthcare professionals and integrated operating and information systems to quickly and effectively match hospital and healthcare facility client needs with appropriate temporary healthcare professionals.

*Clinical Liaison.* We liaison with our hospital and healthcare facility clients and temporary healthcare professionals on clinical issues. We continually evaluate our temporary healthcare professionals’ performance through a verbal and written evaluation process.

The number of our hospital and healthcare facility clients that we have contracts with has grown from approximately 600 in 1993 to over 3,600 and 4,300 clients at the end of 2002 and 2003, respectively. Over 97% of our temporary healthcare professional assignments are at acute-care hospitals. In addition to acute-care hospitals, we also provide services to sub-acute healthcare facilities, dialysis centers, clinics and schools.

### **Placement**

Orders are entered into our information network and are available to the recruiters at all of our recruitment brands. Our recruiters electronically provide our hospital account managers with the personnel profiles of the temporary healthcare professionals who have expressed an interest in a particular assignment. The hospital account manager follows up to arrange a telephone interview between the temporary healthcare professional and the hospital, and confirms offers and placements with the hospital or healthcare facility.

Our recruiters seek to develop and maintain strong and lasting relationships with our temporary healthcare professionals. Each recruiter manages a group of pre-screened temporary healthcare professionals and works to understand the unique needs and desires of each healthcare professional. The recruiter will present open order assignments to a temporary healthcare professional, request that the personnel profile be submitted for placement consideration, arrange a telephone interview with assistance from the hospital account managers, make any special requests for housing and generally facilitate each placement.

In the case of our international temporary healthcare professionals, the recruiters and placement coordinators at our O’Grady-Peyton International brand, including those located in the United Kingdom, Australia and South Africa, assist candidates in preparing for the United States nursing examination and subsequently obtaining a U.S. nursing license. These recruiters also assist our international temporary healthcare professionals to obtain petitions to become lawful permanent residents or to obtain work visas prior to their arrival in the United States.

Throughout the typical 13-week assignment, the recruiters will work with the temporary healthcare professionals to review their progress and to determine whether the professionals would like to extend the length of the current assignment, or move to a new hospital or healthcare facility at the end of the assignment term. Our international temporary healthcare professionals are typically placed on longer-term, 18-month assignments as a result of our substantial investment in bringing them to work in the United States. Near completion of the 18-month assignment, our recruiters will work with these temporary healthcare professionals to explore their options for new assignments, including our more traditional 13-week arrangements.

We share orders among our various brands to increase placement opportunities for our temporary healthcare professionals. Our growth in placement volume has been driven by enabling our recruiters at all of our brands to offer more open assignment orders to their temporary healthcare professionals.

### ***Housing***

We offer substantially all of our temporary healthcare professionals free or subsidized housing while on assignment. Our housing department is centralized and managed at our San Diego, California corporate headquarters and an internally developed software system is used to manage rental properties, furniture vendors and other housing services. Our housing department facilitates the leasing of all apartments and furniture, manages utilities and arranges all housing and roommate assignments for the thousands of temporary healthcare professionals that we place each year. We generally offer our temporary healthcare professionals a free two-bedroom apartment to share with another temporary healthcare professional. If a temporary healthcare professional desires to have a private, one-bedroom apartment, they typically pay a housing fee to us to cover the incremental costs. If a temporary healthcare professional chooses not to accept housing provided by us, they receive a monthly housing stipend in lieu of an apartment. Generally, our international temporary healthcare professionals are provided with increased travel reimbursements and assistance with immigration costs in lieu of free or subsidized housing. We currently lease over 3,000 apartments nationwide with a monthly housing expense of over \$4.5 million.

Housing expenses are typically included in the hourly or weekly fees that we charge to our hospital and healthcare facility clients. Based on the contracted billing rate and gross profit for each hospital or healthcare facility client, we estimate a budget for our housing coordinators to utilize when locating apartments for each assignment. We carefully monitor performance of actual housing costs incurred to the housing costs budgeted for each placement. If housing costs rise in a particular city or region, our housing department tracks these trends and communicates with our regional client service directors to obtain increased billing rates to cover these costs. We also negotiate contracts with national property management and furniture rental companies to leverage our size and obtain more favorable pricing and terms.

### ***Temporary Healthcare Professional Payroll***

During 2003, approximately 94% of our working temporary healthcare professionals were on our payroll, while approximately 6% were paid directly by the hospital or healthcare facility client. Providing payroll services is a value-added and convenient service that hospitals and healthcare facilities increasingly expect from their supplemental staffing sources. To provide convenience and flexibility to our hospital and healthcare facility clients, we accommodate several different payroll cycles and allow the client to choose the cycle that most closely matches that of their permanent staff. This enables our hospital and healthcare facility clients to integrate management of temporary healthcare professional scheduling and overtime with their permanent staff.

Consistent accuracy and timeliness of making payroll payments is essential to the retention of our temporary healthcare professionals. Our internal payroll service group currently receives and processes timesheets for over 6,000 temporary healthcare professionals. Payroll is typically processed within 72 hours after the completion of each pay period, heightening the importance of having adequately trained and skilled payroll personnel and appropriate operating and information systems. In November 2003, we implemented an upgraded payroll and billing software system for our temporary healthcare professionals. We are now processing payroll in-house, but continuing to outsource the printing, tax deposit and reporting functions to a national payroll processing service. This system provides a platform that will enable us to add enhanced features to better service our healthcare professionals in the future.

Our payroll service group offers our temporary healthcare professionals several service benefits, including multi-account direct deposit, automatic 401(k) deductions, dependent care and flexible spending account deductions, health insurance co-pay deductions and housing co-pay deductions when the temporary healthcare professional chooses to upgrade their housing accommodation.

### **Temporary Healthcare Professional Benefits**

In our effort to attract and retain highly qualified traveling professionals, we offer a variety of benefits to our temporary healthcare professionals. These benefits include:

- *Travel Reimbursement.* Temporary healthcare professionals receive travel reimbursement for each assignment. Reimbursements are calculated on a “per mile” basis with a cap on the total, and are often billed as a separate cost to the hospital or healthcare facility client.
- *Group Medical, Dental and Life Insurance.* We pay 100% of premium expenses for medical, dental and life insurance.
- *Referral Bonuses.* Through our referral bonus program, a temporary healthcare professional receives a bonus if he or she successfully refers a new temporary healthcare professional to us.
- *Completion Bonuses.* Some of our assignments offer special completion bonuses, which we pay in a lump sum once the temporary healthcare professional has completed his or her assignment. When offered, completion bonuses usually range from \$250 to \$3,000 for a 13-week assignment and are typically billed as a separate cost to the hospital or healthcare facility client, with a small markup to cover employer taxes and overhead.
- *401(k) Plan and Dependent Care and Medical Reimbursement.* We offer immediate enrollment in our 401(k) plan, including matching employer contributions after 1,000 hours of continued service. In addition, we provide pre-tax deductions for employee dependent care expenses and a medical spending account.
- *Individual Professional Liability Insurance.* We provide our temporary healthcare professionals with individual professional liability insurance policies.
- *Free Continuing Education.* We are a fully accredited provider of continuing education by the American Nurses Credentialing Center. Through our professional development center and RN.com, our temporary healthcare professionals receive free continuing education courses and seminars. In addition, they can obtain the information needed to apply for licensure in the state where they will travel.

### **Hospital Billing**

To accommodate the needs of our hospital clients, we offer two types of billing: payroll contracts and flat rate contracts. During 2003, we billed approximately 94% of working temporary healthcare professionals based on payroll contracts and approximately 6% based on flat rate contracts.

*Payroll Contracts.* Under a payroll contract, the temporary healthcare professional is our employee for payroll and benefits purposes. Under this arrangement, we bill our hospital and healthcare facility clients at an hourly rate which effectively includes reimbursement for recruitment fees, wages and benefits for the temporary healthcare professional, employer taxes and housing expenses. Overtime, shift differential and holiday hours worked are typically billed at a premium rate. In turn, we pay the temporary healthcare professional’s wages, housing and travel costs and benefits. Providing payroll services is a value-added and convenient service that hospitals and healthcare facilities increasingly expect from their supplemental staffing sources. Providing these payroll services, which is cash flow intensive, also gives us a competitive edge over smaller staffing firms.

*Flat Rate Contracts.* With flat rate billing, the temporary healthcare professional is placed on the hospital or healthcare facility client’s payroll. We bill the hospital a “flat” weekly rate that includes reimbursement for recruitment fees, temporary healthcare professional benefits and typically housing expenses.

### **Information Systems**

Our primary management information and communications systems are centralized and controlled in our corporate headquarters and are utilized in each of our staffing offices. Our financial and payroll systems are

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primarily centralized at our corporate headquarters and our operational reporting is standardized at all of our offices. In November 2003, we implemented an upgraded payroll and billing software system for our temporary healthcare professionals. We are now processing payroll in-house, but continuing to outsource the printing, tax deposit and reporting functions to a national payroll processing service. This system provides a platform that will enable us to add enhanced features to better service our healthcare professionals in the future.

During the past few years, we have developed a proprietary information system called American Mobile Information Exchange, or "AMIE." AMIE is a Windows-based, interactive system that is an important tool in maximizing our productivity and accommodating our multi-brand recruiting strategy. The system was custom-designed for our business model, including integrated processes for temporary healthcare professional and healthcare facility contract management, matching of temporary healthcare professionals to available assignments, temporary healthcare professional file submissions for placements, quality management tracking, controlling compensation packages and managing healthcare facility contract and billing terms. AMIE provides our staff with fast, detailed information regarding individual temporary healthcare professionals and hospital and healthcare facility clients. AMIE also provides a platform for interacting and transacting with temporary healthcare professionals and hospital and healthcare facility clients via the Internet.

### **Risk Management**

We have developed an integrated risk management program that focuses on loss analysis, education and assessment in an effort to reduce our operational costs and risk exposure. We continually analyze our losses on professional liability claims and workers compensation claims to identify trends. This allows us to focus our resources on those areas that may have the greatest impact on us. We have also developed educational materials for distribution to our temporary healthcare professionals that are targeted to address specific work-injury risks and documentation of clinical events. In addition, we have compiled a universal safety manual that every temporary healthcare professional receives each year.

In addition to our proactive measures, we engage in a peer review process of any incidents involving our temporary healthcare professionals. Upon notification of a temporary healthcare professional's involvement in an incident that may result in liability for us, a team of registered nurses reviews the temporary healthcare professional's actions. Our peer review committee makes a prompt determination regarding whether the temporary healthcare professional will continue the assignment and whether we will place the temporary healthcare professional on future assignments.

### **Competition**

The healthcare staffing industry is highly competitive. We compete with both national firms and local and regional firms. We compete with these firms to attract nurses and other healthcare professionals as temporary healthcare professionals and to attract hospital and healthcare facility clients. We compete for temporary healthcare professionals on the basis of customer service and expertise, the quantity, diversity and quality of assignments available, compensation packages, and the benefits that we provide to a temporary healthcare professional while they are on an assignment. We compete for hospital and healthcare facility clients on the basis of the quality of our temporary healthcare professionals, the timely availability of our professionals with requisite skills, the quality, scope and price of our services, our recruitment expertise and the geographic reach of our services.

We believe that larger, nationally established firms enjoy distinct competitive advantages over smaller, local and regional competitors in the travel healthcare staffing industry. Continuing nursing shortages and factors driving the demand for nurses over the past several years have made it increasingly difficult for hospitals to meet their staffing needs. More established firms have a large pool of available nursing candidates, substantial word-of-mouth referral networks and established brand names, enabling them to attract a consistent flow of new applicants. Larger firms generally have a deeper, more comprehensive infrastructure and can also more easily provide payroll services, which are cash flow intensive.

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Some of our larger competitors in the temporary healthcare staffing sector include Cross Country, IntelliStaf/StarMed, Nursefinders, Medical Staffing Network and On Assignment.

### **Government Regulation**

The healthcare industry is subject to extensive and complex federal and state laws and regulations related to professional licensure, conduct of operations, payment for services and payment for referrals. Our business, however, is not directly impacted by or subject to the extensive and complex laws and regulations that generally govern the healthcare industry. The laws and regulations that are applicable to our hospital and healthcare facility clients could indirectly impact our business to a certain extent, but because we provide services on a contract basis and are paid directly by our hospital and healthcare facility clients, we do not have any direct Medicare or managed care reimbursement risk.

Some states require state licensure for businesses that employ and/or assign healthcare personnel to provide healthcare services on-site at hospitals and other healthcare facilities. We are currently licensed in all twelve states that require such licenses.

Most of the temporary healthcare professionals that we employ are required to be individually licensed or certified under applicable state laws. We take prudent steps to ensure that our employees possess all necessary licenses and certifications in all material respects.

We recruit some temporary healthcare professionals from Canada for placement in the United States. Canadian healthcare professionals can come to the United States on TN Visas under the North American Free Trade Agreement. TN Visas are renewable, one-year temporary work visas, which generally allow entrance into the United States provided the healthcare professional presents at the border proof of waiting employment in the United States and evidence of the necessary healthcare practice licenses.

With respect to our recruitment of international temporary healthcare professionals through our O'Grady-Peyton International brand, we must comply with certain United States immigration law requirements, including the Illegal Immigration Reform and Immigrant Responsibility Act of 1996. We primarily bring temporary healthcare professionals to the United States as immigrants, or lawful permanent residents (commonly referred to as "green card" holders). We screen foreign temporary healthcare professionals and assist them in preparing for the national nursing examination and subsequently obtaining a U.S. nursing license. We file petitions with the Immigration and Naturalization Service for a temporary healthcare professional to become a permanent resident of the United States or obtain necessary work visas. Generally, such petitions are accompanied by proof that the temporary healthcare professional has either passed the Commission on Graduates of Foreign Nursing Schools Examination or holds a full and unrestricted state license to practice professional nursing, as well as a contract between us and the temporary healthcare professional demonstrating that there is a bona fide job offer.

### **Employees**

As of December 31, 2003, we had 834 corporate employees. We believe that our employee relations are good. The following chart shows our number of corporate employees by department:

Recruitment	222
Regional Directors and Hospital Account Managers	76
Housing, Quality Management and Traveler Services	229
Accounting and Payroll	140
MIS, Support Services, HR, Marketing and Facilities Staff	136
Corporate and Subsidiary Management	31
	—
Total Corporate Employees	834



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During the fourth quarter of 2003, we had an average of over 6,300 temporary healthcare professionals working on assignment.

### **Additional Information**

We maintain a corporate website at [www.amnhealthcare.com/investors](http://www.amnhealthcare.com/investors). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports, are made available, free of charge, through this website as soon as reasonably practicable after being filed with or furnished to the Securities and Exchange Commission.

### **Item 2. Properties**

We believe that our properties are adequate for our current needs. In addition, we believe that adequate space can be obtained to meet our foreseeable business needs. We relocated and consolidated our San Diego, California headquarters during the second half of 2003. We currently occupy office space in ten locations, as identified in the chart below:

<u>Location</u>	<u>Square Feet</u>
San Diego, California (corporate headquarters)	175,672
Westminster, Colorado	29,152
Huntersville, North Carolina	25,967
Ft. Lauderdale, Florida	25,408
Savannah, Georgia	5,656
London (United Kingdom)	2,691
Birmingham (United Kingdom)	2,368
Perth (Australia)	292
Sydney (Australia)	118
Cape Town (South Africa)	50
<b>Total</b>	<b>267,374</b>

### **Item 3. Legal Proceedings**

We are subject to various claims and legal actions in the ordinary course of our business. Some of these matters include professional liability, payroll and employee-related matters and inquiries and investigations by governmental agencies regarding our employment practices. We are not aware of any pending or threatened litigation that we believe is reasonably likely to have a material adverse effect on our results of operations, financial position or liquidity.

Our hospital and healthcare facility clients may also become subject to claims, governmental inquiries and investigations and legal actions to which we may become a party relating to services provided by our professionals. From time to time, and depending upon the particular facts and circumstances, we may be subject to indemnification obligations under our contracts with our hospital and healthcare facility clients relating to these matters. At this time, we are not aware of any such pending or threatened litigation that we believe is reasonably likely to have a material adverse effect on our results of operations, financial position or liquidity.

### **Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2003.

**PART II****Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

Our common stock has traded on the New York Stock Exchange under the symbol "AHS" since our initial public offering on November 13, 2001. Prior to that time, there was no public trading market for our common stock. The following table sets forth, for the periods indicated, the high and low sales prices reported by the New York Stock Exchange.

	<u>High</u>	<u>Low</u>
<b>Year Ended December 31, 2002</b>		
First Quarter	\$28.40	\$20.50
Second Quarter	\$37.40	\$26.00
Third Quarter	\$35.06	\$17.50
Fourth Quarter	\$21.80	\$13.41
<b>Year Ended December 31, 2003</b>		
First Quarter	\$18.95	\$ 9.25
Second Quarter	\$13.09	\$ 8.90
Third Quarter	\$17.10	\$12.20
Fourth Quarter	\$17.36	\$13.70

As of March 9, 2004, there were 28,120,340 shares of our common stock issued and outstanding that were held by 15 stockholders of record. There were no sales of unregistered securities during the fourth quarter of 2003. On March 9, 2004, the last reported sale price of our common stock on the New York Stock Exchange was \$17.68 per share.

We have not paid any dividends in the past and currently do not expect to pay cash dividends or make any other distributions in the future. We expect to retain our future earnings, if any, for use in the operation and expansion of our business. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, capital requirements and such other factors as our board deems relevant. In addition, our ability to declare and pay dividends on our common stock is subject to covenants in our revolving credit facility. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

In November 2002, our board of directors approved a stock repurchase program authorizing us to repurchase up to \$100 million of our common stock on the open market at prevailing market prices from time to time through December 2003. Stock repurchases are subject to prevailing market conditions and other considerations, including limitations under applicable securities laws. Under the terms of the program we repurchased 5,154,200 shares at an average purchase price of \$14.29 per share, or an aggregate of \$73.7 million, including 3,076,100 shares repurchased during 2003 at an average share price of \$12.51 per share, or an aggregate of \$38.5 million.

On October 16, 2003, we completed a tender offer for an aggregate of \$180 million, or approximately 10 million shares of our common stock and certain employee stock options. In connection with the tender offer, we amended our current credit facility. The amended credit facility provides for, among other things, a \$75 million secured revolving facility, letter of credit sub-facility and swing-line facility and a new \$130 million secured term loan facility maturing in October 2008. The tender offer was financed with a new \$130 million term loan under our amended credit facility, \$15 million of borrowings from our amended revolving credit facility and \$35 million of cash on hand. We also incurred approximately \$4.4 million in transaction costs associated with the tender offer and the amendment of the credit facility, which were funded with cash on hand.

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**Item 6. Selected Consolidated Financial and Operating Data**

The selected financial and operating data presented below should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Financial Statements and Supplemental Data” appearing elsewhere in this Annual Report on Form 10-K. Our statements of operations data for the years ended December 31, 2003, 2002 and 2001, and the balance sheet data at December 31, 2003 and 2002 are derived from, and are qualified by reference to, the audited financial statements included elsewhere in this Annual Report on Form 10-K. The statements of operations data for the years ended December 31, 2000 and 1999 and the balance sheet data at December 31, 2001, 2000 and 1999 are derived from our audited financial statements that do not appear herein. Our historical results are not necessarily indicative of our results of operations to be expected in the future.

	Years Ended December 31,				
	2003	2002	2001	2000	1999
(dollars and shares in thousands, except per share data)					
<b>Consolidated Statements of Operations:</b>					
Revenue	\$ 714,209	\$ 775,683	\$ 517,794	\$ 230,766	\$ 146,514
Cost of revenue	552,052	586,900	388,284	170,608	111,784
Gross profit	162,157	188,783	129,510	60,158	34,730
Expenses:					
Selling, general and administrative (excluding non-cash stock-based compensation)	92,500	97,666	71,483	30,728	20,677
Non-cash stock-based compensation(1)	874	874	31,881	22,379	—
Amortization	380	369	5,562	2,387	1,721
Depreciation	4,439	3,470	2,151	916	325
Transaction costs(2)	—	139	1,955	1,500	12,404
Total expenses	98,193	102,518	113,032	57,910	35,127
Income (loss) from operations	63,964	86,265	16,478	2,248	(397)
Other expense (income):					
Interest expense (income), net	2,303	(343)	13,933	10,006	4,030
Loss on extinguishment of debt	—	—	8,265	—	1,157
Total other expense (income), net	2,303	(343)	22,198	10,006	5,187
Income (loss) before minority interest and income taxes	61,661	86,608	(5,720)	(7,758)	(5,584)
Minority interest in earnings of subsidiary(3)	—	—	—	—	(1,325)
Income tax expense (benefit)	23,869	34,252	(1,334)	(2,560)	(1,299)
Net income (loss)	\$ 37,792	\$ 52,356	\$ (4,386)	\$ (5,198)	\$ (5,610)
Net income (loss) per common share:					
Basic	\$ 1.04	\$ 1.23	\$ (0.14)	\$ (0.23)	\$ (0.26)
Diluted	\$ 0.95	\$ 1.12	\$ (0.14)	\$ (0.23)	\$ (0.26)
Weighted average common shares outstanding:					
Basic	36,456	42,534	30,641	22,497	21,715
Diluted	39,785	46,805	30,641	22,497	21,715

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	Years Ended December 31,				
	2003	2002	2001	2000	1999
(dollars in thousands)					
<b>Other Financial and Operating Data:</b>					
Revenue growth (decrease)	(8)%	50%	124%	58%	67%
Average temporary healthcare professionals on assignment	7,113	7,783	5,964	3,166	2,289
Growth (decrease) in average temporary healthcare professionals on assignment	(9)%	31%	88%	38%	59%
Capital expenditures	\$ 13,013	\$ 4,328	\$ 4,497	\$ 2,350	\$ 1,656

	As of December 31,				
	2003	2002	2001	2000	1999
(dollars in thousands)					
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and short term investments	\$ 4,687	\$ 40,135	\$ 31,968	\$ 546	\$ 503
Working capital	76,982	137,305	116,478	44,149	21,655
Total assets	304,532	348,774	308,929	209,410	79,878
Total long-term debt, including current portion	138,900	—	—	122,889	74,006
Total stockholders' equity (deficit)	116,097	295,824	271,905	67,070	(2,111)

- (1) Non-cash stock-based compensation represents compensation expense related to our stock option plans to reflect the difference between the fair market value and the exercise price of stock options previously issued to our officers. See "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 10."
- (2) Transaction costs represent costs incurred in connection with our 1999 recapitalization, our acquisition of Preferred Healthcare Staffing in 2000, our initial public offering in 2001 and our acquisition of Healthcare Resource Management Corporation in 2002.
- (3) On October 18, 1999, the minority stockholder of one of our subsidiaries exchanged its shares of the subsidiary for our shares. As a result, no minority interest is reflected after that date.

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

The following discussion should be read in conjunction with, and is qualified in its entirety by, our consolidated financial statements and the notes thereto and other financial information included elsewhere in this Annual Report on Form 10-K. Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are "forward-looking statements." See "Special Note Regarding Forward-Looking Statements" below.

**Overview**

We are a leading temporary healthcare staffing company and the largest nationwide provider of travel nurse staffing services. We recruit nurses and allied health professionals, our "temporary healthcare professionals," nationally and internationally and place them on temporary assignments of variable lengths at acute care hospitals and healthcare facilities throughout the United States.

For the year ended December 31, 2003, we recorded revenue of \$714.2 million, as compared to revenue of \$775.7 million and \$517.8 million for the years ended December 31, 2002 and 2001, respectively. The number of temporary healthcare professionals on assignment averaged 7,113, 7,783, and 5,964 in 2003, 2002 and 2001, respectively. We recorded net income of \$37.8 million for the year ended December 31, 2003, as compared to net income of \$52.4 million and a net loss of (\$4.4) million for the years ended December 31, 2002 and 2001, respectively. The increase in revenue and net income since 2001 is indicative of our expansion of our existing brands, improvements in contract terms with our hospital and healthcare facility clients, and our acquisitions of Healthcare Resource Management Corporation, "HRMC," in April 2002 and O'Grady-Peyton International (USA), Inc., "OGP," in May 2001. During 2003, however, we experienced changes in hospital staffing patterns, which led to a reduction in temporary healthcare professionals on assignment, revenue and net income. See additional discussion in "Results of Operations" below.

We derive substantially all of our revenue from fees paid directly by hospitals and healthcare facilities rather than from payments by government or other third parties. We enter into two types of contracts with our hospital and healthcare facility clients: flat rate contracts and payroll contracts. Under a flat rate contract, the temporary healthcare professional becomes an employee of the hospital or healthcare facility and is placed on their payroll. We bill the hospital or healthcare facility a "flat" weekly rate to compensate us for providing recruitment, housing and travel services. Alternatively, under a payroll contract, the temporary healthcare professional is our employee. We then bill our hospital or healthcare facility client at an hourly rate to compensate us for the temporary healthcare professional's wages and benefits, as well as for recruitment, housing and travel services. Our clients generally prefer payroll contracts because this arrangement eliminates significant employee and payroll administrative burdens for them. Temporary healthcare professional wages and benefits billed under a payroll contract effectively represent a pass-through cost component for us and we are compensated by our clients for our value-added services. While payroll contracts generate more gross profit than flat rate contracts, the gross margin generated is lower due to the pass-through of the temporary healthcare professional's compensation costs. Over the past five years, we, and the industry as a whole, have migrated towards a greater utilization of payroll contracts. During 2003, approximately 94% of our contracts with our hospital and healthcare facility clients were payroll contracts.

Since 1998 we have completed five strategic acquisitions. We acquired Medical Express, Inc. in November 1998, which strengthened our presence in the Pacific Northwest and Mountain states. During 2000, we completed the acquisitions of NursesRx, Inc. in June and Preferred Healthcare Staffing, Inc. in November, which strengthened our presence in the Eastern and Southern regions of the United States. We completed our acquisition of OGP in May 2001, the leading recruiter of registered nurses from English-speaking foreign countries for placement in the United States. We completed our fifth acquisition in April 2002, acquiring HRMC, to add to our presence in the Eastern and Southern regions of the United States. Each of these acquisitions has been accounted for by the purchase method of accounting. Therefore, the operating results of the acquired

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entities are included in our results of operations commencing on the date of acquisition of each entity. As a result, our results of operations following each acquisition may not be comparable with our prior results.

At the completion of our initial public offering in November 2001, options to purchase 5,182,000 shares of our common stock that we previously granted to members of our management immediately vested. These options had an average exercise price of \$12.45, which was below the initial public offering price of \$17.00 per share. As a result, we recorded approximately \$18.8 million of non-cash stock-based compensation expense in the fourth quarter of 2001, of which \$18.7 million was related to these options. In addition, we also recorded \$13.1 million of non-cash stock-based compensation expense in the first three quarters of 2001 and \$22.4 million for 2000. We also retired all of our indebtedness (approximately \$145.2 million) with the proceeds from and upon the completion of our initial public offering. The retirement of debt resulted in a loss on extinguishment of debt of approximately \$8.3 million, which was related to the write-off of the unamortized discount on our senior subordinated notes and unamortized deferred financing costs and loan fees.

On October 16, 2003, we completed a tender offer for an aggregate of \$180 million, or approximately 10 million shares of our common stock and certain employee stock options. In connection with the tender offer, we amended our current credit facility. The amended credit facility provides for, among other things, a \$75 million secured revolving facility, letter of credit sub-facility and swing-line facility and a new \$130 million secured term loan facility maturing in October 2008. The tender offer was financed with a new \$130 million term loan under our amended credit facility, \$15 million of borrowings from our amended revolving credit facility and \$35 million of cash on hand. We also incurred approximately \$4.4 million in transaction costs associated with the tender offer and the amendment of the credit facility, which were funded with cash on hand.

### **Recent Trends**

From 1996 through 2000, the temporary healthcare staffing industry grew at a compound annual growth rate of approximately 13%, and this growth accelerated to a compound annual growth rate of approximately 21% from 2000 to 2002. Over the last year, the demand for temporary healthcare professionals has declined due to a number of factors. In particular, we believe hospitals have increased their nurse recruitment efforts, stretched the productivity of permanent staff and maximized the cost-effectiveness of outsourced staffing solutions. In addition, because of the recent economic conditions, we believe permanent staff at our hospital and healthcare facility clients have been more likely to work overtime and less likely to leave their positions, creating fewer vacancies and fewer opportunities for us to place our temporary healthcare professionals.

The number of temporary healthcare professionals on assignment for the year decreased 9% from an average of 7,783 in 2002 to an average of 7,113 in 2003. Additionally, during the fourth quarter of 2003, we had an average of 6,339 temporary healthcare professionals on assignment. As a result of this decline, revenue and net income decreased throughout 2003. Demand for our services stabilized from April 2003 through October 2003, and has increased since then, throughout many regions. We believe that this increase in the number of orders placed by our hospital and healthcare facility clients is a result of increased hospital admissions growth and legislation impacting healthcare staffing throughout the United States, such as the California nurse staffing ratios that went into effect in January 2004. In addition, we believe signs of an improving economy and our increased focus on our hospital and healthcare facility clients have driven the recent increase in demand. We believe we will continue to experience a lag between when changes in demand occur and when our operations processes translate into changes in the number of temporary healthcare professionals on assignment and our financial results. Therefore, the changes in demand experienced in our industry could also result in continued changes in revenue and net income in subsequent quarters, and it is uncertain whether the recent increase in demand will drive increases in the average number of temporary healthcare professionals on assignment.

### **Critical Accounting Principles and Estimates**

We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. The preparation of our financial

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statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to asset impairment, accruals for self-insurance and compensation and related benefits, allowance for doubtful accounts and contingencies and litigation. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from these estimates under different assumptions or conditions.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

- We have recorded goodwill resulting from our past acquisitions. Through December 31, 2001, goodwill was amortized on a straight-line basis over useful lives of 25 years. Commencing with the adoption of Statement of Financial Accounting Standards, or “SFAS,” No. 142, *Goodwill and Other Intangible Assets*, on January 1, 2002, we ceased amortizing goodwill and have performed annual impairment analyses to assess the recoverability of the goodwill, in accordance with the provisions of SFAS No. 142. Upon our annual impairment analysis on December 31, 2003 and December 31, 2002, we determined that there was no impairment of goodwill. If we are required to record an impairment charge in the future, it could have an adverse impact on our results of operations. As of December 31, 2003, we had \$135.5 million of goodwill, net of accumulated amortization, recorded on our balance sheet.
- We maintain an accrual for our self-insured health benefits provided to our temporary healthcare professionals, which is included in accrued compensation and benefits in our consolidated balance sheets. We determine the adequacy of this accrual by evaluating our historical experience and trends related to both health insurance claims and payments, information provided to us by our insurance broker and industry experience and trends. If such information indicates that our accruals are overstated or understated, we adjust the assumptions utilized in our methodologies and reduce or provide for additional accruals as appropriate. As of December 31, 2003 we had \$3.5 million accrued for incurred but not reported health insurance claims. Historically, our accrual for health insurance has been adequate to provide for incurred claims, and has fluctuated with increases or decreases in the average number of temporary healthcare professionals on assignment and increases in national healthcare costs.
- We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which results in a provision for bad debt expense. We determine the adequacy of this allowance by evaluating our historical annual write-offs in relation to revenue, as well as evaluating individual customer receivables, considering the financial condition of customers, delinquency trends, credit histories of customers and current economic conditions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of December 31, 2003, our allowance for doubtful accounts was \$3.3 million.
- We maintain an accrual for professional liability and workers compensation self-insured retention limits. We determine the adequacy of these accruals by evaluating our historical experience and trends, as well as through the use of independent actuarial studies. If such information indicates that our accruals are overstated or understated, we adjust the assumptions utilized in our methodologies and reduce or provide for additional accruals as appropriate. As of December 31, 2003, we had \$7.6 million accrued for workers compensation claims, which is included in accrued compensation and benefits in our consolidated balance sheets. As of December 31, 2003 we had \$3.9 million accrued for professional liability retention which is included in accounts payable and accrued expenses in our consolidated balance sheets.
- We are subject to various claims and legal actions in the ordinary course of our business. Some of these matters include payroll and employee-related matters and investigations by governmental agencies

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regarding our employment practices. As we become aware of such claims and legal actions, we provide accruals if the exposures are probable and estimable. We may also become subject to claims, governmental inquiries and investigations, and legal actions relating to services provided by our professionals, and we maintain accruals for these matters. We are currently not aware of any such pending or threatened litigation that we believe is reasonably likely to have a material adverse effect on us.

### Results of Operations

The following table sets forth, for the periods indicated, certain statements of operations data as a percentage of revenue. Our results of operations are reported as a single business segment.

	Years Ended December 31,		
	2003	2002	2001
<b>Consolidated Statements of Operations:</b>			
Revenue	100.0%	100.0%	100.0%
Cost of revenue	77.3	75.7	75.0
Gross profit	22.7	24.3	25.0
Selling, general and administrative (excluding non-cash stock-based compensation)	13.0	12.6	13.8
Non-cash stock-based compensation	0.1	0.1	6.2
Amortization and depreciation expense	0.7	0.5	1.5
Transaction costs	0.0	0.0	0.4
Income (loss) from operations	8.9	11.1	3.1
Other expense (income), net	0.3	(0.1)	4.3
Income (loss) before income taxes	8.6	11.2	(1.2)
Income tax expense (benefit)	3.3	4.4	(0.4)
Net income (loss)	5.3%	6.8%	(0.8)%

### ***Comparison of Results for the Year Ended December 31, 2003 to the Year Ended December 31, 2002***

**Revenue.** Revenue decreased 8%, from \$775.7 million for 2002 to \$714.2 million for 2003. This decrease is consistent with the decrease in the number of temporary healthcare professionals on assignment, which decreased 9% from an average of 7,783 for 2002 to an average of 7,113 for 2003. Of the \$61.5 million decrease, approximately \$66.9 million was attributable to the contraction in our existing brands through a decline in the average number of temporary healthcare professionals on assignment and a shift in the mix from payroll to flat rate contracts, offset by improvements in contract terms with our hospital and healthcare facility clients, representing an organic contraction of our recurring operations of 9%. The average number of temporary healthcare professionals on assignment in our existing brands declined 9% and contributed approximately \$72.2 million to the decrease, and a shift in the mix from payroll to flat rate contracts contributed approximately \$12.4 million. These decreases were partially offset by improvements in contract terms in our existing brands, which included increases in bill rates charged to hospital and healthcare facility clients, of approximately \$17.8 million. The remainder of the offsetting increase in revenue, \$5.4 million, was attributable to the results of HRMC, which we acquired in April 2002.

**Cost of Revenue.** Cost of revenue decreased 6%, from \$586.9 million for 2002 to \$552.1 million for 2003. Of the \$34.8 million decrease, approximately \$39.0 million was attributable to the organic decline of our existing brands, offset by an approximately \$4.2 million increase attributable to the operations of HRMC.



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*Gross Profit.* Gross profit decreased 14%, from \$188.8 million for 2002 to \$162.2 million for 2003, representing gross margins of 24.3% and 22.7%, respectively. The decrease in the gross margin was primarily attributable to increased compensation, insurance and housing costs as a percentage of revenue.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased 5%, from \$97.7 million for 2002 to \$92.5 million for 2003. The \$5.2 million decrease was primarily attributable to reductions in the allowance for doubtful accounts due to favorable collections, reductions in employee expenses related to the decline in the average number of temporary healthcare professionals on assignment and reductions in professional services. These decreases were partially offset by increased advertising and insurance expenses due to an increase in our professional liability reserve, increased expenses as a result of our acquisition of HRMC and a \$1.2 million charge in the fourth quarter of 2003 related to vested stock options purchased in our October 2003 tender offer.

*Non-Cash Stock-Based Compensation.* We recorded non-cash compensation charges of \$0.9 million in each of 2002 and 2003 in connection with our stock option plans to reflect the difference between the fair market value at the measurement date and the exercise prices of previously issued stock options, which are amortized over their respective vesting periods.

*Amortization and Depreciation Expense.* Amortization expense of \$0.4 million was consistent for 2002 and 2003, as there were no significant changes in the carrying values of intangible assets subject to amortization. Depreciation expense increased from \$3.5 million for 2002 to \$4.4 million for 2003. The increase was primarily attributable to internally developed software placed into service in 2002, amortization of assets acquired under capital leases, and depreciation of leasehold improvements and assets acquired and placed in service in association with the consolidation of several San Diego, California locations into our new corporate headquarters during the second half of 2003.

*Transaction Costs.* Transaction costs of \$0.1 million for 2002 represent non-capitalized costs incurred in connection with the acquisition of HRMC.

*Other Expense (Income), Net.* Interest expense (income), net, was income of \$0.3 million for 2002 as compared to expense of \$2.3 million for 2003, due primarily to the liquidation of investments held in 2002, interest charges related to the amendment of our revolving credit facility in October 2003, and the amortization of deferred financing costs associated with our debt issuance.

*Income Tax Expense.* Income tax expense decreased from \$34.3 million for 2002 to \$23.9 million for 2003, reflecting effective income tax rates of 39.5% and 38.7% for these periods, respectively. The reduction in the effective income tax rate was primarily attributable to changes in the state tax provision.

### **Comparison of Results for the Year Ended December 31, 2002 to the Year Ended December 31, 2001**

*Revenue.* Revenue increased 50%, from \$517.8 million for 2001 to \$775.7 million for 2002. The number of temporary healthcare professionals on assignment increased 31% from an average of 5,964 for 2001 to an average of 7,783 for 2002. Of the \$257.9 million increase, approximately \$232.7 million was attributable to expansion of our existing brands through growth in the number of temporary healthcare professionals and improvements in contract terms with our hospital and healthcare facility clients, representing an organic growth rate for our recurring operations of 45%. The total number of temporary healthcare professionals on assignment in our existing brands grew 26% and contributed approximately \$136.5 million to the increase. Improvements in contract terms included increases in bill rates charged to hospital and healthcare facility clients that accounted for approximately \$79.2 million of this increase, and a shift in the mix of payroll versus flat rate temporary healthcare professional contracts that accounted for approximately \$17.0 million of this increase. The remainder of the increase, \$25.2 million, was attributable to the results of OGP and HRMC, which we acquired in May 2001 and April 2002, respectively.

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*Cost of Revenue.* Cost of revenue increased 51%, from \$388.3 million for 2001 to \$586.9 million for 2002. Of the \$198.6 million increase, approximately \$180.8 million was attributable to the organic growth of our existing brands, and approximately \$17.8 million was attributable to the operations of OGP and HRMC.

*Gross Profit.* Gross profit increased 46%, from \$129.5 million for 2001 to \$188.8 million for 2002, representing gross margins of 25.0% and 24.3%, respectively. The decrease in the gross margin was primarily attributable to a larger pass-through of price increases in the form of benefits for our temporary healthcare professionals, as compared to 2001, and a shift in the mix of temporary healthcare professionals from flat rate contracts to payroll contracts.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased 37%, from \$71.5 million for 2001 to \$97.7 million for 2002. Of the \$26.2 million increase, approximately \$5.1 million was attributable to increased expenses as a result of our acquisitions of OGP and HRMC. The remaining increase of \$21.1 million was primarily attributable to increases in administrative and office expenses, marketing, information systems development, recruiting and nurse professional development in support of the growth in temporary healthcare professionals under contract from 2001 to 2002.

*Non-Cash Stock-Based Compensation.* We recorded non-cash compensation charges of \$31.9 million in 2001 and \$0.9 million in 2002 in connection with our stock option plans to reflect the difference between the fair market value at the measurement date and the exercise price of previously issued stock options. The decrease was attributable to options to purchase 5,182,000 shares of our common stock that we previously granted to members of our management that immediately vested upon the completion of our initial public offering in 2001. These options had an average exercise price \$12.45 per share below the initial public offering price of \$17.00 per share and, as a result, we recorded approximately \$31.8 million of non-cash stock-based compensation expense in 2001 related to these options. The 2002 expense amount related to the amortization of the intrinsic value of 2001 option grants to members of our management over their vesting period of four years.

*Amortization and Depreciation Expense.* Amortization expense decreased from \$5.6 million for 2001 to \$0.4 million for 2002. This decrease was primarily attributable to the adoption of SFAS No. 142, effective January 1, 2002, under which goodwill amortization ceased. Depreciation expense increased from \$2.2 million for 2001 to \$3.5 million for 2002. The increase was primarily attributable to internally developed software placed into service in 2001 and furniture and equipment purchased to support our recent and anticipated growth.

*Transaction Costs.* Transaction costs of \$2.0 million for 2001 related to the termination of an advisory agreement in conjunction with our initial public offering. Transaction costs of \$0.1 million for 2002 related to the non-capitalized costs incurred in connection with the acquisition of HRMC.

*Other Expense (Income), Net.* Interest expense (income), net, was expense of \$13.9 million for 2001 as compared to income of \$0.3 million for 2002. Of the \$14.2 million change, approximately \$13.9 million was attributable to the retirement of all of our indebtedness (approximately \$145.2 million) with the proceeds from and upon the completion of our initial public offering in November 2001. The \$8.3 million loss on extinguishment of debt for 2001 was related to the write-off of unamortized discount on our senior subordinated notes and unamortized deferred financing costs and loan fees resulting from the early extinguishment of our existing indebtedness, and a prepayment premium resulting from the early extinguishment of the senior subordinated notes.

*Income Tax (Expense) Benefit.* Income tax expense increased from a \$1.3 million benefit for 2001 to a \$34.3 million expense for 2002, reflecting effective income tax rates of 23.3% and 39.5% for these periods, respectively. The difference between the effective tax rate in 2001 and our expected effective tax rate for that year of 41% was primarily attributable to the effect of various permanent tax difference items, the impact of which is magnified by the reduction in pre-tax income created by the non-cash stock-based compensation charge.

## **Liquidity and Capital Resources**

Historically, our primary liquidity requirements have been for acquisitions, working capital requirements and debt service under our credit facility. We have funded these requirements through internally generated cash flow and funds borrowed under our existing credit facility. On October 2, 2003, we amended our credit agreement to provide for a new \$130 million term loan to finance our tender offer and to extend the maturity date of the credit facility (including our new \$75 million secured revolving credit facility) to October 2008. At December 31, 2003, \$138.9 million was outstanding under this term loan and credit facility. We believe that cash generated from operations and available borrowings under our revolving credit facility will be sufficient to fund our operations for the next 12 months. We expect to be able to finance future acquisitions either with cash provided from operations, borrowings under our revolving credit facility, bank loans, debt or equity offerings, or some combination of the foregoing. The following discussion provides further details of our liquidity and capital resources.

### *Operating Activities:*

Historically, our principal working capital need has been for accounts receivable. Our Days Sales Outstanding (“DSO”) have generally ranged between approximately 58 and 62 days. At December 31, 2002, our DSO was 61 days and at December 31, 2003, our DSO was 68 days. The increase in DSO compared to the prior year is primarily related to the temporary delay in client billings associated with the upgrade of our payroll and billing system in November 2003. Our principal sources of cash to fund our working capital needs are cash generated from operating activities and borrowings under our revolving credit facility. Net cash provided by operations increased \$8.2 million from \$56.9 million in 2002 to \$65.1 million in 2003. This increase in net cash provided by operations was primarily related to a reduction in receivables due to the decrease in revenue for 2003 compared to 2002 offset by a decrease in net income.

### *Investing Activities:*

We continue to have relatively low capital investment requirements, exclusive of costs associated with our new corporate headquarters occupied in August 2003 and our implementation of an upgraded payroll and billing software system in November 2003. Capital expenditures were \$4.5 million, \$4.3 million and \$13.0 million in 2001, 2002 and 2003, respectively. In 2003, our capital expenditures were \$6.3 million for purchased and internally developed software and \$6.7 million for computers, furniture and equipment, leasehold improvements and other expenditures, including \$5.8 million related to the consolidation of several San Diego, California locations into our new corporate headquarters. We expect our capital expenditure requirements to be similar in the future, other than costs related to our new corporate headquarters and our upgraded payroll and billing software system. See “Item 2. Properties.”

Our business acquisition expenditures were \$13.0 million in 2001, \$9.5 million in 2002, and \$0 in 2003. During 2000, we completed the acquisitions of NursesRx and Preferred Healthcare Staffing and in May 2001, we acquired OGP. In April 2002, we completed the acquisition of HRMC. These acquisitions were financed through a combination of bank debt and equity investments, except for HRMC, which was financed with cash provided by operations. In connection with our acquisition of NursesRx, we made a \$3.0 million payment to the former shareholders, consisting of two payments of \$1.0 million each made prior to December 31, 2002 and a final installment of \$1.0 million paid on June 30, 2003, in accordance with the terms of the agreement.

### *Financing Activities:*

In November 2002, our board of directors approved a stock repurchase program authorizing us to repurchase up to \$100 million of our common stock on the open market at prevailing market prices from time to time through December 2003. Stock repurchases are subject to prevailing market conditions and other considerations, including limitations under applicable securities laws. Under the terms of the program we repurchased 5,154,200 shares at an average purchase price of \$14.29 per share, or an aggregate of \$73.7 million,

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including 3,076,100 shares repurchased during 2003 at an average share price of \$12.51 per share, or an aggregate of \$38.5 million.

On October 16, 2003, we completed a tender offer for an aggregate of \$180 million, or approximately 10 million shares of our common stock and certain employee stock options. In connection with the tender offer, we amended our current credit facility. The amended credit facility provides for, among other things, a \$75 million secured revolving credit facility, letter of credit sub-facility and swing-line facility and a new \$130 million secured term loan facility maturing in October 2008. The tender offer was financed with a new \$130 million term loan under our amended credit facility, \$15 million of borrowings from our amended revolving credit facility and \$35 million of cash on hand. We also incurred approximately \$4.4 million in transaction costs associated with the tender offer and the amendment of the credit facility, which were funded with cash on hand.

The revolving credit facility contains a letter of credit sub-facility and a swing-line loan sub-facility. The revolving credit facility carries an unused fee of 0.5% per annum, and there are no mandatory reductions in the revolving commitment under the revolving credit facility. Borrowings under this revolving credit facility bear interest at floating rates based upon either a LIBOR or a prime interest rate option selected by us, plus a spread, to be determined based on our leverage ratio. Amounts available under our revolving credit facility may be used for working capital, acquisitions and general corporate purposes, subject to various limitations.

The five year, \$130 million term loan portion of our credit facility is subject to quarterly amortization of principal (in equal installments), with an amount equal to 1.15% of the initial aggregate principal amount of the facility payable quarterly beginning June 30, 2004 until 2008 with any remaining amounts payable in 2008. We are required to maintain interest rate protection on at least 50% of the term loan portion of our credit facility until January 1, 2006. On October 17, 2003 we entered into interest rate swap arrangements to minimize our exposure to interest rate fluctuations on \$110 million of our outstanding variable rate debt under the new credit facility. We have formally documented the hedging relationships and account for these arrangements as cash flow hedges.

Our amended and restated credit agreement stipulates a minimum fixed charge coverage ratio, a maximum leverage ratio and other customary covenants.

### *Contractual Obligations.*

The following table summarizes the effect that minimum debt, lease and other material non-cancelable commitments listed below are expected to have on our cash flow in the future periods set forth below (in thousands):

	Payments Due						Total
	2004	2005	2006	2007	2008	Later	
Debt and Leases:							
Long-term debt (1)	\$ 11,388	\$ 12,607	\$ 12,307	\$ 12,007	\$ 120,066	\$ —	\$ 168,375
Capital lease obligations (2)	384	367	367	142	10	—	1,270
Operating lease obligations (3)	9,329	8,589	8,356	8,855	8,607	87,960	131,696
<b>Total Contractual Obligations</b>	<b>\$ 21,101</b>	<b>\$ 21,563</b>	<b>\$ 21,030</b>	<b>\$ 21,004</b>	<b>\$ 128,683</b>	<b>\$ 87,960</b>	<b>\$ 301,341</b>

- (1) Amounts represent contractual amounts due, including estimated interest based on the weighted average rates on the outstanding long-term debt at December 31, 2003.
- (2) Amounts represent contractual amounts due, including interest.
- (3) Amounts represent minimum contractual amounts. We have assumed no escalations in rent or changes in variable expenses other than as stipulated in lease contracts.

### **Off-Balance Sheet and Other Financing Arrangements**

At December 31, 2003 and 2002, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, variable interest or special purpose, which would have been established for the purpose of facilitating off-balance-sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We do not have relationships or transactions with persons or entities that derive benefits from their non-independent relationship with us or our related parties other than what is disclosed in “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 11.”

### **Potential Fluctuations in Quarterly Results and Seasonality**

Due to the regional and seasonal fluctuations in the hospital patient census of our hospital and healthcare facility clients and due to the seasonal preferences for destinations by our temporary healthcare professionals, the number of temporary healthcare professionals on assignment, revenue and earnings are subject to moderate seasonal fluctuations. Many of our hospital and healthcare facility clients are located in areas that experience seasonal fluctuations in population, such as Florida and Arizona, during the winter and summer months. These facilities adjust their staffing levels to accommodate the change in this seasonal demand and many of these facilities utilize temporary healthcare professionals to satisfy these seasonal staffing needs.

Historically, the number of temporary healthcare professionals on assignment has increased during January through March, followed by declines or minimal growth during April through August. During September through November, our temporary healthcare professional count has historically increased, followed by a decline in December. The historical seasonality of revenue and earnings may not continue due to the recent changes in the demand from our hospital and healthcare facility clients. As a result of all of these factors, results of any one quarter are not necessarily indicative of the results to be expected for any other quarter or for any year.

### **Inflation**

Although inflation has abated during the last several years, the rate of inflation in healthcare related services continues to exceed the rate experienced by the economy as a whole. Our contracts typically provide for an annual increase in the fees paid to us by our clients based on increases in various inflation indices allowing us to pass on inflation costs to our clients. Historically, these increases have generally offset the increases in costs incurred by us.

### **Recent Accounting Pronouncements**

In April 2002, the Financial Accounting Standards Board, or “FASB,” issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. The Company adopted SFAS No. 145 in 2003, and has reclassified an extraordinary loss recorded in 2001 on extinguishment of debt of \$5,455,000, net of tax benefit of \$2,810,000, accordingly. See “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 8.” Adoption of the provisions of SFAS No. 145 did not have a material impact on the Company’s consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, *Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The amendments set forth in SFAS No. 149 change financial reporting by requiring that contracts with comparable

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characteristics be accounted for similarly. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 (with a few exceptions) and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. In conjunction with the financing of the tender offer, on October 17, 2003 the Company entered into interest rate swap arrangements to minimize the Company's exposure to fluctuations in interest rates on \$110 million of its outstanding variable rate debt under the amended credit facility. The Company has formally documented the hedging relationships and accounts for these arrangements as cash flow hedges. Adoption of the provisions of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

### **Special Note Regarding Forward-Looking Statements**

This Annual Report on Form 10-K contains "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. We based these forward-looking statements on our current expectations and projections about future events. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. The following factors could cause our actual results to differ materially from those implied by the forward-looking statements in this Annual Report:

- our ability to continue to recruit and retain qualified temporary healthcare professionals and to attract and retain operational personnel;
- our ability to enter into contracts with hospitals and other healthcare facility clients on terms attractive to us and to secure orders related to those contracts;
- the attractiveness to hospitals and healthcare facility clients of our services;
- changes in the timing of hospital and healthcare facility clients' orders for and our placement of temporary healthcare professionals;
- the general level of patient occupancy at our hospital and healthcare facility clients' facilities;
- the overall level of demand for services offered by temporary healthcare staffing providers;
- increased utilization of permanent staff by our hospital and healthcare facility clients;
- our ability to successfully implement our acquisition and integration strategies;
- the effect of existing or future government regulation, and our ability to operate our business in compliance with these regulations;
- the impact of medical malpractice and other claims asserted against us; and
- our ability to carry out our business strategy.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this Annual Report on Form 10-K are more fully described in the "Risk Factors" section and elsewhere in this Annual Report on Form 10-K. We undertake no obligation to update the forward-looking statements in this filing. References in this Annual Report on Form 10-K to "AMN Healthcare," the "Company," "we," "us" and "our" refer to AMN Healthcare Services, Inc. and its wholly owned subsidiaries.

### **Risk Factors**

The following risk factors should be read carefully in connection with evaluating us and the forward-looking statements contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely

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affect our company, operating results, financial condition and the actual outcome of matters as to which forward- looking statements are made in this Annual Report on Form 10-K. Certain statements in “Risk Factors” constitute “forward-looking statements.” Our actual results could differ materially from those projected in the forward-looking statements as a result of certain factors and uncertainties set forth below and elsewhere in this Annual Report on Form 10-K. See “Special Note Regarding Forward-Looking Statements.”

### **If we are unable to attract qualified nurses and other allied healthcare professionals for our healthcare staffing business at reasonable costs, it could increase our operating costs and negatively impact our business.**

We rely significantly on our ability to attract and retain nurses and other allied healthcare professionals who possess the skills, experience and licenses necessary to meet the requirements of our hospital and healthcare facility clients. We compete for healthcare staffing personnel with other temporary healthcare staffing companies and with hospitals and healthcare facilities. We must continually evaluate and expand our temporary healthcare professional network to keep pace with our hospital and healthcare facility clients’ needs. Currently, there is a shortage of qualified nurses in most areas of the United States, competition for nursing personnel is increasing, and salaries and benefits have risen. We may be unable to continue to increase the number of temporary healthcare professionals that we recruit, decreasing the potential for growth of our business. Our ability to attract and retain temporary healthcare professionals depends on several factors, including our ability to provide temporary healthcare professionals with assignments that they view as attractive and to provide them with competitive benefits and wages. We cannot assure you that we will be successful in any of these areas. The cost of attracting temporary healthcare professionals and providing them with attractive benefit packages may be higher than we anticipate and, as a result, if we are unable to pass these costs on to our hospital and healthcare facility clients, our profitability could decline. Moreover, if we are unable to attract and retain temporary healthcare professionals, the quality of our services to our hospital and healthcare facility clients may decline and, as a result, we could lose clients.

### **We operate in a highly competitive market and our success depends on our ability to remain competitive in obtaining and retaining hospital and healthcare facility clients and temporary healthcare professionals.**

The temporary healthcare staffing business is highly competitive. We compete in national, regional and local markets with full-service staffing companies and with specialized temporary staffing agencies. Some of our larger competitors in the temporary nurse staffing sector include Cross Country, IntelliStaf/StarMed, Nursefinders, Medical Staffing Network and On Assignment. In addition, we compete with staffing organizations owned by national healthcare facilities that provide staffing services to their member hospitals. Some of these companies may have greater marketing and financial resources. We believe that the primary competitive factors in obtaining and retaining hospital and healthcare facility clients are identifying qualified healthcare professionals for specific job requirements, providing qualified employees in a timely manner, pricing services competitively and effectively monitoring employees’ job performance. We compete for temporary healthcare professionals based on the quantity, diversity and quality of assignments offered, compensation packages and the benefits that we provide. Competition for hospital and healthcare facility clients and temporary healthcare professionals may increase in the future and, as a result, we may not be able to remain competitive. To the extent competitors seek to gain or retain market share by reducing prices or increasing marketing expenditures, we could lose revenue or hospital and healthcare facility clients and our margins could decline, which could seriously harm our operating results and cause the price of our stock to decline. In addition, the development of alternative recruitment channels could lead our hospital and healthcare facility clients to bypass our services, which would also cause revenue and margins to decline.

### **Our business depends upon our ability to secure and fill new orders from our hospital and healthcare facility clients because we do not have long-term agreements or exclusive contracts with them.**

We generally do not have long-term agreements or exclusive guaranteed order contracts with our hospital and healthcare facility clients. The success of our business is dependent upon our ability to continually secure

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new orders from hospitals and other healthcare facilities and to fill those orders with our temporary healthcare professionals. Our hospital and healthcare facility clients are free to place orders with our competitors and choose to use temporary healthcare professionals that our competitors offer them. Therefore, we must maintain positive relationships with our hospital and healthcare facility clients. If we fail to maintain positive relationships with our hospital and healthcare facility clients or are unable to provide a cost-effective staffing solution, we may be unable to generate new temporary healthcare professional orders and our business may be adversely affected.

### **The demand for our services, and therefore the profitability of our business, may be adversely affected by changes in the staffing needs or staffing preferences of our healthcare facility clients, and by fluctuations in patient occupancy at our client healthcare facilities.**

Demand for our temporary healthcare staffing services is significantly affected by the staffing needs and preferences of our healthcare facility clients, as well as by the general level of patient occupancy at our client healthcare facilities. Our healthcare facility clients may choose to use temporary staff, additional overtime from their permanent staff or add new permanent staff in order to address fluctuations in their staffing needs. As occupancy decreases, healthcare facility clients typically will reduce their use of temporary staff before reducing the workload or undertaking layoffs of their regular employees. In addition, we may experience more competitive pricing pressure during periods of occupancy downturn. Occupancy at our client healthcare facilities also fluctuates due to the seasonality of some elective procedures. We are unable to predict the level of patient occupancy or the staffing preferences of our clients at any particular time and their effect on revenue and earnings.

### **Healthcare reform could negatively impact our business opportunities, revenue and margins.**

The federal government has undertaken efforts to control growing healthcare costs through legislation, regulation and voluntary agreements with medical care providers and drug companies. In the recent past, Congress has considered several comprehensive healthcare reform proposals. The proposals were generally intended to expand healthcare coverage for the uninsured and reduce the growth of total healthcare expenditures. While Congress did not adopt any comprehensive reform proposals, members of Congress may raise similar proposals in the future. If any of these proposals are approved, hospitals and other healthcare facilities may react by spending less on healthcare staffing, including nurses. If this were to occur, we would have fewer business opportunities, which could have a material adverse effect on our business.

State governments have also attempted to control the growth of healthcare costs. For example, Massachusetts has implemented a regulation that limits the hourly rate paid to temporary nursing agencies for registered nurses, licensed practical nurses and certified nurses aides. While we are exempt from this regulation, in part, if similar regulations were to be applied to our contracts in other states in which we operate, revenue and margins could decrease.

Furthermore, third party payors, such as health maintenance organizations, increasingly challenge the prices charged for medical care. Failure by hospitals and other healthcare facilities to obtain full reimbursement from those third party payors could reduce the demand or the price paid for our services.

### **We operate in a regulated industry and changes in regulations or violations of regulations may result in increased costs or sanctions that could reduce revenue and profitability.**

The healthcare industry is subject to extensive and complex federal and state laws and regulations related to professional licensure, conduct of operations, payment for services and payment for referrals.

Our business is generally not subject to the extensive and complex laws that apply to our hospital and healthcare facility clients, including laws related to Medicare, Medicaid and other federal and state healthcare programs. However, these laws and regulations could indirectly affect the demand or the prices paid for our services. For example, our hospital and healthcare facility clients could suffer civil and/or criminal penalties and/ or be excluded from participating in Medicare, Medicaid and other healthcare programs if they fail to comply



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with the laws and regulations applicable to their businesses. In addition, our hospital and healthcare facility clients could receive reduced reimbursements, or be excluded from coverage, because of a change in the rates or conditions set by federal or state governments. In turn, violations of or changes to these laws and regulations that adversely affect our hospital and healthcare facility clients could also adversely affect the prices that these clients are willing or able to pay for our services.

We are subject to certain laws and regulations applicable to healthcare staffing agencies and general temporary staffing services. Like all employers, we must also comply with various regulations relating to pay practices, workers compensation and immigration; because of the nature of our business, the impact of a change in these regulations may have a more pronounced effect on our business. In addition, if we fail to comply with these laws and regulations, damages, civil and/or criminal penalties, injunctions and/or cease and desist orders may be imposed.

### **Significant legal actions could subject us to substantial liabilities.**

In recent years, our hospital and healthcare facility clients have become subject to an increasing number of legal actions alleging malpractice or related legal theories. Because our temporary healthcare professionals provide medical care, claims may be brought against our temporary healthcare professionals and us relating to the quality of medical care provided by our temporary healthcare professionals while on assignment at our hospital and healthcare facility clients. We and our temporary healthcare professionals are at times named in these lawsuits regardless of our contractual obligations or the standard of care provided by our temporary healthcare professionals. In some instances, we are required to indemnify hospital and healthcare facility clients contractually against some or all of these potential legal actions. Also, because most of our temporary healthcare professionals are our employees, we may be subject to various employment claims and contractual disputes regarding the terms of a temporary healthcare professional's employment.

We maintain insurance coverage through insurance carriers as well as self-insure for these claims through accruals for retention reserves. Our insurance coverage and reserve accruals may not be sufficient to cover all claims against us, and we may be exposed to substantial liabilities. We provide our healthcare professionals with individual professional liability policies with policy limits of \$1 million per occurrence and \$6 million in the aggregate. In addition, we have a general and professional liability policy with a \$5 million retention and policy limits of \$5 million and an excess policy of \$5 million. We may experience increased insurance costs and reserve accruals and may not be able to pass on all or any portion of increased insurance costs to our hospital and healthcare facility clients.

### **We may be legally liable for damages resulting from our hospital and healthcare facility clients' improper treatment of our traveling healthcare personnel.**

Because we are in the business of placing our temporary healthcare professionals in the workplaces of other companies, we are subject to possible claims by our temporary healthcare professionals alleging discrimination, sexual harassment and other similar activities by our hospital and healthcare facility clients. We maintain a policy for employee practices coverage. However, the cost of defending such claims, even if groundless, could be substantial and the associated negative publicity could adversely affect our ability to attract and retain qualified individuals in the future.

### **We may not be able to successfully complete the integration of our acquisitions.**

We continue to explore strategic acquisition opportunities. Acquisitions involve significant risks and uncertainties, including difficulties integrating acquired personnel and other corporate cultures into our business, the potential loss of key employees or customers of acquired companies, the assumption of liabilities and exposure to unforeseen liabilities of acquired companies and the diversion of management attention from existing operations. We may not be able to fully integrate the operations of the acquired businesses with our own in an efficient and cost-effective manner.

**Difficulties in maintaining our management information and communications systems may result in increased costs that reduce our profitability.**

Our ability to deliver our staffing services to our hospital and healthcare facility clients and manage our internal systems depends to a large extent upon the performance of our management information and communications systems, including our implementation of an upgraded payroll and billing software system in November 2003. If these systems do not adequately support our operations, or if we are required to incur significant additional costs to maintain or expand these systems, our business and financial results could be materially adversely affected.

**Our operations may deteriorate if we are unable to continue to attract, develop and retain our sales personnel.**

Our success is dependent upon the performance of our sales personnel, especially regional client service directors, hospital account managers and recruiters. The number of individuals who meet our qualifications for these positions is limited and we may experience difficulty in attracting qualified candidates. In addition, we commit substantial resources to the training, development and support of these individuals. Competition for qualified sales personnel in the line of business in which we operate is strong and there is a risk that we may not be able to retain our sales personnel after we have expended the time and expense to recruit and train them.

**The loss of key senior management personnel could adversely affect our ability to remain competitive.**

We believe that the success of our business strategy and our ability to operate profitably depends on the continued employment of our senior management team. Other than Steven Francis, none of our senior management team has an employment contract with us. If members of our senior management team become unable or unwilling to continue in their present positions, our business and financial results could be materially adversely affected.

**Our existing majority stockholder controls us.**

HWH Capital Partners, L.P. and some of its affiliates, whom we refer to collectively as the "HWP stockholders," beneficially currently own approximately 46.0% of the outstanding shares of our common stock. As a result, the HWP stockholders have significant influence in electing our directors and approving any action requiring the approval of shareholders, including any amendments to our certificate of incorporation, mergers or sales of all or substantially all of our assets. This concentration of ownership also may delay, defer or even prevent a change in control of our company, and make some transactions more difficult or impossible without the support of these stockholders. These transactions might include proxy contests, tender offers, mergers or other purchases of common stock that could give our stockholders the opportunity to realize a premium over the then-prevailing market price for shares of our common stock.

**We have a substantial amount of goodwill on our balance sheet. Our level of goodwill may have the effect of decreasing our earnings or increasing our losses.**

As of December 31, 2003, we had \$135.5 million of unamortized goodwill on our balance sheet, which represents the excess of the total purchase price of our acquisitions over the fair value of the net assets acquired. At December 31, 2003, goodwill represented 44% of our total assets.

Through December 31, 2001, we amortized goodwill on a straight-line basis over the estimated period of future benefit of 25 years. In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 142 requires that,

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subsequent to January 1, 2002, goodwill not be amortized but rather that it be reviewed annually for impairment. In the event impairment is identified, a charge to earnings would be recorded. We have adopted the provisions of SFAS No. 141 and SFAS No. 142. Although it does not affect our cash flow, an impairment charge to earnings has the effect of decreasing our earnings or increasing our losses, as the case may be. If we are required to record an impairment charge relating to goodwill, our stock price could be adversely affected.

### **Item 7A. Quantitative and Qualitative Disclosure about Market Risk**

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not believe that we have any material market risk exposure with respect to derivative or other financial instruments.

During 2002, our primary exposure to market risk related to interest rates on short-term investments. A 1% change in the interest rates on short-term investments would have resulted in interest income fluctuating by approximately \$102,000 in 2002.

During 2003, our primary exposure to market risk was interest rate risk associated with our debt instruments and short-term investments. See “Item 7. Management’s Discussion and Analysis—Liquidity and Capital Resources—Financing Activities” for further description of our debt instruments.” A 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately \$329,000 in 2003.

Our international operations create exposure to foreign currency exchange rate risks. We believe that our foreign currency risk is immaterial.

**Item 8. Financial Statements and Supplementary Data**

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
AMN Healthcare Services, Inc.:

We have audited the accompanying consolidated balance sheets of AMN Healthcare Services, Inc. and subsidiaries (the Company), as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AMN Healthcare Services, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, and accordingly, changed its method of accounting for goodwill in 2002.

KPMG LLP

San Diego, California  
February 27, 2004

**AMN HEALTHCARE SERVICES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(in thousands, except par value)**

	December 31, 2003	December 31, 2002
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,687	\$ 40,135
Accounts receivable, net	117,392	134,456
Prepaid expenses	14,027	11,897
Other current assets	1,835	2,165
	<hr/>	<hr/>
Total current assets	137,941	188,653
Fixed assets, net	18,414	9,869
Deferred income taxes, net	6,071	12,111
Deposits	1,635	1,412
Goodwill, net	135,532	135,532
Other intangibles, net	4,939	1,197
	<hr/>	<hr/>
Total assets	\$ 304,532	\$ 348,774
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Bank overdraft	\$ —	\$ 1,225
Accounts payable and accrued expenses	12,954	12,738
Accrued compensation and benefits	32,117	34,488
Income taxes payable	2,103	1,659
Current portion of notes payable	13,400	—
Other current liabilities	385	1,238
	<hr/>	<hr/>
Total current liabilities	60,959	51,348
Notes payable, less current portion	125,500	—
Other long-term liabilities	1,976	1,602
	<hr/>	<hr/>
Total liabilities	188,435	52,950
	<hr/>	<hr/>
Stockholders' equity:		
Common stock, \$0.01 par value; 200,000 shares authorized; 42,997 and 42,991 shares issued at December 31, 2003 and 2002, respectively	430	430
Additional paid-in capital	349,595	352,541
Treasury stock, at cost (14,877 and 2,078 shares at December 31, 2003 and 2002, respectively)	(249,428)	(35,164)
Retained earnings (accumulated deficit)	15,809	(21,983)
Accumulated other comprehensive loss	(309)	—
	<hr/>	<hr/>
Total stockholders' equity	116,097	295,824
	<hr/>	<hr/>
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 304,532	\$ 348,774
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

**AMN HEALTHCARE SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(in thousands, except per share amounts)**

	Years Ended December 31,		
	2003	2002	2001
Revenue	\$ 714,209	\$ 775,683	\$ 517,794
Cost of revenue	552,052	586,900	388,284
Gross profit	162,157	188,783	129,510
Expenses:			
Selling, general and administrative, excluding non-cash stock-based compensation	92,500	97,666	71,483
Non-cash stock-based compensation	874	874	31,881
Amortization	380	369	5,562
Depreciation	4,439	3,470	2,151
Transaction costs	—	139	1,955
Total expenses	98,193	102,518	113,032
Income from operations	63,964	86,265	16,478
Other expense (income):			
Interest expense (income), net	2,303	(343)	13,933
Loss on extinguishment of debt	—	—	8,265
Total other expense (income)	2,303	(343)	22,198
Income (loss) before income taxes	61,661	86,608	(5,720)
Income tax expense (benefit)	23,869	34,252	(1,334)
Net income (loss)	\$ 37,792	\$ 52,356	\$ (4,386)
Basic and diluted net income (loss) per common share:			
Basic net income (loss) per common share	\$ 1.04	\$ 1.23	\$ (0.14)
Diluted net income (loss) per common share	\$ 0.95	\$ 1.12	\$ (0.14)
Weighted average common shares outstanding:			
Basic	36,456	42,534	30,641
Diluted	39,785	46,805	30,641

See accompanying notes to consolidated financial statements.

**AMN HEALTHCARE SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**Years Ended December 31, 2003, 2002 and 2001**  
(in thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance, December 31, 2000	28,835	\$ 288	\$ 136,735	\$ —	\$ (69,953)	\$ —	\$ 67,070
Stock-based compensation	—	—	31,881	—	—	—	31,881
Issuance of common stock for cash, net of issuance costs	11,500	115	177,225	—	—	—	177,340
Cashless exercise of warrants	1,955	20	(20)	—	—	—	—
Comprehensive income (loss):							
SFAS No. 133 (derivatives) transition adjustment	—	—	—	—	—	(589)	(589)
Amortization of SFAS No. 133 transition adjustment	—	—	—	—	—	123	123
Realized loss for termination of derivative instruments	—	—	—	—	—	466	466
Net loss	—	—	—	—	(4,386)	—	(4,386)
<b>Total comprehensive loss</b>							<b>(4,386)</b>
Balance, December 31, 2001	42,290	423	345,821	—	(74,339)	—	271,905
Issuance costs of common stock	—	—	(1,080)	—	—	—	(1,080)
Repurchase of common stock into treasury	—	—	—	(35,164)	—	—	(35,164)
Exercise of stock options	701	7	3,176	—	—	—	3,183
Income tax benefit from stock option exercises	—	—	3,750	—	—	—	3,750
Stock-based compensation	—	—	874	—	—	—	874
Net income	—	—	—	—	52,356	—	52,356
<b>Total comprehensive income</b>							<b>52,356</b>
Balance, December 31, 2002	42,991	430	352,541	(35,164)	(21,983)	—	295,824
Repurchase of common stock into treasury	—	—	(3,872)	(214,264)	—	—	(218,136)
Exercise of stock options	6	—	52	—	—	—	52
Stock-based compensation	—	—	874	—	—	—	874
Comprehensive income (loss):							
Foreign currency translation adjustment	—	—	—	—	—	(111)	(111)
Unrealized loss for derivative financial instruments	—	—	—	—	—	(198)	(198)
Net income	—	—	—	—	37,792	—	37,792
<b>Total comprehensive income</b>							<b>37,483</b>
Balance, December 31, 2003	42,997	\$ 430	\$ 349,595	\$ (249,428)	\$ 15,809	\$ (309)	\$ 116,097

See accompanying notes to consolidated financial statements.



**AMN HEALTHCARE SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Years Ended December 31,		
	2003	2002	2001
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 37,792	\$ 52,356	\$ (4,386)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,819	3,839	7,713
Loss on extinguishment of debt	—	—	6,996
Provision for bad debts	(315)	2,833	2,906
Noncash interest expense	550	370	4,381
Provision for (benefit from) deferred income taxes	6,040	7,295	(8,649)
Non-cash stock-based compensation	874	874	31,881
Stock-based compensation in connection with tender offer	1,128	—	—
Loss (gain) on disposal or sale of fixed assets	236	228	(2)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	17,379	(30,147)	(39,482)
Income taxes receivable and other current assets	(1,800)	668	(4,668)
Deposits	(223)	(732)	(515)
Accounts payable and accrued expenses	216	3,663	2,652
Accrued compensation and benefits	(2,371)	10,198	11,700
Income taxes payable	444	5,408	(7,548)
Due to former shareholder	—	—	(342)
Other liabilities	376	—	42
<b>Net cash provided by operating activities</b>	<b>65,145</b>	<b>56,853</b>	<b>2,679</b>
<b>Cash flows from investing activities:</b>			
Purchase of short-term investments	—	—	(16,314)
Proceeds from sale of short-term investments	—	16,314	—
Purchase of fixed assets	(13,013)	(4,328)	(4,497)
Cash paid for acquisitions, net of cash received	—	(9,534)	(12,971)
Cash paid under deferred purchase agreement	(1,000)	(1,000)	(1,000)
<b>Net cash provided by (used in) investing activities</b>	<b>(14,013)</b>	<b>1,452</b>	<b>(34,782)</b>
<b>Cash flows from financing activities:</b>			
Capital lease repayments	(304)	(244)	(94)
Proceeds from issuance of notes payable	145,000	—	18,000
Payment of financing costs	(4,628)	(101)	(1,261)
Payments on notes payable	(6,100)	—	(147,861)
Repurchase of common stock and options	(219,264)	(35,164)	—
Proceeds from issuance of common stock, net of issuance costs	52	2,103	177,340
Change in bank overdraft, net of effects of acquisitions	(1,225)	(418)	1,087
<b>Net cash provided by (used in) financing activities</b>	<b>(86,469)</b>	<b>(33,824)</b>	<b>47,211</b>
Effect of exchange rate changes on cash	(111)	—	—
Net increase (decrease) in cash and cash equivalents	(35,448)	24,481	15,108
Cash and cash equivalents at beginning of year	40,135	15,654	546
<b>Cash and cash equivalents at end of year</b>	<b>\$ 4,687</b>	<b>\$ 40,135</b>	<b>\$ 15,654</b>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest (net of \$0, \$0 and \$69 capitalized in 2003, 2002 and 2001, respectively)	\$ 2,003	\$ 254	\$ 10,149
Cash paid for income taxes	\$ 17,385	\$ 16,864	\$ 14,054
<b>Supplemental disclosures of noncash investing and financing activities:</b>			
Accrued interest on notes payable converted to notes payable	\$ —	\$ —	\$ 2,116
Fixed assets acquired through capital leases	\$ 207	\$ 1,307	\$ 142
Fair value of assets acquired in acquisitions, net of cash received	—	\$ 2,074	\$ 6,120
Goodwill	—	7,780	14,579
Noncompete covenants	—	208	200
Liabilities assumed	—	(528)	(4,787)
Earnout provision accrual	—	—	(3,141)
<b>Net cash paid for acquisitions</b>	<b>\$ —</b>	<b>\$ 9,534</b>	<b>\$ 12,971</b>

See accompanying notes to consolidated financial statements.

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003, 2002 and 2001**

**(1) Summary of Significant Accounting Policies**

**(a) General**

On April 19, 2001, AMN Holdings, Inc. changed its name to AMN Healthcare Services, Inc. (Services). Services was incorporated in Delaware on November 10, 1997. On December 4, 1997, Services acquired 80% of the outstanding common stock of AMN Healthcare, Inc. (AMN). On November 18, 1998, AMN purchased 100% of Medical Express, Inc. (MedEx). Pursuant to a share exchange completed on October 18, 1999, AMN became a wholly owned subsidiary of Services. On June 28, 2000, AMN purchased 100% of NursesRx, Inc. (NRx). On November 28, 2000, AMN purchased 100% of Preferred Healthcare Staffing, Inc. (PHS). On May 1, 2001, AMN purchased 100% of O'Grady-Peyton International (USA), Inc. (OGP). On July 1, 2001, MedEx and PHS were collapsed into AMN. Also on June 18, 2001, NRx changed its name to AMN Services, Inc., and then on October 16, 2001, AMN Services, Inc. changed its name to Worldview Healthcare, Inc. (Worldview). On March 1, 2002, International Healthcare Recruiters, Inc. (IHR) was formed. On April 23, 2002, AMN purchased 100% of Healthcare Resource Management Corporation (HRMC). On December 31, 2002, HRMC was collapsed into AMN. On July 9, 2003, AMN Staffing Services, Inc. (Staffing) was formed. Services, AMN, Worldview, OGP, IHR and Staffing collectively are referred to herein as the Company. The Company recruits nurses and allied health professionals and places them on temporary assignments at hospitals and other healthcare facilities throughout the United States.

**(b) Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Services, AMN, Worldview, OGP, IHR and Staffing. All significant intercompany balances and transactions have been eliminated in consolidation.

**(c) Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include currency on hand, deposits with financial institutions and highly liquid investments. At December 31, 2003 and 2002, the Company had \$2,024,000 and \$7,089,000 respectively, in deposits with major financial institutions that exceeded the federally insured limit of \$100,000.

**(d) Fixed Assets**

Furniture, equipment, leasehold improvements and software are stated at cost. Equipment acquired under capital leases is stated at the present value of the future minimum lease payments. Additions and improvements are capitalized and maintenance and repairs are expensed when incurred. Depreciation on furniture, equipment and software is calculated using the straight-line method based on the estimated useful lives of the related assets (generally three to five years). Leasehold improvements and equipment obtained under capital leases are amortized over the shorter of the term of the lease or the useful life. Amortization of equipment obtained under capital leases is included in depreciation expense in the accompanying consolidated financial statements.

**(e) Goodwill**

The excess of purchase price over the fair value of net assets of entities acquired is recorded as goodwill.

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards, "SFAS," No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires the use of the purchase method for all business combinations initiated after June 30, 2001

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS No. 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired.

The Company adopted the provisions of SFAS No. 142 as of January 1, 2002. Upon adoption of SFAS No. 142, the Company ceased amortization of goodwill and performed the two-step transitional impairment test. SFAS No. 142 requires the impairment test be applied to the relevant “reporting unit” which may differ from the specific entities acquired from which the goodwill arose. Due to the integrated nature of the Company’s operations and lack of differing economic characteristics among the Company’s subsidiaries, the entire Company was determined to be one single reporting unit.

As of the date of adoption of SFAS No. 142, the Company had unamortized goodwill in the amount of \$127,752,000 and unamortized identifiable intangible assets, excluding deferred financing costs, in the amount of \$871,000, all of which are subject to the transition provisions of SFAS Nos. 141 and 142. Amortization expense related to goodwill was \$5,253,000 for the year ended December 31, 2001. The Company adopted SFAS No. 142 as of January 1, 2002, performed the two-step transitional goodwill impairment test and determined there was no impairment as of January 1, 2002. The Company also re-evaluated the classifications of its existing intangible assets and goodwill in accordance with SFAS No. 141 and determined that the current classifications conform to the criteria in SFAS No. 141. At December 31, 2003 and 2002, the Company performed the annual impairment test using a market value method and determined there was no impairment of goodwill. See Note 5.

Prior to the adoption of SFAS No. 142, the Company amortized goodwill on a straight-line basis over the estimated period of future benefit of 25 years. The Company assessed the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life could be recovered through future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, was measured based on the projected discounted future operating cash flows using a discount rate reflecting the Company’s average cost of funds.

The following reconciliation adjusts net income (loss) for amortization expense related to goodwill that is no longer amortized under SFAS No. 142, net of tax (in thousands, except per share data):

	Years Ended December 31,		
	2003	2002	2001
Net income (loss), as reported	\$ 37,792	\$ 52,356	\$(4,386)
Goodwill amortization, net of tax	—	—	2,206
<b>Adjusted net income (loss)</b>	<b>\$ 37,792</b>	<b>\$ 52,356</b>	<b>\$(2,180)</b>
Basic net income (loss) per common share:			
Net income (loss) per common share, as reported	\$ 1.04	\$ 1.23	\$ (0.14)
Goodwill amortization per common share	—	—	0.07
<b>Adjusted net income (loss) per common share—basic</b>	<b>\$ 1.04</b>	<b>\$ 1.23</b>	<b>\$ (0.07)</b>
Diluted net income (loss) per common share:			
Diluted net income (loss) per common share, as reported	\$ 0.95	\$ 1.12	\$ (0.14)
Goodwill amortization per common share	—	—	0.07
<b>Adjusted net income (loss) per common share—diluted</b>	<b>\$ 0.95</b>	<b>\$ 1.12</b>	<b>\$ (0.07)</b>

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(f) Other Intangibles**

Other intangibles consist of debt issuance costs related to the Company's credit facility and noncompete covenants. Debt issuance costs are deferred and amortized to interest expense using the effective interest method over the respective term of the credit facility. Noncompete covenants were recorded as a result of acquisitions and are amortized over the life of the related agreements.

**(g) Insurance Reserves**

The Company maintains an accrual for self-insured health benefits provided to temporary healthcare professionals, which is included in accrued compensation and benefits in the consolidated balance sheets. The Company determines the adequacy of this accrual by evaluating historical experience and trends related to both health insurance claims and payments, information provided by the Company's insurance broker and industry experience and trends. As of December 31, 2003 and 2002, the Company had \$3.5 million and \$2.8 million, respectively, accrued for incurred but not reported health insurance claims. The Company also maintains accruals for professional liability and workers compensation self-insured retention limits. The adequacy of these accruals is determined by evaluating historical experience and trends, as well as through the use of independent actuarial studies. For the professional liability retention reserve, the Company estimated a liability range at December 31, 2003 of \$3.9 million to \$4.7 million. As of December 31, 2003 and 2002, the Company had \$3.9 million and \$0.8 million, respectively, accrued for professional liability retention, which is included in accounts payable and accrued expenses in our consolidated balance sheets. As of December 31, 2003 and 2002, the Company had \$7.6 million and \$7.5 million, respectively, accrued for workers compensation claims, which is included in accrued compensation and benefits in our consolidated balance sheets. These reserves are estimates based on management's assumptions. Actual results could differ from those estimates.

**(h) Allowance for Doubtful Accounts**

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments, which results in a provision for bad debt expense. The adequacy of this allowance is determined by evaluating historical annual write-offs in relation to revenue, as well as evaluating individual customer receivables, considering the financial condition of customers, delinquency trends, credit histories of customers and current economic conditions. The allowance for doubtful accounts is an estimate based on management's assumptions. Actual results could differ from those estimates.

**(i) Concentration of Credit Risk**

The majority of the Company's business activity is with hospitals located throughout the United States. Credit is extended based on the evaluation of each entity's financial condition, and collateral is generally not required. Credit losses have been within management's expectations. No single facility customer exceeded 10% of revenue for the years ended December 31, 2003, 2002 and 2001.

**(j) Revenue Recognition**

Revenue is recognized in the period in which services are provided. Provisions for discounts to customers and other adjustments are provided for in the period the related revenue is recorded.

**(k) Advertising Expenses**

Advertising costs are expensed as incurred.

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(l) Income Taxes**

The Company records income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

**(m) Impairment of Long-Lived Assets**

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell. Assets to be disposed of other than by sale are accounted for by revising the depreciable life of the assets.

**(n) Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, short-term held-to-maturity investments, accounts receivable, income taxes receivable, other current assets, deposits, bank overdraft, accounts payable and accrued expenses, accrued compensation and benefits and other current liabilities approximates their respective fair values due to the short-term nature and liquidity of these financial instruments. The carrying amounts of notes payable approximates their respective fair values due to bearing terms that are comparable to those available under current market conditions. Derivative financial instruments are recorded at fair value based on dealer quotes.

**(o) Common Stock Split**

On October 18, 2001, the Company effected a 43.10849-for-1 stock split of its common stock. All references in the consolidated financial statements to number of shares and options outstanding, price per share and per share amounts related to Services have been retroactively restated to reflect the stock split for all periods presented.

**(p) Stock-Based Compensation**

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, an Interpretation of APB Opinion No. 25, and EITF 00-23, *Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44*, to account for its stock option plans. Under this method, compensation expense for fixed plans is recognized only if, on the date of grant, the then current market price of the underlying stock exceeds the exercise price, and is recorded on a straight-line basis over the applicable vesting period. Compensation expense for variable plans is measured at the end of each reporting period until the related performance criteria are met and is measured based on the excess of the then current market price of the underlying stock over the exercise price. SFAS No. 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. See Note 10.

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table compares net income (loss) per share as reported by the Company to the pro forma amounts that would be reported had compensation expense been recognized for the Company's stock-based compensation plans in accordance with SFAS No. 123 (in thousands, except per share amounts):

	Years Ended December 31,		
	2003	2002	2001
<b>As reported:</b>			
Net income (loss)	\$ 37,792	\$ 52,356	\$ (4,386)
Stock-based employee compensation, net of tax	\$ 1,227	\$ 529	\$ 13,390
<b>Net income (loss) per common share:</b>			
Basic	\$ 1.04	\$ 1.23	\$ (0.14)
Diluted	\$ 0.95	\$ 1.12	\$ (0.14)
<b>Pro forma:</b>			
Net income (loss), as reported	\$ 37,792	\$ 52,356	\$ (4,386)
Additional pro forma stock-based employee compensation per SFAS 123, net of tax	2,062	1,542	2,259
Pro forma net income (loss)	\$ 35,730	\$ 50,814	\$ (6,645)
<b>Pro forma net income (loss) per common share:</b>			
Basic	\$ 0.98	\$ 1.19	\$ (0.22)
Diluted	\$ 0.90	\$ 1.09	\$ (0.22)

**(q) Net Income (Loss) per Common Share**

Basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted net loss per common share reflects the effects of potentially dilutive securities (common stock options and warrants).

Options to purchase 655,000 and 5,815,000 shares of common stock in 2003 and 2001, respectively, and warrants to purchase 2,518,000 shares of common stock in 2001 were not included in the calculations of diluted net income (loss) per common share because the effect of these instruments was anti-dilutive. There were no anti-dilutive options to purchase common stock at December 31, 2002, and there were no outstanding warrants at December 31, 2003, 2002 and 2001.

The following table sets forth the computation of basic and diluted net income (loss) per common share for the years ended December 31, 2003, 2002 and 2001, respectively (in thousands, except per share amounts):

	Years Ended December 31,		
	2003	2002	2001
Net income (loss)	\$ 37,792	\$ 52,356	\$ (4,386)
Weighted average common shares outstanding—basic	36,456	42,534	30,641
Basic net income (loss) per common share	\$ 1.04	\$ 1.23	\$ (0.14)
Weighted average common shares outstanding—basic	36,456	42,534	30,641
Plus dilutive stock options	3,329	4,271	—
Weighted average common shares outstanding—diluted	39,785	46,805	30,641
Diluted net income (loss) per common share	\$ 0.95	\$ 1.12	\$ (0.14)

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(r) Other Comprehensive Income**

SFAS No. 130, *Reporting Comprehensive Income*, establishes rules for the reporting of comprehensive income and its components. Comprehensive income (loss) includes items such as effective gains and losses on derivative contracts, foreign currency translation adjustments and unrealized holding gains and losses on available-for-sale securities. For the year ended December 31, 2003, comprehensive income was \$37,483,000 and included a \$198,000 unrealized loss on interest rate swap arrangements and a \$111,000 foreign currency translation adjustment loss. Comprehensive income (loss) for the years ended December 31, 2002 and 2001 was the same as the Company's net income (loss).

**(s) Derivative Instruments**

The Company adopted SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) on January 1, 2001. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Gains or losses resulting from changes in the values of those derivatives are accounted for depending upon the use of the derivative and whether it qualifies for hedge accounting. The Company uses derivative instruments to manage the fluctuations in cash flows resulting from interest rate risk on variable-rate debt financing. During 2001, these instruments include interest rate swap and cap agreements. The Company does not hold or issue derivative financial instruments for trading purposes. Prior to the adoption of SFAS No. 133, net gains or losses were recorded monthly on the date earned and were included in interest expense in the consolidated statements of operations. As the Company did not meet the documentation and administration requirements of SFAS No. 133, the Company determined it did not qualify for hedge accounting treatment on its 2001 derivatives.

Although the Company's 2001 interest rate swap and cap agreements were treated as cash flow hedges for economic purposes, the Company did not apply hedge accounting treatment. As SFAS No. 133 requires that all unrealized gains and losses on derivatives not qualifying for hedge accounting be recognized as a component of earnings, the Company accounted for all of its 2001 interest rate swap and cap agreements in this manner. Upon adoption of SFAS No. 133 on January 1, 2001, the Company recorded a transition adjustment in the amount of \$589,000 to accumulated other comprehensive loss per SFAS No. 133 transition guidelines, and began amortizing the transition adjustment to interest expense over the term of the related agreements of four years. Of the \$589,000 transition adjustment, \$123,000 was amortized to interest expense during fiscal 2001.

In November 2001, the Company paid \$896,000 to terminate all derivative instrument agreements. The unamortized value of the transition adjustment at the time the derivative instrument agreements were terminated of \$466,000 was reclassified from other comprehensive loss to interest expense. The Company recorded a net gain of \$140,000, through interest expense, on the change in fair value of its interest rate swap and cap contracts during the year ended December 31, 2001. The Company held no derivative instruments during the year ended December 31, 2002.

In October 2003, in connection with the amendment to the Company's amended and restated credit agreement, the Company entered into interest rate swap arrangements to minimize exposure to interest rate fluctuations on \$110 million of the outstanding variable rate debt under the amended credit facility. The Company has formally documented the hedging relationships and accounts for these arrangements as cash flow hedges. The Company recognizes all derivatives on the balance sheet at fair value based on dealer quotes. Gains or losses resulting from changes in the values of these arrangements are recorded in other comprehensive income until the hedged item is recognized in earnings. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. See Note 8.

**(t) New Accounting Pronouncements**

In April 2002, the Financial Accounting Standards Board, or "FASB," issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. The Company adopted SFAS No. 145 in 2003, and has reclassified an extraordinary loss recorded in 2001 on extinguishment of debt of \$5,455,000, net of tax benefit of \$2,810,000, accordingly. See Note 8.

In April 2003, the FASB issued SFAS No. 149, *Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The amendments set forth in SFAS No. 149 change financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 (with a few exceptions) and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. In conjunction with the financing of the tender offer on October 17, 2003, the Company entered into interest rate swap arrangements to minimize the Company's exposure to fluctuations in interest rates on \$110 million of its outstanding variable rate debt under the amended credit facility. The Company has formally documented the hedging relationships and accounts for these arrangements as cash flow hedges. Adoption of the provisions of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

**(u) Segment Information**

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenue and incur expenses, and about which separate financial information is regularly evaluated by the chief operating decision maker in deciding how to allocate resources. This statement allows aggregation of similar operating segments into a single operating segment if the businesses are considered similar under the criteria of this statement. For all periods presented, the Company believes it operated in a single segment, temporary healthcare staffing.

**(v) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

**(w) Reclassifications**

Certain amounts in the 2001 consolidated financial statements have been reclassified to conform to the 2003 and 2002 presentation.



**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(2) Common Stock Offering**

In November 2001, the Company issued 11,500,000 shares of its common stock (common stock offering) in an initial public offering and raised proceeds of \$177,340,000, net of issuance costs. The Company used the net proceeds from the common stock offering for general corporate purposes, which included the repayment of indebtedness of \$145,182,000 in November 2001. See Note 8.

**(3) Tender Offer**

On October 16, 2003, the Company completed a tender offer for \$180,000,000, or 9,722,222 shares of its outstanding common stock and 376,029 employee stock options at a price of \$18.00 per share. In connection with the tender offer, the Company amended its current credit facility. The tender offer was financed with the new \$130,000,000 term loan under the amended credit facility, \$15,000,000 of borrowings under the revolving credit facility and \$35,000,000 of cash on hand. The Company also incurred \$4,433,000 in transaction costs associated with the tender offer and the amendment of the credit facility, which were funded with cash on hand. See also Notes 8 and 12(a).

**(4) Acquisitions**

**(a) AMN**

On December 4, 1997, Services acquired 80% of the outstanding common stock of AMN for total consideration of \$33,513,000. The transaction has been accounted for in the accompanying consolidated financial statements using the purchase method of accounting, and the assets and liabilities of AMN were recorded at fair value as of the acquisition date. In connection with this transaction, the Company recorded goodwill of \$26,985,000. Also in connection with this transaction, the Company borrowed \$25,151,000 from a bank and incurred deferred financing costs totaling \$1,084,000, which were being amortized over the life of the loans until the 1999 Recapitalization when they were written off.

On November 18, 1998, in connection with the acquisition of MedEx, Services acquired an additional 2.77% of AMN for \$2,050,000.

**(b) MedEx**

On November 18, 1998, Services acquired 100% of the issued and outstanding stock of MedEx in exchange for 2,638,000 shares of Services common stock valued at \$3,448,000 and cash of \$16,362,000, for a total purchase price of \$19,809,000. The transaction was accounted for using the purchase method of accounting, and the assets and liabilities of MedEx were recorded at fair value as of the acquisition date. In connection with this transaction, the Company recorded goodwill of \$15,332,000.

**(c) NRx**

On June 28, 2000, AMN acquired 100% of the issued and outstanding stock of NRx. The acquisition was recorded using the purchase method of accounting. Thus, the results of operations from NRx are included in the Company's consolidated financial statements from the acquisition date. The purchase price to the former shareholders of NRx included a payment of \$16,181,000 in cash and \$3,000,000 to be paid in three equal installments of \$1,000,000 each on June 29, 2001, June 28, 2002 and June 30, 2003, provided that the terms of the agreement are met. Since the deferred payment in the amount of \$3,000,000 is not interest bearing, AMN recorded the present value of the future payments on the date of the acquisition utilizing an interest rate of 9.5%. The Company paid the first, second and third installments, each of \$1,000,000, during 2001, 2002, and 2003, respectively.

**AMN HEALTHCARE SERVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

AMN acquired NRx's assets of \$4,239,000, assumed its liabilities of \$1,610,000, and recorded goodwill in the amount of \$15,484,000. AMN allocated \$836,000 of the purchase price to the noncompete covenant, which is being amortized over the four-year life of the agreement. As of December 31, 2003 and 2002, the unamortized cost of the covenant was \$103,000 and \$312,000, respectively.

**(d) PHS**

On November 28, 2000, AMN acquired 100% of the issued and outstanding stock of PHS. The acquisition was recorded using the purchase method of accounting. Thus, the results of operations from PHS are included in the Company's consolidated financial statements from the acquisition date. The purchase price to the former stockholders of PHS included a payment of \$75,041,000 in cash (net of cash received), of which \$4,000,000 was delivered to an escrow agent on the acquisition date in accordance with the purchase agreement. The funds held in escrow were released to the former shareholder in the amount of \$2,000,000 on May 31, 2001 and \$2,000,000 on December 31, 2001.

AMN acquired PHS's assets of \$12,405,000 (net of cash received), assumed its liabilities of \$3,083,000, and recorded goodwill in the amount of \$65,831,000. AMN allocated \$200,000 to the noncompete covenant, which is being amortized over the four-year life of the agreement. As of December 31, 2003 and 2002, the unamortized cost of this covenant was \$45,000 and \$95,000, respectively.

**(e) OGP**

On May 1, 2001, AMN acquired 100% of the issued and outstanding stock of OGP, a healthcare staffing company specializing in the recruitment of nurses domestically and from English-speaking foreign countries. The acquisition was recorded using the purchase method of accounting. Thus, the results of operations from OGP are included in the Company's consolidated financial statements from the acquisition date. The purchase price paid to the former stockholders of OGP included a payment of \$12,971,000 in cash (net of cash received) and \$800,000 which was delivered to an escrow agent on the acquisition date in accordance with the purchase agreement. The funds held in escrow were released to the former shareholders on November 1, 2002. The OGP acquisition was financed by an \$18,000,000 term loan. This loan was paid in full in November 2001 with the proceeds from the common stock offering. See Note 8.

Included in the asset purchase agreement was an earn-out provision whereby AMN agreed to pay the OGP selling stockholders additional consideration contingent on certain annual revenue results of OGP. The Company accrued \$3,141,000 for this earn-out provision and recorded this amount as additional goodwill and other current liabilities as of December 31, 2001. The Company paid this amount in full in 2002.

AMN acquired OGP's assets of \$6,120,000 (net of cash received), assumed its liabilities of \$4,787,000, and recorded goodwill in the amount of \$14,579,000, including the \$3,141,000 earn-out provision accrual. AMN allocated \$200,000 of the purchase price to the noncompete agreement, which is being amortized over the four-year life of the agreement. As of December 31, 2003 and 2002, the unamortized cost of this covenant was \$67,000 and \$117,000, respectively.

**(f) HRMC**

On April 23, 2002, AMN acquired 100% of the issued and outstanding stock of HRMC, a nationwide provider of travel healthcare staffing, in order to increase the Company's presence in the Southeast. The acquisition was recorded using the purchase method of accounting. Thus, the results of operations from HRMC are included in the Company's consolidated financial statements from the acquisition date. The purchase price included a payment of \$8,561,000 in cash (net of \$199,000 cash received), and \$400,000 which was delivered to an escrow agent on the acquisition date. The funds held in escrow were released to the former shareholders on April 23, 2003.

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

AMN acquired HRMC's assets of \$2,070,000 (net of cash received), assumed its liabilities of \$524,000 and recorded goodwill in the amount of \$7,379,000 which is tax deductible in its entirety. AMN allocated \$200,000 of the purchase price to the noncompete agreement, which is being amortized over the four-year life of the agreement. As of December 31, 2003 and 2002, the unamortized cost of this covenant was \$116,000 and \$166,000, respectively.

**(g) Pro Forma Consolidated Results of Operations**

The following summary presents pro forma consolidated results of operations for the years ended December 31, 2003, 2002 and 2001 as if the OGP and HRMC acquisitions described above had occurred on January 1, 2001. The following unaudited pro forma financial information gives effect to certain adjustments, including the amortization of intangible assets and interest expense on acquisition debt and depreciation on fixed assets. The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisitions been consummated as of the date indicated, nor are they necessarily indicative of future operating results.

	(Unaudited) Years Ended December 31,	
	2002	2001
	(in thousands, except per share amounts)	
Revenue	\$ 780,414	\$ 541,438
Income from operations	\$ 86,642	\$ 18,772
Net income (loss)	\$ 52,586	\$ (3,945)
Basic net income (loss) per common share	\$ 1.24	\$ (0.13)
Diluted net income (loss) per common share	\$ 1.12	\$ (0.13)
Weighted average shares—basic	42,534	30,641
Weighted average shares—diluted	46,805	30,641

**(5) Goodwill and Identifiable Intangible Assets**

As of the date of adoption of SFAS No. 142 on January 1, 2002, the Company had unamortized goodwill in the amount of \$127,752,000 and unamortized identifiable intangible assets, excluding deferred financing costs, in the amount of \$871,000, all of which were subject to the transition provisions of SFAS Nos. 141 and 142. Amortization expense related to goodwill was \$5,253,000 for the year ended December 31, 2001. The Company adopted SFAS No. 142 as of January 1, 2002, performed the two-step transitional goodwill impairment test and determined there was no impairment as of January 1, 2002. The Company also re-evaluated the classifications of its existing intangible assets and goodwill in accordance with SFAS No. 141 and determined that the current classifications conformed to the criteria in SFAS No. 141. At December 31, 2003 and 2002, the Company performed the annual impairment test using a market value method and determined there was no impairment of Goodwill.

As of December 31, 2003 and 2002, the Company had the following acquired intangible assets with definite lives (in thousands):

	December 31, 2003		December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Noncompete agreements	\$ 1,544	\$ (1,214)	\$ 1,544	\$ (834)
Deferred financing costs	5,361	(752)	733	(246)
Total	\$ 6,905	\$ (1,966)	\$ 2,277	\$ (1,080)

## AMN HEALTHCARE SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Aggregate amortization expense for the intangible assets presented in the above table was \$886,000 and \$612,000 for the years ended December 31, 2003 and 2002, respectively. Amortization of deferred financing costs is included in interest expense. Estimated future aggregate amortization expense of intangible assets as of December 31, 2003 is as follows (in thousands):

	<u>Amount</u>
Year ending December 31, 2004	\$ 1,222
Year ending December 31, 2005	\$ 1,036
Year ending December 31, 2006	\$ 985
Year ending December 31, 2007	\$ 969
Year ending December 31, 2008	\$ 727

As of December 31, 2003 and 2002, the Company had unamortized goodwill of \$135.5 million.

**(6) Balance Sheet Details**

The consolidated balance sheets detail is as follows as of December 31, 2003 and 2002 (in thousands):

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Accounts receivable, net:		
Accounts receivable	\$ 120,734	\$ 138,766
Allowance for doubtful accounts	(3,342)	(4,310)
Accounts receivable, net	<u>\$ 117,392</u>	<u>\$ 134,456</u>
Fixed assets, net:		
Furniture and equipment	\$ 11,883	\$ 8,690
Software	13,074	7,046
Leasehold improvements	4,313	1,197
Accumulated depreciation and amortization	29,270 (10,856)	16,933 (7,064)
Fixed assets, net	<u>\$ 18,414</u>	<u>\$ 9,869</u>
Goodwill, net:		
Goodwill	\$ 145,984	\$ 145,984
Accumulated amortization	(10,452)	(10,452)
Goodwill, net	<u>\$ 135,532</u>	<u>\$ 135,532</u>
Other intangibles, net:		
Noncompete covenants	\$ 1,544	\$ 1,544
Deferred financing costs	5,361	733
Accumulated amortization	6,905 (1,966)	2,277 (1,080)
Other intangibles, net	<u>\$ 4,939</u>	<u>\$ 1,197</u>

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	December 31,	
	2003	2002
Accounts Payable and accrued expenses:		
Trade and accrued accounts payable	\$ 3,205	\$ 3,091
Accrued corporate insurance	4,648	2,075
Other	5,101	7,572
	<u>\$ 12,954</u>	<u>\$ 12,738</u>
Accrued compensation and benefits:		
Accrued payroll	\$ 14,810	\$ 15,105
Accrued bonuses	2,615	6,152
Accrued health insurance	4,171	3,076
Accrued workers compensation	7,602	7,533
Other	2,919	2,622
	<u>\$ 32,117</u>	<u>\$ 34,488</u>

**(7) Income Taxes**

The provision (benefit) for income taxes for the years ended December 31, 2003, 2002 and 2001 consists of the following (in thousands):

	December 31,		
	2003	2002	2001
Current income taxes:			
Federal	\$ 14,816	\$ 23,320	\$ 6,032
State	3,013	3,637	1,475
	<u>17,829</u>	<u>26,957</u>	<u>7,507</u>
Deferred income taxes:			
Federal	5,591	5,519	(7,566)
State	449	1,776	(1,275)
	<u>6,040</u>	<u>7,295</u>	<u>(8,841)</u>
	<u>\$ 23,869</u>	<u>\$ 34,252</u>	<u>\$(1,334)</u>

The Company's income tax expense (benefit) differs from the amount that would have resulted from applying the federal statutory rate of 35% to pretax income (loss) because of the effect of the following items during the years ended December 31, 2003, 2002 and 2001 (in thousands):

	December 31,		
	2003	2002	2001
Tax expense (benefit) at federal statutory rate	\$ 21,582	\$ 30,313	\$(2,002)
State taxes, net of federal benefit	2,132	3,518	130
Nondeductible interest	—	—	168
Nondeductible amortization	—	—	127
Other, net	155	421	243
	<u>\$ 23,869</u>	<u>\$ 34,252</u>	<u>\$(1,334)</u>

## AMN HEALTHCARE SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities are presented below as of December 31, 2003 and 2002 (in thousands):

	December 31,	
	2003	2002
Deferred tax assets:		
Stock compensation	\$ 16,893	\$17,812
State taxes	863	886
Allowance for doubtful accounts	1,263	1,566
Other	161	249
Total deferred tax assets	\$ 19,180	\$20,513
Deferred tax liabilities:		
Intangibles	\$ (9,021)	\$ (5,198)
Fixed assets, net	(2,826)	(1,583)
Accrued expenses, net	(1,262)	(1,621)
Total deferred tax liabilities	\$ (13,109)	\$ (8,402)
Net deferred tax assets	\$ 6,071	\$ 12,111

Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets and, accordingly, has not provided a valuation allowance.

**(8) Notes Payable and Related Derivative Instruments and Credit Agreement**

In November 2001, the Company entered into an Amended and Restated Credit Agreement (as amended, the Credit Agreement) with various lenders. This Credit Agreement provided for borrowings up to \$50 million under a revolving credit agreement, which included up to \$10 million of borrowings under letter of credit obligations and up to \$10 million of borrowings under swingline loans. The Credit Agreement had an original maturity date of November 16, 2004.

In January 2003, the Company amended its Credit Agreement by increasing the funds available for borrowing under the revolving credit agreement to \$75 million and extending the maturity date through December 31, 2006.

In October 2003, the Company amended its Credit Agreement to provide for a new \$130 million term loan, increase funds available for borrowing under letter of credit obligations to \$15 million and extend the expiration date through October 2, 2008. Borrowings are secured by the Company's pledged assets of facilities and properties owned or leased and the Company's capital stock. The term loan is due in eighteen consecutive quarterly installments beginning with a principal payment of \$1,500,000 on June 30, 2004, with payments escalating to \$53,000,000 on June 30, 2008, and maturing on September 30, 2008. The term loan bears interest, due quarterly and paid in arrears, at LIBOR plus 3.0% or the higher of the federal funds rate plus 2.5% and the prime lending rate plus 2.0%, as selected by the Company. The revolving credit agreement provides for loans bearing interest at variable rates based on LIBOR plus 1.75% to 3.25% or the higher of the federal funds rate plus 1.25% to 2.75% and the prime lending rate plus 0.75% to 2.25%, as selected by the Company and considering the Company's leverage ratio. The revolving credit agreement carries an unused fee of 0.5% per annum, and there are no mandatory reductions in the revolving commitment. The swingline loans bear interest, due quarterly, at the higher of the federal funds rate plus 0.5% and the prime lending rate. The Company's amended and restated Credit Agreement contains a minimum fixed charge coverage ratio, a maximum leverage ratio and other customary covenants.

**AMN HEALTHCARE SERVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Effective October 31, 2003, the Company established a \$3,683,000 standby letter of credit as collateral in relation to its workers compensation insurance agreement. This letter of credit bears interest at a fixed rate of 1.75% to 3.25% based on the Company's leverage ratio.

All outstanding debt at December 31, 2000 was repaid in full in fiscal 2001. Of the \$147,861,000 of payments made on notes payable during fiscal 2001, \$145,182,000 was paid with proceeds from the November 2001 common stock offering. In connection with the pay-off of these notes, the Company wrote off the following: \$2,054,000 of unamortized discount on senior subordinated notes, \$4,894,000 of loan fees and \$320,000 of deferred financing costs. The Company also incurred a pre-payment penalty of \$997,000 in connection with the extinguishment of debt.

As of December 31, 2002, there was no outstanding Notes Payable balance. Notes Payable as of December 31, 2003 consist of the following:

\$75,000,000 Revolver due October 2, 2008 with variable interest rates. The weighted average interest rate at December 31, 2003 was 4.4%.	\$ 8,900
\$130,000,000 Term Loan due September 30, 2008 with variable interest rates. The weighted average interest rate at December 31, 2003 was 5.0%	130,000
	<hr/>
Total notes payable	138,900
Less current portion of notes payable, including Revolver	(13,400)
	<hr/>
Long-term portion of notes payable	\$125,500
	<hr/>

Annual maturities of long-term debt are as follows (in thousands):

2004	\$ 13,400
2005	6,000
2006	6,000
2007	6,000
2008	107,500
	<hr/>
	\$138,900
	<hr/>

The Company is required to make mandatory prepayments on the term loan within ninety days after the end of each fiscal year, commencing with the fiscal year ending December 31, 2004. The prepayment is equal to 50% of the Company's excess cash flow (as defined in the Credit Agreement), less any voluntary prepayments made during the fiscal year. The mandatory prepayment amount, if any, is applied ratably to the remaining quarterly amortization payments.

The Company's outstanding debt instruments at December 31, 2003 were secured by all assets of the Company and the common stock of its subsidiaries. The Credit Agreement contains various financial ratio covenants, as well as restrictions on assumption of additional indebtedness, declaration of dividends, dispositions of assets, consolidation into another entity, capital expenditures in excess of specified amounts and allowable investments. The Company was in compliance with all covenants and ratios at December 31, 2003.

In October 2003, the Company entered into interest rate swap agreements as a means to hedge its interest rate exposure on debt instruments. In addition, the Company's Credit Agreement requires that the Company maintain protection against fluctuations in interest rates providing coverage for at least 50% of the term loan portion of the credit facility through January 1, 2006. At December 31, 2003, the Company had three interest rate

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

swaps outstanding with major financial institutions that effectively converted variable-rate debt to fixed rate. The swaps had notional amounts of \$30,000,000, \$50,000,000 and \$30,000,000, whereby the Company pays fixed rates of 1.42%, 2.06% and 2.65%, respectively, and receives a floating three-month LIBOR. The agreements expire in September 2004, 2005 and 2006, respectively, and no initial investments were made to enter into these agreements. At December 31, 2003, our interest rate swap agreements had a value of \$198,000, which is included in other liabilities in the accompanying consolidated balance sheet.

In November 2001 the Company terminated three interest rate swap agreements and an interest rate cap agreement that were used as a means to hedge against exposure on debt instruments. The interest rate cap agreement had an initial cost of \$289,000 that was included in deferred financing costs and amortized over the three-year term of the agreement until the termination date.

**(9) Retirement Plans**

The Company maintains the Healthcare Staffing Retirement Savings Plan (the AMN Plan), a profit sharing plan that complies with the Internal Revenue Code Section (IRC) 401(k) provisions. The AMN Plan covers substantially all employees that meet certain age and other eligibility requirements. An annual discretionary matching contribution is determined by the Board of Directors each year and may be up to a maximum 6% of eligible compensation paid to all participants during the plan year. The amount of the employer contributions was \$2,982,000, \$2,683,000 and \$1,139,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Employees of PHS became eligible under the AMN Plan at the date of acquisition.

OGP and HRMC maintained separate salary deferral plans. Both plans complied with the Internal Revenue Code Section 401(k) provisions and covered substantially all employees that met certain age and service requirements. No matches were provided under the OGP plan. Effective January 1, 2002, OGP employees were eligible to participate in the AMN Plan and the OGP plan was terminated. Under the HRMC plan, the Company matched 25% of the employee contributions up to a maximum 6% of eligible compensation paid to all participants during the plan year. Effective January 1, 2003, HRMC employees were eligible to participate in the AMN Plan and the HRMC plan was terminated.

In January 2002, the Company established the Executive Nonqualified Excess Plan of AMN Healthcare, Inc. (the Executive Plan), a deferred compensation plan that replaces the AMN Plan for certain executives and which complies with the IRC 401(k) provisions. The Executive Plan covers employees that meet certain eligibility requirements. An annual discretionary matching contribution is determined by the Board of Directors each year. The amount of the employer contributions was \$54,000 and \$61,000 for the years ended December 31, 2003 and 2002, respectively.

**(10) Stockholders' Equity**

**(a) Stock Option Plans**

In July 2001, the 2001 stock option plan (2001 Plan) was established to provide a means to attract and retain employees. The maximum number of options to be granted under the plan is 2,178,000. Subject to certain conditions, unless the plan is otherwise modified, a maximum of 544,500 options may be granted to any one person in any calendar year. Exercise prices will be determined at the time of grant and will be no less than fair market value. Unless otherwise provided at the time of the grant, the options shall vest and become exercisable in increments of 25% on each of the first four anniversaries of the date of grant. The plan expires on the tenth anniversary of the effective date. At December 31, 2003 and 2002, respectively, 113,481 and 875,981 shares of common stock were reserved for future grants related to the 2001 Plan.



AMN HEALTHCARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In November 1999, Services established two performance stock option plans (the 1999 Plans) to provide for the grant of options to upper management of AMN. Options for a maximum of 4,040,000 shares of common stock were authorized at an exercise price of \$3.80 per option for grants within 120 days of the 1999 Recapitalization and not less than the fair market value in the case of subsequent grants. Options under the plan vest 25% per year beginning in 2000 if certain earnings performance criteria are met and the grantee remains an employee. If the Company does not meet the performance criteria for the particular year, that portion of the option, which was eligible to become vested, will terminate. Options that vest expire in nine to ten years from the grant date. During 2000, options for an additional 1,493,000 shares were reserved under the 1999 Plans. At December 31, 2003 and 2002, 351,274 shares of common stock were reserved for future grants related to the 1999 Plans. Pursuant to the amended provisions of the 1999 Plans, all options previously granted under the 1999 Plans became fully vested upon the November 2001 common stock offering and are exercisable over a four-year term.

In accordance with the provisions of SFAS No. 123, the Company applies APB Opinion No. 25 and related interpretations in accounting for its 1999 Plans and 2001 Plan. Accordingly, because the 1999 Plans were performance based and certain grants under the 2001 Plan were granted at less than fair market value, the Company recorded compensation expense of \$874,000, \$874,000 and \$31,881,000 in 2003, 2002 and 2001, respectively. Additionally, in 2003, the Company recorded compensation expense of \$1,128,000 associated with the settlement of options in the tender offer. See Note 3.

A summary of stock option activity under the 1999 Plans and the 2001 Plan are as follows:

	1999 Plans		2001 Plan	
	Options Outstanding	Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Exercise Price
Outstanding at December 31, 2000	5,182,000	\$ 4.55	—	\$ —
Granted	—	—	633,000	9.46
Outstanding at December 31, 2001	5,182,000	4.55	633,000	9.46
Granted	—	—	669,000	22.86
Exercised	(604,000)	3.80	(98,000)	9.09
Outstanding at December 31, 2002	4,578,000	4.65	1,204,000	16.93
Granted	—	—	777,000	9.68
Exercised (1)	(316,000)	3.80	(66,000)	9.38
Canceled	—	—	(14,000)	22.62
Outstanding at December 31, 2003	4,262,000	\$ 4.71	1,901,000	\$ 14.19
Exercisable at December 31, 2003	3,926,000	\$ 4.54	315,000	\$ 16.52

(1) Includes 376,000 options at a weighted average exercise price of \$4.70 purchased in connection with the self-tender offer in October 2003.

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table summarizes options outstanding and exercisable as of December 31, 2003:

	Options Outstanding				Options Exercisable		
	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
<b>1999 Plans</b>	\$ 3.80	2,918,000	6	\$ 3.80	2,918,000	6	\$ 3.80
	6.68	1,344,000	7	6.68	1,008,000	7	6.68
		4,262,000			3,926,000		
<b>2001 Plan</b>	\$ 9.09	390,000	7	\$ 9.09	116,000	7	\$ 9.09
	9.68	777,000	9	9.68	—	—	—
	11.92	79,000	8	11.92	36,000	8	11.92
	20.88	37,000	9	20.88	9,000	9	20.88
	22.98	618,000	8	22.98	154,000	8	22.98
		1,901,000			315,000		

Under SFAS No. 123, the weighted average per share fair value of the options granted during 2003, 2002 and 2001 was \$5.21, \$12.45 and \$9.90, respectively, on the date of grant. Fair value under SFAS No. 123 is determined using the Black-Scholes option-pricing model with the following assumptions:

	2003	2002	2001
Expected life	5	5	5
Risk-free interest rate	2.62%	2.78%	4.39%
Volatility	61%	62%	60%
Dividend yield	0%	0%	0%

**(b) Common Stock Warrants**

On November 19, 1999, in connection with the issuance of its \$20,000,000 senior subordinated notes, the Company issued warrants to purchase 2,518,000 shares of its common stock at \$3.80 per share. These warrants were exercisable upon issuance and were to expire at the earlier of a qualified public stock offering, as defined, or November 19, 2009. The fair value of the warrants of \$3,000,000 was based upon a third-party valuation and was recorded as a discount to the related senior subordinated notes payable. This discount was amortized to interest expense over the term of the notes using the effective interest method. Discount amortization was \$420,000 in 2001. In conjunction with the November 2001 public common stock offering, these warrants were converted into 1,955,000 shares of common stock. The warrants were converted using the market value of the stock at the first date of the common stock offering of \$17 per share, and 563,000 warrants were forfeited in this cashless exercise.

**(c) Stockholders' Agreement**

The stockholders of the Company entered into various stockholders' agreements and a registration rights agreement conferring certain rights and restrictions, including among others: restrictions on transfers of shares, "tag along" and "drag along" rights, rights to acquire shares and piggyback registration rights, as defined in the agreement. These agreements each terminated upon the November 2001 common stock offering pursuant to the terms of such agreements and were replaced with a single registration rights agreement with similar terms among the same parties.

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(d) Stock Repurchase Program**

In November 2002, our board of directors approved a stock repurchase program authorizing us to repurchase up to \$100 million of our common stock on the open market at prevailing market prices from time to time through December 2003. Stock repurchases are subject to prevailing market conditions and other considerations, including limitations under applicable securities laws. Under the terms of the program we repurchased 5,154,200 shares at an average purchase price of \$14.29 per share, or an aggregate of \$73.7 million, including 3,076,100 shares repurchased during 2003 at an average share price of \$12.51 per share, or an aggregate of \$38.5 million.

**(11) Related Party Transactions**

**(a) Majority stockholder**

During 2003 and 2002, the Company paid an affiliate of the controlling stockholders \$30,000 and \$15,000, respectively, for out of pocket expenses related to meetings of the Board of Directors, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. In April 2002, the Company paid this affiliate \$139,000 for advisory services related to the acquisition of HRMC, which is included in transaction costs for the year ended December 31, 2002 in the accompanying consolidated statements of operations. During 2001, the Company paid this affiliate for management advisory services provided to the Company in the amount of \$113,000, which is included in selling, general and administrative expenses. At the completion of the Company's common stock offering in November 2001, the Company paid a fee to this affiliate of \$1,955,000 and the agreement governing these fees was then terminated. This advisory fee is included as transaction costs for the year ended December 31, 2001 in the accompanying consolidated statement of operations.

**(b) Minority stockholders**

The Company received services from an advertising agency that was 30% owned by a minority stockholder during 2002 and 2001. The minority stockholder sold its interest in the advertising agency during March 2002. The Company incurred expenses of \$15,000 from January 1, 2002 through the date of the sale in March 2002 and \$39,000 during the year ended December 31, 2001 related to these services.

**(12) Commitments and Contingencies**

**(a) Legal**

The Company is party to legal actions in the normal course of business. In the opinion of management and legal counsel, the outcome of legal actions will not have a material impact on the financial position, liquidity or results of operations of the Company.

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(b) Leases**

The Company leases certain office facilities and equipment under various operating and capital leases over the next five years and thereafter. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2003 are as follows (in thousands):

	<u>Capital Leases</u>	<u>Operating Leases</u>
Years ending December 31:		
2004	\$ 384	\$ 9,329
2005	367	8,589
2006	367	8,356
2007	142	8,855
2008	10	8,607
Thereafter	—	87,960
	<u>1,270</u>	<u>131,696</u>
Total minimum lease payments	\$ 1,270	\$ 131,696
	<u>(111)</u>	
Less amount representing interest (at rates ranging from 4.75% to 9.19%)	(111)	
	<u>1,159</u>	
Present value of minimum lease payments	1,159	
Less current installments of obligations under capital leases	(335)	
	<u>824</u>	
Obligations under capital leases, excluding current installments	\$ 824	

Fixed assets obtained through capital leases as of December 31, 2003 and 2002 are as follows (in thousands):

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Fixed assets	\$ 1,639	\$ 1,432
Accumulated amortization	(508)	(196)
	<u>1,131</u>	<u>1,236</u>
Fixed assets, net	\$ 1,131	\$ 1,236

Obligations under capital leases are included in other current and other long-term liabilities, respectively, in the accompanying financial statements. Rent expense was \$8,295,000, \$7,090,000 and \$3,282,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

**AMN HEALTHCARE SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(13) Quarterly Financial Data (Unaudited)**

	Year Ended December 31, 2003				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(a)	Total Year
	(In thousands, except per share data)				
Revenue	\$ 199,765	\$ 183,364	\$ 171,463	\$ 159,617	\$ 714,209
Gross profit	\$ 44,751	\$ 41,991	\$ 39,025	\$ 36,390	\$ 162,157
Net income	\$ 12,399	\$ 11,190	\$ 9,286	\$ 4,917	\$ 37,792
Net income per share:					
Basic	\$ 0.31	\$ 0.29	\$ 0.25	\$ 0.16	\$ 1.04
Diluted	\$ 0.29	\$ 0.27	\$ 0.22	\$ 0.15	\$ 0.95
	Year Ended December 31, 2002				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(In thousands, except per share data)				
Revenue	\$ 173,956	\$ 191,235	\$ 203,445	\$ 207,047	\$ 775,683
Gross profit	\$ 42,203	\$ 46,386	\$ 49,697	\$ 50,497	\$ 188,783
Net income	\$ 11,177	\$ 12,481	\$ 14,292	\$ 14,406	\$ 52,356
Net income per share:					
Basic	\$ 0.26	\$ 0.29	\$ 0.33	\$ 0.34	\$ 1.23
Diluted	\$ 0.24	\$ 0.26	\$ 0.30	\$ 0.31	\$ 1.12

- (a) The fourth quarter of 2003 was impacted by \$1.2 million of stock-based compensation (including related payroll taxes) and \$1.9 million of interest expense associated with the Company's tender offer. See Note 3.

**Item 9. *Changes In and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

**Item 9A. *Controls and Procedures***

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of December 31, 2003 were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms.

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART III**

**Item 10. *Directors and Executive Officers of the Registrant***

Information required by this item, other than the following information concerning our Code of Ethics for Senior Financial Officers, is incorporated by reference to the Proxy Statement to be distributed in connection with our annual meeting of stockholders to be held on May 18, 2004.

We have adopted a Code of Ethics for Senior Financial Officers that applies to our principal financial officer and comptroller or principal accounting officer, or any person performing similar functions, and is published on our website at [www.amnhealthcare.com/investors](http://www.amnhealthcare.com/investors). We intend to publish any amendment to, or waiver from, the Code of Ethics for Senior Financial Officers on our website.

**Item 11. *Executive Compensation***

Information required by this item is incorporated by reference to the Proxy Statement to be distributed in connection with our annual meeting of stockholders to be held on May 18, 2004.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management***

Information required by this item is incorporated by reference to the Proxy Statement to be distributed in connection with our annual meeting of stockholders to be held on May 18, 2004.

**Item 13. *Certain Relationships and Related Transactions***

Information required by this item is incorporated by reference to the Proxy Statement to be distributed in connection with our annual meeting of stockholders to be held on May 18, 2004.

**Item 14. *Principal Accountant Fees and Services***

Information required by this item is incorporated by reference to the Proxy Statement to be distributed in connection with our annual meeting of stockholders to be held on May 18, 2004.

**PART IV****Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

- (a) Documents filed as part of the report.
- (1) Consolidated Financial Statements
- Independent Auditors' Report
  - Consolidated Balance Sheets
  - Consolidated Statements of Operations
  - Consolidated Statements of Stockholders' Equity and Comprehensive Income
  - Consolidated Statements of Cash Flows
  - Notes to Consolidated Financial Statements
- (2) Financial Statement Schedules
- Schedule II—Valuation and Qualifying Accounts
- (3) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of AMN Healthcare Services, Inc.***
3.2	Amended and Restated By-laws of AMN Healthcare Services, Inc.*
4.1	Specimen Stock Certificate.***
4.2	Registration Rights Agreement, dated as of November 16, 2001, among the Registrant, HWH Capital Partners, L.P., HWH Nightingale Partners, L.P., HWP Nightingale Partners II, L.P., HWP Capital Partners II, L.P., BancAmerica Capital Investors SBIC I, L.P., the Francis Family Trust dated May 24, 1996 and Steven Francis.***
10.1	Stock Purchase Agreement, dated as of April 3, 2001, by and between AMN Healthcare, Inc., Joseph O'Grady and Teresa O'Grady-Peyton.**
10.2	Amended and Restated Credit Agreement, dated as of November 16, 2001, by and among AMN Healthcare, Inc., as borrower, AMN Healthcare Services, Inc., Worldview Healthcare, Inc. and O'Grady-Peyton International (USA), Inc., as guarantors, and the lenders party thereto.***
10.3	First Amendment, dated as of April 8, 2002, to the Amended and Restated Credit Agreement, dated as of November 16, 2001, by and among AMN Healthcare, Inc. as borrower, the Registrant, Worldview Healthcare, Inc. and O'Grady-Peyton International (USA), Inc., as guarantors, and the lenders party thereto.****
10.4	Second Amendment, dated as of May 2, 2002, to the Amended and Restated Credit Agreement, dated as of November 16, 2001, by and among AMN Healthcare, Inc. as borrower, the Registrant, Worldview Healthcare, Inc. and O'Grady-Peyton International (USA), Inc., as guarantors, and the lenders party thereto.*****
10.5	Third Amendment, dated as of November 8, 2002, to the Amended and Restated Credit Agreement, dated as of November 16, 2001, by and among AMN Healthcare, Inc. as borrower, the Registrant, Worldview Healthcare, Inc. and O'Grady-Peyton International (USA), Inc., as guarantors, and the lenders party thereto (incorporated by reference to the exhibits filed with the Registrant's quarterly report for the quarter ended September 30, 2002).

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<u>Exhibit Number</u>	<u>Description</u>
10.6	Fourth Amendment, dated as of January 10, 2003, to the Amended and Restated Credit Agreement, dated as of November 16, 2001, by and among AMN Healthcare, Inc. as borrower, the Registrant, Worldview Healthcare, Inc. and O'Grady-Peyton International (USA), Inc., as guarantors, and the lenders party thereto (incorporated by reference to the exhibits filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
10.7	Fifth Amendment, dated as of October 2, 2003, to the Amended and Restated Credit Agreement, dated as of November 16, 2001, by and among AMN Healthcare, Inc. as borrower, the Registrant, Worldview Healthcare, Inc. and O'Grady-Peyton International (USA), Inc., as guarantors, and the lenders party thereto (incorporated by reference to the exhibits filed with the Registrant's Amendment No. 2 to Schedule TO (Tender Offer Statement) filed with the Commission on October 2, 2003 (File No. 005-77951)).
10.7	Office Lease, dated as of April 2, 2002, between Kilroy Realty, L.P. and AMN Healthcare, Inc.*****
10.8	Stock Purchase Agreement, dated as of April 17, 2002, by and among AMN Healthcare, Inc., Sandra Gilbert, Robert Gilbert, Jr., Suzette Marek, Robert Gilbert III and Benjamin Gilbert.*****
10.9	AMN Holdings, Inc. 1999 Performance Stock Option Plan, as amended. (Management Contract or Compensatory Plan or Arrangement)**
10.10	AMN Holdings, Inc. 1999 Super-Performance Stock Option Plan, as amended. (Management Contract or Compensatory Plan or Arrangement)**
10.11	AMN Healthcare Services, Inc. 2001 Stock Option Plan. (Management Contract or Compensatory Plan or Arrangement)**
10.12	Employment and Non-Competition Agreement, dated as of November 19, 1999, among AMN Holdings, Inc., AMN Acquisition Corp. and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**
10.13	Amendment No. 1, dated as of September 25, 2003, to the Employment and Non-Competition Agreement, dated November 19, 1999 among AMN Holdings, Inc., AMN Acquisition Corp. and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)*
10.14	Executive Severance Agreement, dated as of November 19, 1999, between AMN Healthcare, Inc. and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.15	Executive Severance Agreement, dated as of May 21, 2001, between AMN Healthcare, Inc. and Donald Myll. (Management Contract or Compensatory Plan or Arrangement)**
10.16	1999 Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, between the Registrant and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**
10.17	Amendment, dated as of December 13, 2000, to the 1999 Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, between the Registrant and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**
10.18	Amendment No. 2, dated as of July 24, 2001, to the 1999 Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, as amended December 13, 2000, between the Registrant and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**
10.19	1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, between the Registrant and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**



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<u>Exhibit Number</u>	<u>Description</u>
10.20	Amendment, dated as of December 13, 2000, to the Super-Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, between the Registrant and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**
10.21	Amendment No. 2, dated as of July 24, 2001, to the 1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, as amended December 13, 2000, between the Registrant and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**
10.22	1999 Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.23	Amendment, dated as of December 13, 2000, to the 1999 Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.24	Amendment No. 2, dated as of July 24, 2001, to the 1999 Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, as amended December 13, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.25	1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.26	Amendment, dated as of December 13, 2000, to the Super-Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.27	Amendment No. 2, dated as of July 24, 2001, to the 1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of November 19, 1999, as amended December 13, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.28	1999 Performance Stock Option Plan Stock Option Agreement, dated as of November 20, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.29	Amendment, dated as of July 24, 2001, to the 1999 Performance Stock Option Plan Stock Option Agreement, dated as of November 20, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.30	1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of November 20, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.31	Amendment, dated as of July 24, 2001, to the 1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of November 20, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.32	1999 Performance Stock Option Plan Stock Option Agreement, dated as of December 13, 2000, between the Registrant and Steven Francis.**
10.33	Amendment, dated as of July 24, 2001, to the 1999 Performance Stock Option Plan Stock Option Agreement, dated as of December 13, 2000, between the Registrant and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**

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<u>Exhibit Number</u>	<u>Description</u>
10.34	1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of December 13, 2000, between the Registrant and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**
10.35	Amendment, dated as of July 24, 2001, to the 1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of December 13, 2000, between the Registrant and Steven Francis. (Management Contract or Compensatory Plan or Arrangement)**
10.36	1999 Performance Stock Option Plan Stock Option Agreement, dated as of December 13, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.37	Amendment, dated as of July 24, 2001, to the 1999 Performance Stock Option Plan Stock Option Agreement, dated as of December 13, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.38	1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of December 13, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.39	Amendment, dated as of July 24, 2001, to the 1999 Super-Performance Stock Option Plan Stock Option Agreement, dated as of December 13, 2000, between the Registrant and Susan Nowakowski. (Management Contract or Compensatory Plan or Arrangement)**
10.40	2001 Stock Option Plan Stock Option Agreement, dated as of May 21, 2001, between the Registrant and Donald Myll.**
10.41	AMN Healthcare Services, Inc. 2001 Senior Management Bonus Plan. (Management Contract or Compensatory Plan or Arrangement)**
10.42	AMN Healthcare, Inc. Executive Nonqualified Excess Plan (Management Contract or Compensatory Plan or Arrangement).****
10.43	Amendment to AMN Healthcare, Inc. Executive Nonqualified Excess Plan, dated as of January 1, 2002 (Management Contract or Compensatory Plan or Arrangement).****
10.44	2001 Stock Option Plan Stock Option Agreement, dated as of January 17, 2002, between the Registrant and Steven Francis (Management Contract or Compensatory Plan or Arrangement).****
10.45	2001 Stock Option Plan Stock Option Agreement, dated as of January 17, 2002, between the Registrant and Susan Nowakowski (Management Contract or Compensatory Plan or Arrangement).****
10.46	2001 Stock Option Plan Stock Option Agreement, dated as of January 17, 2002, between the Registrant and Donald Myll (Management Contract or Compensatory Plan or Arrangement).****
10.47	2001 Stock Option Plan Stock Option Agreement, dated as of January 17, 2002, between the Registrant and Michael Gallagher (Management Contract or Compensatory Plan or Arrangement).****
10.48	2001 Stock Option Plan Stock Option Agreement, dated as of January 17, 2002, between the Registrant and William Miller (Management Contract or Compensatory Plan or Arrangement).****
10.49	2001 Stock Option Plan Stock Option Agreement, dated as of January 17, 2002, between the Registrant and Andrew Stern (Management Contract or Compensatory Plan or Arrangement).****

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<u>Exhibit Number</u>	<u>Description</u>
10.50	Amended and Restated Financial Advisory Agreement, dated as of November 16, 2001, between the Registrant and Haas Wheat & Partners, L.P.***
21.1	Subsidiaries of the Registrant.*
23.1	Independent Auditors' Report on Schedule and Consent.*
31.1	Certification by Steven C. Francis pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*
31.2	Certification by Donald R. Myll pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*
32.1	Certification by Steven C. Francis pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification by Donald R. Myll pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

\* Filed herewith.

\*\* Incorporated by reference to the exhibits filed with the Registrant's Registration Statement on Form S-1 (File No. 333-65168).

\*\*\* Incorporated by reference to the exhibits filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

\*\*\*\* Incorporated by reference to the exhibits filed with the Registrant's Registration Statement on Form S-1 (File No. 333-86952).

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMN HEALTHCARE SERVICES, INC.

/s/ STEVEN C. FRANCIS

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Steven C. Francis

Date: March 11, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated and on the 11th day of March, 2004.

/s/ ROBERT B. HAAS

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**Robert B. Haas**  
Chairman of the Board and Director

/s/ STEVEN C. FRANCIS

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**Steven C. Francis**  
Director and Chief Executive Officer

/s/ MICHAEL R. GALLAGHER

---

**Michael R. Gallagher**  
Director

/s/ WILLIAM F. MILLER III

---

**William F. Miller III**  
Director

/s/ ANDREW M. STERN

---

**Andrew M. Stern**  
Director

/s/ DOUGLAS D. WHEAT

---

**Douglas D. Wheat**  
Director

/s/ SUSAN R. NOWAKOWSKI

---

**Susan R. Nowakowski**  
Director, President, and Chief Operating Officer

/s/ DONALD R. MYLL

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**Donald R. Myll**  
Chief Accounting Officer and Chief Financial Officer

**AMN HEALTHCARE SERVICES, INC.**  
**VALUATION AND QUALIFYING ACCOUNTS**  
**For Years Ended December 31, 2000, 2001 and 2002**

<u>Allowance for Doubtful Accounts</u>	<u>Balance at the Beginning of Year</u>	<u>Provision</u>	<u>Provision from Acquisitions</u>	<u>Deductions(*)</u>	<u>Balance at End of Year</u>
			(in thousands)		
Year ended December 31, 2001	\$ 930	\$ 2,906	\$ 171	\$ (765)	\$ 3,242
Year ended December 31, 2002	\$ 3,242	\$ 2,833	\$ 0	\$ (1,765)	\$ 4,310
Year ended December 31, 2003	\$ 4,310	\$ (315)	\$ 0	\$ (653)	\$ 3,342

(\*) Accounts written off

See accompanying independent auditors' report.

AMENDED AND RESTATED  
BY-LAWS  
of  
AMN HEALTHCARE SERVICES, INC.  
(A Delaware Corporation)

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ARTICLE 1

DEFINITIONS

As used in these By-laws, unless the context otherwise requires, the term:

1.1 "Assistant Secretary" means an Assistant Secretary of the Corporation.

1.2 "Assistant Treasurer" means an Assistant Treasurer of the Corporation.

1.3 "Board" means the Board of Directors of the Corporation.

1.4 "Business Day" means any day that is not a Saturday, a Sunday or a day on which banks are authorized to close in the City of New York, State of New York.

1.5 "By-laws" means the by-laws of the Corporation, as amended from time to time.

1.6 "Certificate of Incorporation" means the certificate of incorporation of the Corporation, as amended, supplemented or restated from time to time.

1.7 "Chairman" means the Chairman of the Board.

1.8 "Chief Executive Officer" means the Chief Executive Officer.

1.9 "Corporation" means AMN Healthcare Services, Inc.

1.10 "Directors" means directors of the Corporation.

1.11 "Entire Board" means all Directors of the Corporation then in office, whether or not present at a meeting of the Board, but disregarding vacancies.

1.12 "General Corporation Law" means the General Corporation Law of the State of Delaware, as amended from time to time.

1.13 "Office of the Corporation" means the principal place of business of the Corporation, anything in Section 131 of the General Corporation Law to the contrary notwithstanding.

1.14 "President" means the President of the Corporation.

1.15 "Secretary" means the Secretary of the Corporation.

1.16 "Stockholders" means stockholders of the Corporation.

1.17 "Treasurer" means the Treasurer of the Corporation.

1.18 "Vice President" means a Vice President of the Corporation.

## ARTICLE 2

### STOCKHOLDERS

2.1 Place of Meetings. Every meeting of Stockholders shall be held at a place, within or without the State of Delaware, as may be designated by resolution of the Board from time to time.

2.2 Annual Meeting. If required by applicable law, a meeting of Stockholders shall be held annually for the election of Directors and the transaction of other business at such hour and on such Business Day as may be designated by resolution of the Board from time to time.

2.3 Other Special Meetings. Unless otherwise prescribed by applicable law, special meetings of Stockholders may be called at any time by only the Board or the Chairman and may not be called by any other person or persons. Business transacted at any special meeting of Stockholders shall be limited to the purpose stated in the notice.

2.4 Fixing Record Date. For the purpose of (a) determining the Stockholders entitled (i) to notice of or to vote at any meeting of Stockholders or any adjournment thereof, (ii) to express consent to corporate action in writing without a meeting, unless otherwise provided in the Certificate of Incorporation or (iii) to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock; or (b) any other lawful action, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date was adopted by the Board and which record date shall not be (x) in the case of clause (a)(i) above, unless otherwise required by applicable law, more than sixty (60) nor less than ten (10) days before the date of such meeting, (y) in the case of clause (a)(ii) above, more than ten (10) days after the date upon which the resolution fixing the record date was adopted by the Board and (z) in the case of clause (a)(iii) or (b) above, more than sixty (60) days prior to such action. If no such record date is fixed:

2.4.1 the record date for determining Stockholders entitled to notice of or to vote at a meeting of Stockholders shall be at the close of business on the Business Day next preceding the Business Day on which notice is given,



or, if notice is waived, at the close of business on the Business Day next preceding the Business Day on which the meeting is held;

2.4.2 the record date for determining Stockholders entitled to express consent to corporate action in writing without a meeting (unless otherwise provided in the Certificate of Incorporation), when no prior action by the Board is required by applicable law, shall be the first day on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of Stockholders are recorded; and when prior action by the Board is required by applicable law, the record date for determining Stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board adopts the resolution taking such prior action; and

2.4.3 the record date for determining Stockholders for any purpose other than those specified in Sections 2.4.1 and 2.4.2 hereof shall be at the close of business on the Business Day on which the Board adopts the resolution relating thereto.

When a determination of Stockholders entitled to notice of or to vote at any meeting of Stockholders has been made as provided in this Section 2.4, such determination shall apply to any adjournment thereof unless the Board fixes a new record date for the adjourned meeting. Delivery made to the Corporation's registered office in accordance

with Section 2.4.2 shall be by hand or by certified or registered mail, return receipt requested.

2.5 Notice of Meetings of Stockholders. Whenever under the provisions of applicable law, the Certificate of Incorporation or these By-laws, Stockholders are required or permitted to take any action at a meeting, written notice shall be given stating the place, if any, date and hour of the meeting, the means of remote communications, if any, by which Stockholders and proxyholders may be deemed to be present in person and vote at such meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by applicable law, the Certificate of Incorporation or these By-laws, the notice of any meeting shall be given, not less than ten (10) nor more than sixty (60) days before the date of the meeting, to each Stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, with postage prepaid, directed to the Stockholder at his or her address as it appears on the records of the Corporation. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the Corporation that the notice required by this Section 2.5 has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time, place, if any, and the means of remote communications, if any, by which Stockholders and proxyholders may be deemed to be present in person and vote at such meeting are announced at the meeting at which the adjournment is taken, and at the adjourned meeting any business may be transacted that might have been transacted at the meeting as originally called. If, however, the

adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Stockholder of record entitled to vote at the meeting.

2.6 Waivers of Notice. Whenever the giving of any notice to Stockholders is required by applicable law, the Certificate of Incorporation or these By-laws, a waiver thereof, in writing, signed by the person entitled to said notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the event as to which such notice is required, shall be deemed equivalent to notice. Attendance by a Stockholder at a meeting shall constitute a waiver of notice of such meeting except when the Stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting has not been lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by applicable law, the Certificate of Incorporation or these By-laws.

2.7 List of Stockholders. The Secretary shall prepare and make, at least ten (10) days before every meeting of Stockholders, a complete list of the Stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each Stockholder and the number of shares registered in the name of each Stockholder. Such list shall be open to the examination of any Stockholder, the Stockholder's agent or attorney, at the Stockholder's expense, for any purpose germane to the meeting for a period of at least ten (10) days prior to the meeting, either on a reasonably accessible electronic network as permitted by applicable law (provided that

the information required to gain access to the list is provided with the notice of the meeting) or during ordinary business hours at the Office of the Corporation at the election of the Secretary. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to Stockholders of the Corporation. If the meeting is to be held at a place, the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any Stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any Stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Upon the willful neglect or refusal of the Directors to produce such a list at any meeting for the election of Directors held at a place, or to open such a list to examination on a reasonably accessible electronic network during any meeting for the election of Directors held solely by means of remote communication, they shall be ineligible for election to any office at such meeting. The stock ledger shall be the only evidence as to who are the Stockholders entitled to examine the stock ledger, the list of Stockholders or the books of the Corporation, or to vote in person or by proxy at any meeting of Stockholders.

2.8 Quorum of Stockholders; Adjournment. Except as otherwise provided by applicable law, the Certificate of Incorporation or these By-laws, at each meeting of Stockholders, the presence in person or by proxy of the holders of a majority of all outstanding shares of stock entitled to vote at the meeting of Stockholders shall constitute a quorum for the transaction of any business at such meeting, except that,

where a separate vote by a class or series or classes or series is required, a quorum shall consist of no less than a majority of the shares of such class or series or classes or series. When a quorum is present to organize a meeting of Stockholders and for purposes of voting on any matter, the quorum for such meeting or matter is not broken by the subsequent withdrawal of any Stockholders. In the absence of a quorum, the holders of a majority of the shares of stock present in person or represented by proxy at any meeting of Stockholders, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place. Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of Directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

2.9 Voting; Proxies. Unless otherwise provided in the Certificate of Incorporation, every Stockholder entitled to vote at any meeting of Stockholders shall be entitled to one vote for each share of stock held by such Stockholders which has voting power upon the matter in question. If the Certificate of Incorporation provides for more or less than one (1) vote for any share on any matter, each reference in the By-laws or the General Corporation Law to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock. The provisions of Sections 212 and 217 of the General Corporation Law shall apply in determining whether any shares of stock may be voted and the persons, if any, entitled to vote such shares; but the Corporation shall be protected in assuming that the persons in whose names shares of

stock stand on the stock ledger of the Corporation are entitled to vote such shares. At any meeting of Stockholders (at which a quorum was present to organize the meeting), all matters, except as otherwise provided by applicable law, pursuant to any regulation applicable to the Corporation or its securities or by the Certificate of Incorporation or by these By-laws, shall be decided by the affirmative vote of a majority in voting power of shares present in person or represented by proxy and entitled to vote thereon. At all meetings of Stockholders for the election of Directors, a plurality of the votes cast shall be sufficient to elect. Except as otherwise provided by the Certificate of Incorporation, each Stockholder entitled to vote at a meeting of Stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such Stockholder by proxy. The validity and enforceability of any proxy shall be determined in accordance with Section 212 of the General Corporation Law. A Stockholder may revoke any proxy that is not irrevocable by attending the meeting and voting in person or by delivering to the Secretary an instrument in writing revoking the proxy or by delivering a proxy in accordance with applicable law bearing a later date to the Secretary.

2.10 Voting Procedures and Inspectors of Election at Meetings of Stockholders. The Board, in advance of any meeting of Stockholders, may, and shall, if required by applicable law, appoint one or more inspectors to act at the meeting and make a written report thereof. The Board may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If required by applicable law, if no

inspector or alternate is able to act at a meeting, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. At the meeting the inspectors shall (a) ascertain the number of shares outstanding and the voting power of each, (b) determine the shares represented at the meeting and the validity of proxies and ballots, (c) count all votes and ballots, (d) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (e) certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties. Unless otherwise provided by the Board, the date and time of the opening and the closing of the polls for each matter upon which the Stockholders will vote at a meeting shall be determined by the person presiding at the meeting and shall be announced at the meeting. No ballot, proxies or votes, or any revocation thereof or change thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery of the State of Delaware upon application by a Stockholder shall determine otherwise. In determining the validity and counting of proxies and ballots cast at any meeting of Stockholders, the inspectors may consider such information as is permitted by applicable law. No person who is a candidate for office at an election may serve as an inspector at such election.

#### 2.11 Conduct of Meetings.

(a) The Board may adopt by resolution such rules and regulations for the conduct of the meeting of Stockholders as it shall deem appropriate. At each meeting of Stockholders, the Chairman, or in the absence of the Chairman or if one shall

not have been appointed, the Chief Executive Officer, or if the Chief Executive Officer is absent, the President, or if the President is absent, the Vice President and in case more than one (1) Vice President shall be present, that Vice President designated by the Board (or in the absence of any such designation, the most senior Vice President, based on age, present), shall act as chairman of the meeting. Except to the extent inconsistent with any rules and regulations for the conduct of the meeting of Stockholders adopted by the Board, the chairman of the meeting shall have the right and authority to convene and to adjourn the meeting, to prescribe such rules and regulations for the conduct of the meeting and to do such acts as, in the judgment of the chairman of the meeting, are appropriate for the proper conduct of the meeting. The Secretary, or in his or her absence, one of the Assistant Secretaries, shall act as secretary of the meeting. In the absence of the Secretary or one of the Assistant Secretaries, the chairman of the meeting shall appoint a person to act as secretary of the meeting. In case none of the officers above designated to act as chairman or secretary of the meeting, respectively, shall be present, a chairman or a secretary of the meeting, as the case may be, shall be chosen by resolution of the Board, and in case the Board has not so acted, by a majority of the votes cast at such meeting by the holders of shares of stock present in person or represented by proxy and entitled to vote at the meeting.

(b) Only persons who are nominated in accordance with the following procedures shall be eligible for election as Directors. Nominations of persons for election to the Board may be made at an annual meeting or special meeting of Stockholders only (i) by or at the direction of the Board, (ii) by any nominating



committee designated by the Board or (iii) by any Stockholder of the Corporation who was a Stockholder of record of the Corporation at the time the notice provided for in this Section 2.11 is delivered to the Secretary, who is entitled to vote for the election of Directors at the meeting and who complies with the applicable provisions of Section 2.11(d) hereof (persons nominated in accordance with (iii) above are referred to herein as "Stockholder nominees").

(c) At any annual meeting of Stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting of Stockholders, (i) business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board, (ii) otherwise properly brought before the meeting by or at the direction of the Board or (iii) otherwise properly brought before the meeting by a Stockholder who was a Stockholder of record of the Corporation at the time the notice provided for in this Section 2.11 is delivered to the Secretary, who is entitled to vote at the meeting and who complies with the applicable provisions of Section 2.11(d) hereof (business brought before the meeting in accordance with (iii) above is referred to as "Stockholder business").

(d) In addition to any other applicable requirements, (i) all nominations of Stockholder nominees must be made by timely written notice given by or on behalf of a Stockholder of record of the Corporation (the "Notice of Nomination") and (ii) all proposals of Stockholder business must be made by timely written notice given by

or on behalf of a Stockholder of record of the Corporation (the "Notice of Business"). To be timely, the Notice of Nomination or the Notice of Business, as the case may be, must be delivered personally to, or mailed to, and received at the Office of the Corporation, addressed to the attention of the Secretary, (i) in the case of the nomination of a person for election to the Board, or business to be conducted, at an annual meeting of Stockholders, not less than sixty (60) days nor more than one hundred and thirty (130) days prior to the first anniversary of the date on which the Corporation first mailed its proxy materials for the prior year's annual meeting of Stockholders, except in the case of the Corporation's first annual meeting of Stockholders as a public corporation, in which case a Notice of Nomination or Notice of Business, as the case may be, shall be delivered not less than seventy (70) nor more than one hundred and thirty (130) days prior to the scheduled date of the annual meeting, regardless of any postponement, deferral or adjournment of that meeting to a later date, or (ii) in the case of the nomination of a person for election to the Board at a special meeting of Stockholders, not less than the later of (a) ninety (90) nor more than one hundred and thirty (130) days prior to such special meeting or (b) the tenth day following the day on which the notice of such special meeting was made by mail or Public Disclosure; provided, however, that in the event that the annual meeting of Stockholders is advanced or delayed by more than thirty (30) days from the first anniversary of the prior year's annual meeting of Stockholders or if no annual meeting was held during the prior year, notice by the Stockholder to be timely must be received (i) no earlier than one hundred and thirty (130) days prior to such annual meeting and no later than ninety (90) days prior to such annual meeting or (ii) no later than ten (10) days following the day the notice of such annual meeting was made by

mail or Public Disclosure. In no event shall the public disclosure of an adjournment or postponement of an annual or special meeting commence a new time period (or extend any time period) for the giving of the Notice of Nomination or Notice of Business, as applicable.

The Notice of Nomination shall set forth (i) the name and record address of the Stockholder and/or beneficial owner proposing to make nominations, as they appear on the Corporation's books, (ii) the class and number of shares of stock held of record and beneficially by such Stockholder and/or such beneficial owner, (iii) a representation that the Stockholder is a holder of record of stock of the Corporation entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose such nomination, (iv) all information regarding each Stockholder nominee that would be required to be set forth in a definitive proxy statement filed with the Securities and Exchange Commission pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, or any successor statute thereto (the "Exchange Act"), and the written consent of each such Stockholder nominee to being named in a proxy statement as a nominee and to serve if elected and (v) all other information that would be required to be filed with the Securities and Exchange Commission if the person proposing such nominations were a participant in a solicitation subject to Section 14 of the Exchange Act or any successor statute thereto. The Corporation may require any Stockholder nominee to furnish such other information as it may reasonably require to determine the eligibility of such Stockholder nominee to serve as a Director of the Corporation. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that any

proposed nomination of a Stockholder nominee was not made in accordance with the foregoing procedures and, if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

The Notice of Business shall set forth (i) the name and record address of the Stockholder and/or beneficial owner proposing such Stockholder business, as they appear on the Corporation's books, (ii) the class and number of shares of stock held of record and beneficially by such Stockholder and/or such beneficial owner, (iii) a representation that the Stockholder is a holder of record of stock of the Corporation entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose such business, (iv) a brief description of the Stockholder business desired to be brought before the annual meeting, the text of the proposal (including the text of any resolutions proposed for consideration and, in the event that such business includes a proposal to amend the By-laws, the language of the proposed amendment, and the reasons for conducting such Stockholder business at the annual meeting, (v) any material interest of the Stockholder and/or beneficial owner in such Stockholder business and (vi) all other information that would be required to be filed with the Securities and Exchange Commission if the person proposing such Stockholder business were a participant in a solicitation subject to Section 14 of the Exchange Act. Notwithstanding anything in these By-laws to the contrary, no business shall be conducted at the annual meeting of Stockholders except in accordance with the procedures set forth in this Section 2.11(d), provided, however, that nothing in this Section 2.11(d) shall be deemed to preclude discussion by any Stockholder of any business properly brought before the annual

meeting in accordance with said procedure. Nevertheless, it is understood that Stockholder business may be excluded if the exclusion of such Stockholder business is permitted by the applicable regulations of the Securities and Exchange Commission. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting, that business was not properly brought before the meeting in accordance with the foregoing procedures and, if he should so determine, he shall declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Notwithstanding the foregoing provisions of this Section 2.11, if the Stockholder (or a qualified representative of the Stockholder) does not appear at the annual or special meeting of Stockholders to present the Stockholder nomination or the Stockholder business, as applicable, such nomination shall be disregarded and such business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

For purposes of this Section 2.11, "Public Disclosure" shall be deemed to be first made when disclosure of such date of the annual or special meeting of Stockholders, as the case may be, is first made in a press release reported by the Dow Jones News Services, Associated Press or comparable national news service, or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act or any successor statute thereto.

Notwithstanding the foregoing, a Stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.11. Nothing in this Section 2.11 shall be deemed to affect any rights of the holders of any series of preferred stock of the Corporation pursuant to any applicable provision of the Certificate of Incorporation.

2.12 Order of Business. The order of business at all meetings of Stockholders shall be as determined by the chairman of the meeting.

2.13 Written Consent of Stockholders Without a Meeting. Unless otherwise provided in the Certificate of Incorporation, any action required by the General Corporation Law to be taken at any annual or special meeting of Stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered (by hand or by certified or registered mail, return receipt requested) to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of Stockholders are recorded. Every written consent shall bear the date of signature of each Stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days of the earliest dated consent delivered in the manner required by this Section 2.13, written consents signed by a sufficient number of holders to take action are delivered to the Corporation as aforesaid. Prompt notice of the taking of

the corporate action without a meeting by less than unanimous written consent shall, to the extent required by applicable law, be given to those Stockholders who have not consented in writing and who, if the action had been taken at a meeting, had been Stockholders the date that written consents signed by a sufficient number of holders to take the action were delivered to the Corporation. Written consent may take the form of a cablegram, telegram or other electronic transmission to the extent such written consent complies with the applicable provisions of the General Corporation Law.

In the event of the delivery to the Corporation of a written consent, the Secretary shall provide for the safe-keeping of such written consent and shall promptly conduct such ministerial review of the sufficiency of the written consent and of the validity of the action to be taken by written consent as he deems necessary or appropriate, including, without limitation, whether the holders of a number of shares having the requisite voting power to authorize or take the action specified in the written consent have given consent; provided, however, that if the corporate action to which the written consent relates is the removal or replacement of one or more members of the Board, the Secretary shall promptly designate two persons, who shall not be members of the Board, to serve as inspectors with respect to such written consent and such inspectors shall discharge the functions of the Secretary under this Section 2.13. If after such investigation the Secretary or the inspectors, as the case may be, shall determine that the written consent is valid and that the action therein specified has been validly authorized, that fact shall forthwith be certified on the records of the Corporation kept for the purpose of recording the proceedings of meetings of Stockholders, and the written consent shall be filed in such records, at which time the written consent shall become effective as

Stockholder action. In conducting the investigation required by this Section 2.13, the Secretary or the inspectors, as the case may be, may, at the expense of the Corporation, retain special legal counsel and any other necessary or appropriate professional advisors, and such other personnel as they may deem necessary or appropriate to assist them, and shall be fully protected in relying in good faith upon the opinion of such counsel or advisors.

The record date for determining Stockholders entitled to express consent to corporate action in writing without a meeting shall be as fixed by the Board or as otherwise established under this Section 2.13. Any person seeking to have the Stockholders authorize or take corporate action by written consent without a meeting shall, by written notice addressed to the Secretary and delivered to the Corporation, request that a record date be fixed for such purpose. The Board may fix a record date for such purpose which shall be no more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board and shall not precede the date such resolution is adopted. If the Board fails, within ten (10) days after the Corporation receives such notice, to fix a record date for such purpose, the record date shall be the day on which the first written consent is delivered to the Corporation in the manner described above unless prior action by the Board is required under the General Corporation Law, in which event the record date shall be at the close of business on the Business Day on which the Board adopts the resolution taking such prior action.



ARTICLE 3

DIRECTORS

3.1 General Powers. Except as otherwise provided in the Certificate of Incorporation, the business and affairs of the Corporation shall be managed by or under the direction of the Board. The Board may adopt such rules and regulations, not inconsistent with the Certificate of Incorporation or these By-laws or applicable law, as it may deem proper for the conduct of its meetings and the management of the Corporation.

3.2 Number; Qualification; Term of Office. The Board shall consist of one or more members, the number thereof to be determined from time to time by resolution of the Board. Directors need not be Stockholders. Each Director shall hold office until a successor is duly elected and qualified or until the Director's death, resignation or removal.

3.3 Election. Directors shall, except as otherwise required by applicable law or by the Certificate of Incorporation, be elected by a plurality of the votes cast at a meeting of Stockholders by the holders of shares present in person or represented by proxy at the meeting and entitled to vote in the election.

3.4 Newly Created Directorships and Vacancies. Unless otherwise provided by applicable law or the Certificate of Incorporation and subject to the rights of the holders of any series of Preferred Stock then outstanding, any newly created Directorships resulting from any increase in the authorized number of Directors or any vacancies in the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled by a majority vote of the remaining Directors then in office although less than a quorum, or by a sole remaining Director, and

Directors so chosen shall hold office until the expiration of the term of office of the Director whom he or she has replaced or until his or her successor is duly elected and qualified. No decrease in the number of Directors constituting the Board shall shorten the term of any incumbent Director. When any Director shall give notice of resignation effective at a future date, the Board may fill such vacancy to take effect when such resignation shall become effective in accordance with the General Corporation Law.

3.5 Resignation. Any Director may resign at any time upon notice given in writing or by electronic transmission to the Corporation. Such resignation shall take effect at the time therein specified, and, unless otherwise specified in such resignation, the acceptance of such resignation shall not be necessary to make it effective.

3.6 Removal. Subject to the provisions of Section 141(k) of the General Corporation Law, any or all of the Directors may be removed with or without cause by vote of the holders of a majority of the shares then entitled to vote at an election of Directors.

3.7 Compensation. Each Director, in consideration of his or her service as such, shall be entitled to receive from the Corporation such amount per annum or such fees for attendance at Directors' meetings, or both, as the Board may from time to time determine, together with reimbursement for the reasonable out-of-pocket expenses, if any, incurred by such Director in connection with the performance of his or her duties. Each Director who shall serve as a member of any committee of Directors in consideration of serving as such shall be entitled to such additional amount per annum or such fees for attendance at committee meetings, or both, as the Board may from time to time determine, together with reimbursement for the reasonable out-of-pocket expenses,

if any, incurred by such Director in the performance of his or her duties. Nothing contained in this Section 3.7 shall preclude any Director from serving the Corporation or its subsidiaries in any other capacity and receiving proper compensation therefor.

3.8 Regular Meetings. Regular meetings of the Board may be held without notice at such times and at such places within or without the State of Delaware as shall from time to time be determined by the Board.

3.9 Special Meetings. Special meetings of the Board may be held at any time or place, within or without the State of Delaware, whenever called by the Chairman, the Chief Executive Officer or the Secretary or by any two or more Directors then serving as Directors on at least twenty-four hours' notice to each Director given by one of the means specified in Section 3.12 hereof other than by mail, or on at least three (3) days' notice if given by mail. Special meetings shall be called by the Chairman, Chief Executive Officer or Secretary in like manner and on like notice on the written request of any two or more of the Directors then serving as Directors.

3.10 Telephone Meetings. Directors or members of any committee designated by the Board may participate in a meeting of the Board or of such committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 3.10 shall constitute presence in person at such meeting.

3.11 Adjourned Meetings. A majority of the Directors present at any meeting of the Board, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place. At least one (1) day's notice of any adjourned meeting of the Board shall be given to each Director whether or

not present at the time of the adjournment, if such notice shall be given by one of the means specified in Section 3.12 hereof other than by mail, or at least three (3) days' notice if by mail. Any business may be transacted at an adjourned meeting that might have been transacted at the meeting as originally called.

3.12 Notice Procedure. Subject to Sections 3.9 and 3.15 hereof, whenever, under the provisions of applicable law, the Certificate of Incorporation or these By-laws, notice is required to be given to any Director, such notice shall be deemed given effectively if given in person or by telephone, by mail addressed to such Director at such Director's address as it appears on the records of the Corporation, with postage thereon prepaid, or by telegram, telex, telecopy or other means of electronic transmission.

3.13 Waiver of Notice. Whenever the giving of any notice to Directors is required by applicable law, the Certificate of Incorporation or these By-laws, a waiver thereof, in writing, signed by the person or persons entitled to said notice, whether before or after the event as to which such notice is required, shall be deemed equivalent to notice. Attendance by a Director at a meeting shall constitute a waiver of notice of such meeting except when the Director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting has not been lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Directors or a committee of Directors need be specified in any written waiver of notice unless so required by applicable law, the Certificate of Incorporation or these By-laws.

3.14 Organization. At each meeting of the Board, the Chairman, or in the absence of the Chairman, the President, or in the absence of the President, a chairman

chosen by a majority of the Directors present, shall preside. The Secretary shall act as secretary at each meeting of the Board. In case the Secretary shall be absent from any meeting of the Board, an Assistant Secretary shall perform the duties of secretary at such meeting; and in the absence from any such meeting of the Secretary and all Assistant Secretaries, the person presiding at the meeting may appoint any person to act as secretary of the meeting.

3.15 Quorum of Directors. The presence in person of a majority of the Entire Board shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Board.

3.16 Action by Majority Vote. Except as otherwise expressly required by applicable law, the Certificate of Incorporation or these By-laws, the act of a majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board.

3.17 Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation or these By-laws, any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if all Directors or members of such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

ARTICLE 4

COMMITTEES OF THE BOARD

The Board may designate one or more committees, each committee to consist of one or more of the Directors. The Board may remove any Director from any committee at any time, with or without cause. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. If a member of a committee shall be absent from any meeting, or disqualified from voting thereat, the remaining member or members present and not disqualified from voting, whether or not such member or members constitute a quorum, may, by a unanimous vote, appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board passed as aforesaid, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be impressed on all papers that may require it, but no such committee shall have the power or authority in reference to the following matters: (i) approving or adopting, or recommending to the Stockholders, any action or matter expressly required by the General Corporation Law to be submitted to Stockholders for approval or (ii) adopting, amending or repealing the By-laws. Unless the Board provides otherwise, at all meetings of such committee a majority of the total number of members of the committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members of the committee present at any meeting at which there is a quorum shall be the act of the committee. Each committee

shall keep regular minutes of its meetings. Unless the Board provides otherwise, each committee designated by the Board may make, alter and repeal rules for the conduct of its business. In the absence of such rules each committee shall conduct its business in the same manner as the Board conducts its business pursuant to Article 3 of these By-laws.

## ARTICLE 5

### OFFICERS

5.1 Positions. The officers of the Corporation shall be a Chief Executive Officer, President, a Secretary, a Treasurer and such other officers as the Board may appoint, including a Chairman, one or more Vice Presidents and one or more Assistant Secretaries and Assistant Treasurers, who shall exercise such powers and perform such duties as shall be determined from time to time by the Board. The Board may designate one or more Vice Presidents as Executive Vice Presidents and may use descriptive words or phrases to designate the standing, seniority or areas of special competence of the Vice Presidents elected or appointed by it. Any number of offices may be held by the same person unless the Certificate of Incorporation or these By-laws otherwise provide.

5.2 Appointment. The officers of the Corporation shall be chosen by the Board at its annual meeting or at such other time or times as the Board shall determine.

5.3 Compensation. The compensation of all officers of the Corporation shall be fixed by the Board. No officer shall be prevented from receiving a salary or other compensation by reason of the fact that the officer is also a Director.

5.4 Term of Office. Each officer of the Corporation shall hold office for the term for which he or she is elected and until such officer's successor is chosen and qualifies or until such officer's earlier death, resignation or removal. Any officer may resign at any time upon written notice to the Corporation. Such resignation shall take effect at the date of receipt of such notice or at such later time as is therein specified, and, unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective. The resignation of an officer shall be without prejudice to the contract rights of the Corporation, if any. Any officer elected or appointed by the Board may be removed at any time, with or without cause, by the Board. Any vacancy occurring in any office of the Corporation shall be filled by the Board. The removal of an officer without cause shall be without prejudice to the officer's contract rights, if any. The election or appointment of an officer shall not of itself create contract rights.

5.5 Fidelity Bonds. The Corporation may secure the fidelity of any or all of its officers or agents by bond or otherwise.

5.6 Chairman. The Chairman, if one shall have been appointed, shall preside at all meetings of the Board and Stockholders and shall exercise such powers and perform such other duties as shall be determined from time to time by the Board.

5.7 Chief Executive Officer. The Chief Executive Officer shall have the responsibility for the business of the Corporation, subject, however, to the control of the Board and any duly authorized committee of Directors. The Chief Executive Officer



shall preside at all meetings of Stockholders and the Board at which the Chairman (if there be one) is not present. The Chief Executive Officer may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments except in cases in which the signing and execution thereof shall be expressly delegated by the Board or by these By-laws to some other officer or agent of the Corporation or shall be required by applicable law otherwise to be signed or executed and, in general, the Chief Executive Officer shall perform all duties incident to the office of Chief Executive Officer of a corporation and such other duties as may from time to time be assigned to the Chief Executive Officer by the Board.

5.8 President. The President shall have general supervision over the business operations of the Corporation, subject, however, to the control of the Chief Executive Officer. At the request of the Chief Executive Officer, or, in the Chief Executive Officer's absence, at the request of the Board, the President shall perform all of the duties of the Chief Executive Officer and, in so performing, shall have all the powers of, and be subject to all restrictions upon, the Chief Executive Officer. The President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments except in cases in which the signing and execution thereof shall be expressly delegated by the Board or by these By-laws to some other officer or agent of the Corporation or shall be required by applicable law otherwise to be signed or executed and, in general, the President shall perform all duties incident to the office of President of a corporation and such other duties as may from time to time be assigned to the President by the Chief Executive Officer or the Board.

5.9 Vice Presidents. At the request of the President, or, in the President's absence, at the request of the Board, the Vice Presidents shall (in such order as may be designated by the Board or, in the absence of any such designation, in order of seniority based on age) perform all of the duties of the President and, in so performing, shall have all the powers of, and be subject to all restrictions upon, the President. Any Vice President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by the Board or by these By-laws to some other officer or agent of the Corporation, or shall be required by applicable law otherwise to be signed or executed, and each Vice President shall perform such other duties as from time to time may be assigned to such Vice President by the Board, the Chief Executive Officer or by the President.

5.10 Secretary. The Secretary shall attend all meetings of the Board and of the Stockholders and shall record all the proceedings of the meetings of the Board and of the Stockholders in a book to be kept for that purpose, and shall perform like duties for committees of the Board, when required. The Secretary shall give, or cause to be given, notice of all special meetings of the Board and of the Stockholders and shall perform such other duties as may be prescribed by the Board or by the President, under whose supervision the Secretary shall be. The Secretary shall have custody of the corporate seal of the Corporation, and the Secretary, or an Assistant Secretary, shall have authority to impress the same on any instrument requiring it, and when so impressed the seal may be

attested by the signature of the Secretary or by the signature of such Assistant Secretary. The Board may give general authority to any other officer to impress the seal of the Corporation and to attest the same by such officer's signature. The Secretary or an Assistant Secretary may also attest all instruments signed by the President or any Vice President. The Secretary shall have charge of all the books, records and papers of the Corporation relating to its organization and management, shall see that the reports, statements and other documents required by applicable law are properly kept and filed and, in general, shall perform all duties incident to the office of Secretary of a corporation and such other duties as may from time to time be assigned to the Secretary by the Board, the Chief Executive Officer or by the President.

5.11 Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any sources whatsoever; deposit all such moneys and valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board; against proper vouchers, cause such funds to be disbursed by checks or drafts on the authorized depositories of the Corporation signed in such manner as shall be determined by the Board and be responsible for the accuracy of the amounts of all moneys so disbursed; regularly enter or cause to be entered in books or other records maintained for the purpose full and adequate account of all moneys received or paid for the account of the Corporation; have the right to require from time to time reports or statements giving such information as the Treasurer may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same; render to the President or the Board, whenever the President or the Board shall require the Treasurer so to do, an account of the financial condition of the Corporation and of all financial transactions

of the Corporation; exhibit at all reasonable times the records and books of account to any of the Directors upon application at the Office of the Corporation where such records and books are kept; disburse the funds of the Corporation as ordered by the Board; and, in general, perform all duties incident to the office of Treasurer of a corporation and such other duties as may from time to time be assigned to the Treasurer by the Board, Chief Executive Officer or the President.

5.12 Assistant Secretaries and Assistant Treasurers. Assistant Secretaries and Assistant Treasurers shall perform such duties as shall be assigned to them by the Secretary or by the Treasurer, respectively, or by the Board, the Chief Executive Officer or by the President.

#### ARTICLE 6

##### CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

6.1 Execution of Contracts. The Board, except as otherwise provided in these By-laws, may prospectively or retroactively authorize any officer or officers, employee or employees or agent or agents, in the name and on behalf of the Corporation, to enter into any contract or execute and deliver any instrument, and any such authority may be general or confined to specific instances, or otherwise limited.

6.2 Loans. The Board may prospectively or retroactively authorize the President or any other officer, employee or agent of the Corporation to effect loans and advances at any time for the Corporation from any bank, trust company or other institution, or from any firm, corporation or individual, and for such loans and advances the person so authorized may make, execute and deliver promissory notes, bonds or other certificates or evidences of indebtedness of the Corporation, and, when authorized by the Board so to do, may pledge and hypothecate or transfer any securities or other property of the Corporation as security for any such loans or advances. Such authority conferred by the Board may be general or confined to specific instances, or otherwise limited.

6.3 Checks, Drafts, Etc. All checks, drafts and other orders for the payment of money out of the funds of the Corporation and all evidences of indebtedness of the Corporation shall be signed on behalf of the Corporation in such manner as shall from time to time be determined by resolution of the Board.

6.4 Deposits. The funds of the Corporation not otherwise employed shall be deposited from time to time to the order of the Corporation with such banks, trust companies, investment banking firms, financial institutions or other depositories as the Board may select or as may be selected by an officer, employee or agent of the Corporation to whom such power to select may from time to time be delegated by the Board.

#### ARTICLE 7

#### STOCK AND DIVIDENDS

7.1 Certificates Representing Shares. The shares of stock of the Corporation shall be represented by certificates in such form (consistent with the

provisions of Section 158 of the General Corporation Law) as shall be approved by the Board. Such certificates shall be signed by the Chairman, the Chief Executive Officer, the President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and may be impressed with the seal of the Corporation or a facsimile thereof. The signatures of the officers upon a certificate may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon any certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may, unless otherwise ordered by the Board, be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

7.2 Transfer of Shares. Transfers of shares of stock of the Corporation shall be made only on the books of the Corporation by the holder thereof or by the holder's duly authorized attorney appointed by a power of attorney duly executed and filed with the Secretary, an Assistant Secretary or a transfer agent of the Corporation, and on surrender of the certificate or certificates representing such shares of stock properly endorsed for transfer and upon payment of all necessary transfer taxes. Every certificate exchanged, returned or surrendered to the Corporation shall be marked "Cancelled," with the date of cancellation, by the Secretary or an Assistant Secretary or the transfer agent of the Corporation. A person in whose name shares of stock shall stand on the books of the Corporation shall be deemed the owner thereof to receive dividends, to vote as such owner and for all other purposes as respects the Corporation. No transfer of shares of stock shall be valid as against the Corporation, its Stockholders and creditors for any purpose, except to render the transferee liable for the debts of the Corporation to the

extent provided by applicable law, until such transfer shall have been entered on the books of the Corporation by an entry showing from and to whom transferred.

7.3 Transfer and Registry Agents. The Corporation may from time to time maintain one or more transfer offices or agents and registry offices or agents at such place or places as may be determined from time to time by the Board.

7.4 Lost, Destroyed and Stolen Certificates. The holder of any shares of stock of the Corporation shall notify the Corporation of any loss, destruction or theft of the certificate representing such shares, and the Corporation may issue a new certificate to replace the certificate alleged to have been lost, destroyed or stolen. The Board may, in its discretion, as a condition to the issue of any such new certificate, require the owner of the lost, destroyed or stolen certificate, or his or her legal representatives, to make proof satisfactory to the Board of such loss, destruction or theft and to advertise such fact in such manner as the Board may require, and to give the Corporation a bond in such form, in such sums and with such surety or sureties as the Board may direct, sufficient to indemnify the Corporation against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate and the issuance of such new certificate.

7.5 Rules and Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with applicable law, these By-laws or with the Certificate of Incorporation, concerning the issue, transfer and registration of certificates representing shares of its stock.

7.6 Restriction on Transfer of Stock. A written restriction or restrictions on the transfer or registration of transfer of stock of the Corporation, or on the

amount of the Corporation's stock that may be owned by any person or group of persons, if permitted by Section 202 of the General Corporation Law and noted conspicuously on the certificate or certificates representing such stock, may be enforced against the holder of the restricted stock or any successor or transferee of the holder, including an executor, administrator, trustee, guardian or other fiduciary entrusted with like responsibility for the person or estate of the holder. Unless noted conspicuously on the certificate or certificates representing such stock, a restriction, even though permitted by Section 202 of the General Corporation Law, shall be ineffective except against a person with actual knowledge of the restriction. A restriction on the transfer or registration of transfer of stock of the Corporation, or on the amount of the Corporation's stock that may be owned by any person or group of persons, may be imposed either by the Certificate of Incorporation or these By-laws or by an agreement among any number of Stockholders or among such Stockholders and the Corporation. No restrictions so imposed shall be binding with respect to stock issued prior to the adoption of the restriction unless the holders of such stock are parties to an agreement or voted in favor of the restriction.

7.7 Dividends, Surplus, Etc. Subject to the provisions of the Certificate of Incorporation and of applicable law, the Board:

7.7.1 may declare and pay dividends or make other distributions on the outstanding shares of stock in such amounts and at such time or times as it, in its discretion, shall deem advisable;

7.7.2 may use and apply, in its discretion, any of the surplus of the Corporation in purchasing or acquiring any shares of stock of the Corporation,



or purchase warrants therefor, in accordance with law, or any of its bonds, debentures, notes, scrip or other securities or evidences of indebtedness; and

7.7.3 may set aside from time to time out of such surplus or net profits such sum or sums as, in its discretion, it may think proper, as a reserve fund to meet contingencies, or for equalizing dividends or for the purpose of maintaining or increasing the property or business of the Corporation, or for any purpose it may think conducive to the best interests of the Corporation.

## ARTICLE 8

### INDEMNIFICATION

8.1 Indemnity Undertaking. To the extent not prohibited by applicable law, the Corporation shall indemnify any person (a "Covered Person") who is or was made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding (a "Proceeding"), whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a Director or officer of the Corporation, or, while a Director or officer of the Corporation, is or was serving at the request of the Corporation as a director or officer of any other corporation or in a capacity with comparable authority or responsibilities for any partnership, joint venture, trust, employee benefit plan or other enterprise (an "Other Entity"), against expenses (including attorneys' fees) in the event of an action by or in the right of the Corporation and against judgments, fines, and amounts paid in settlement and expenses (including attorneys' fees), in the event of any other proceeding, if the person acted in good faith and in a

manner the person reasonably believed to be in or not opposed to the best interest of the Corporation, and, with respect to any criminal proceeding, had no reason to believe the person's conduct was unlawful; and except that no indemnification shall be made, in the event of an action by or in the right of the Corporation, if prohibited by the General Corporation Law. Persons who are not Directors or officers of the Corporation (or otherwise entitled to indemnification pursuant to the preceding sentence) may be similarly indemnified in respect of service to the Corporation or to an Other Entity at the request of the Corporation to the extent the Board at any time specifies that such persons are entitled to the benefits of this Article 8.

8.2 Advancement of Expenses. The Corporation shall, from time to time, reimburse or advance to any Covered Person the funds necessary for payment of expenses, including attorneys' fees and disbursements, incurred in connection with any Proceeding, in advance of the final disposition of such Proceeding; provided, however, that, if required by the General Corporation Law, such payment of expenses in advance of the final disposition of a Proceeding shall be made only upon receipt by the Corporation of an undertaking, by the Covered Person, to repay any such amount so advanced if it shall ultimately be determined that such Covered Person is not entitled to be indemnified for such expenses.

8.3 Rights Not Exclusive. The rights to indemnification or advancement of expenses provided by, or granted pursuant to, this Article 8 shall not be deemed exclusive of any other rights to which a person seeking indemnification or reimbursement or advancement of expenses may have or hereafter be entitled under

applicable law, the Certificate of Incorporation, these By-laws, any agreement, any vote of Stockholders or disinterested Directors or otherwise.

8.4 Continuation of Benefits. The rights to indemnification or advancement of expenses provided by, or granted pursuant to, this Article 8 shall continue as to a person who has ceased to be a Director or officer and shall inure to the benefit of the executors, administrators, legatees and distributees of such person.

8.5 Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of an Other Entity, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article 8, the Certificate of Incorporation or under Section 145 of the General Corporation Law or any other provision of law.

8.6 Binding Effect. Any repeal or modification of the provisions of this Article 8 shall not adversely affect any right or protection hereunder of any Covered Person in respect of any act or omission occurring prior to the time of such repeal or modification.

8.7 Procedural Rights. The rights to indemnification or advancement of expenses provided by, or granted pursuant to, this Article 8 shall be enforceable by any Covered Person in the Court of Chancery of the State of Delaware. The burden of proving that such indemnification or advancement of expenses is not appropriate shall be

on the Corporation. Neither the failure of the Corporation (including its Board, its independent legal counsel and its Stockholders) to have made a determination prior to the commencement of such action that such indemnification or reimbursement or advancement of expenses is proper in the circumstances nor an actual determination by the Corporation (including its Board, its independent legal counsel and its Stockholders) that such person is not entitled to such indemnification or reimbursement or advancement of expenses shall constitute a defense to the action or create a presumption that such person is not so entitled. Such a person shall also be indemnified for any expenses incurred in connection with successfully establishing his or her right to such indemnification or advancement of expenses, in whole or in part, in any such proceeding.

8.8 Contribution. The Corporation's obligation, if any, to indemnify or to advance expenses to any Covered Person who was or is serving at the Corporation's request as a director, officer, employee or agent of any Other Entity shall be reduced by any amount such Covered Person may collect as indemnification or advancement of expenses from such Other Entity.

8.9 Indemnification of Others. This Article 8 shall not limit the right of the Corporation, to the extent and in the manner permitted by applicable law, to indemnify and advance expenses to persons other than Covered Persons when and as authorized by appropriate corporate action.

ARTICLE 9

BOOKS AND RECORDS

9.1 Books and Records. There shall be kept at the principal Office of the Corporation correct and complete records and books of account recording the

financial transactions of the Corporation and minutes of the proceedings of the Stockholders, the Board and any committee of the Board. The Corporation shall keep at its principal office, or at the office of the transfer agent or registrar of the Corporation, a record containing the names and addresses of all Stockholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof.

9.2 Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or by means of, or be in the form of, punch cards, magnetic tape, photographs, microphotographs, or any other information storage device or method, provided that the records so kept can be converted into clearly legible paper form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect such records pursuant to any provision of the General Corporation Law.

9.3 Inspection of Books and Records. Except as otherwise provided by applicable law, the Board shall determine whether, and, if allowed, when and under what conditions and regulations, the accounts, books, minutes and other records of the Corporation, or any of them, shall be open to the Stockholders for inspection.

#### ARTICLE 10

##### SEAL

The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware." The

seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

ARTICLE 11

FISCAL YEAR

The fiscal year of the Corporation shall be determined by resolution of the Board.

ARTICLE 12

PROXIES AND CONSENTS

Unless otherwise provided by resolution of the Board, the Chairman, the President, any Vice President, the Secretary or the Treasurer, or any one of them, may execute and deliver on behalf of the Corporation proxies respecting any and all shares or other ownership interests of any Other Entity owned by the Corporation appointing such person or persons as the officer executing the same shall deem proper to represent and vote the shares or other ownership interests so owned at any and all meetings of holders of shares or other ownership interests, whether general or special, and/or to execute and deliver written consents respecting such shares or other ownership interests; or any of the aforesaid officers may attend any meeting of the holders of shares or other ownership interests of such Other Entity and thereat vote or exercise any or all other powers of the Corporation as the holder of such shares or other ownership interests.

ARTICLE 13

AMENDMENTS

These By-laws may be altered, amended or repealed and new By-laws may be adopted by a vote of the Stockholders or by the Board. Any By-laws altered, adopted or amended by the Board may be altered, amended or repealed by the Stockholders.

## AMENDMENT NO. 1

## EMPLOYMENT AND NON-COMPETITION AGREEMENT

This addendum shall amend certain portions of the Employment and Non-Competition Agreement (“the Agreement”), dated November 19, 1999, entered into among AMN Holdings, Inc. a Delaware Corporation, AMN Acquisition Corporation and STEVEN C. FRANCIS (the “Employee”).

1. AMN Acquisition Corp. merged into AMN Holdings, Inc. on March 29, 2001;
2. AMN Holdings, Inc. changed its name to AMN Healthcare Services, Inc. (hereinafter “the Company”) on October 18, 2001;
3. On May 8, 2003, EMPLOYEE began serving in the exclusive role of Chief Executive Officer, ceasing to serve as the Company’s President;
4. Paragraph 2.01 is deleted, and replaced with the following:  
Term. The term of this Agreement (the “Term”) shall commence on the effective date and shall continue until December 31, 2004, unless terminated earlier as provided in Article V. The Term shall be automatically extended for additional periods of one year unless either party gives at least 90 days’ prior written notice to the other of the intention to terminate the Employee’s employment hereunder at the end of the Term.
5. Paragraph 3.01(b) of the Agreement is amended by deleting the entire paragraph, and inserting in its place the following:  
Bonus Amount. The Company’s Compensation Committee will determine the criteria and target(s) for EMPLOYEE’S bonus, on an annual basis, in accordance with the Company’s Senior Management Incentive Bonus Plan (“Bonus Plan”). EMPLOYEE shall receive a graduated bonus depending upon achievement of between 95% and 100% of the Bonus Plan target(s) for the given fiscal year, and that if the Company achieves 100% of the Bonus Plan target(s), EMPLOYEE’S bonus amount will be 50% of his Base Salary; provided, however, that except as provided in Sections 5.02 and 5.03, the EMPLOYEE shall only be paid such annual bonus amount if he is employed by the Company on the last day of the particular fiscal year.
6. The effective date of this addendum shall be September 25, 2003.

AMN HEALTHCARE SERVICES, INC.

By: /s/ ROBERT B. HAAS

Dated: December 12, 2003

Name: Robert B. Haas  
 Title: Chairman of the Board

EMPLOYEE

/s/ STEVEN C. FRANCIS

Dated: December 15, 2003

Steven C. Francis

## Subsidiaries of the Registrant

<u>Subsidiary</u>	<u>Jurisdiction of Organization</u>
AMN Healthcare, Inc.	Nevada
Worldview Healthcare, Inc.	North Carolina
AMN Staffing Services, Inc.	Delaware
O'Grady-Peyton International (USA), Inc.	Massachusetts
O'Grady-Peyton International (Australia) (Pty), Inc.	Australia
O'Grady Peyton International Recruitment U.K. Limited	United Kingdom
O'Grady-Peyton International (SA) (Proprietary) Limited	South Africa
International Healthcare Recruiters, Inc.	Delaware



**Independent Auditors' Report on Schedule and Consent**

The Board of Directors and Stockholders  
AMN Healthcare Services, Inc.:

The audits referred to in our report dated February 27, 2004 included the related financial statement schedule as of December 31, 2003, and for each of the years in the three-year period ended December 31, 2003, included in the 2003 Annual Report on Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We consent to incorporation by reference in the registration statement No. 333-73482 on Form S-8 of AMN Healthcare Services, Inc. of our report dated February 27, 2004, relating to the consolidated balance sheets of AMN Healthcare Services, Inc. and subsidiaries (the Company), as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2003 and the financial statement schedule, which reports appear in the December 31, 2003 Annual Report on Form 10-K of AMN Healthcare Services, Inc. Our report refers to a change to the Company's method of accounting for goodwill in 2002.

/s/ KPMG LLP

San Diego, California  
March 11, 2004

**Certification Pursuant To  
Rule 13a-14(a) of the Securities Exchange Act of 1934**

I, Steven C. Francis, certify that:

1. I have reviewed this report on Form 10-K of AMN Healthcare Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

/s/ STEVEN C. FRANCIS

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**Steven C. Francis**  
**Chief Executive Officer**

Date: March 11, 2004

**Certification Pursuant To  
Rule 13a-14(a) of the Securities Exchange Act of 1934**

I, Donald R. Myll, certify that:

1. I have reviewed this report on Form 10-K of AMN Healthcare Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

/s/ DONALD R. MYLL

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**Donald R. Myll**  
**Chief Accounting Officer and Chief Financial Officer**

Date: March 11, 2004

## AMN Healthcare Services, Inc.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of AMN Healthcare Services, Inc. (the "Company") on Form 10-K for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven C. Francis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEVEN C. FRANCIS

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**Steven C. Francis**  
**Chief Executive Officer**  
**March 11, 2004**

## AMN Healthcare Services, Inc.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of AMN Healthcare Services, Inc. (the "Company") on Form 10-K for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald R. Myll, Chief Accounting Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DONALD R. MYLL

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**Donald R. Myll**  
**Chief Accounting Officer and Chief**  
**Financial Officer**  
**March 11, 2004**