

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File No.: 001-16753



AMN HEALTHCARE SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

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

**12400 High Bluff Drive, Suite 100
San Diego, California**

(Address of Principal Executive Offices)

06-1500476

*(I.R.S. Employer
Identification No.)*

92130

(Zip Code)

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

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2018, there were 46,867,877 shares of common stock, \$0.01 par value, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

AMN HEALTHCARE SERVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited and in thousands, except par value)

| ASSETS | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 18,614 | \$ 15,147 |
| Accounts receivable, net of allowances of \$9,741 and \$9,801 at September 30, 2018 and December 31, 2017, respectively | 366,436 | 350,496 |
| Accounts receivable, subcontractor | 44,891 | 41,012 |
| Prepaid expenses | 14,540 | 16,505 |
| Other current assets | 35,358 | 50,993 |
| Total current assets | 479,839 | 474,153 |
| Restricted cash, cash equivalents and investments | 59,453 | 64,315 |
| Fixed assets, net of accumulated depreciation of \$109,846 and \$97,889 at September 30, 2018 and December 31, 2017, respectively | 86,817 | 73,431 |
| Other assets | 93,206 | 74,366 |
| Goodwill | 438,299 | 340,596 |
| Intangible assets, net of accumulated amortization of \$108,283 and \$90,685 at September 30, 2018 and December 31, 2017, respectively | 332,788 | 227,096 |
| Total assets | \$ 1,490,402 | \$ 1,253,957 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 142,543 | \$ 130,319 |
| Accrued compensation and benefits | 135,632 | 121,423 |
| Deferred revenue | 13,107 | 8,384 |
| Other current liabilities | 11,806 | 5,146 |
| Total current liabilities | 303,088 | 265,272 |
| Revolving credit facility | 150,000 | — |
| Notes payable, less unamortized fees | 320,416 | 319,843 |
| Deferred income taxes, net | 24,651 | 27,036 |
| Other long-term liabilities | 77,527 | 79,279 |
| Total liabilities | 875,682 | 691,430 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value; 10,000 shares authorized; none issued and outstanding at September 30, 2018 and December 31, 2017 | — | — |
| Common stock, \$0.01 par value; 200,000 shares authorized; 48,809 issued and 46,914 outstanding at September 30, 2018 and 48,411 issued and 47,481 outstanding at December 31, 2017 | 488 | 484 |
| Additional paid-in capital | 449,868 | 453,351 |
| Treasury stock, at cost (1,895 and 930 shares at September 30, 2018 and December 31, 2017, respectively) | (86,175) | (33,425) |
| Retained earnings | 250,446 | 142,229 |
| Accumulated other comprehensive income (loss) | 93 | (112) |
| Total stockholders' equity | 614,720 | 562,527 |
| Total liabilities and stockholders' equity | \$ 1,490,402 | \$ 1,253,957 |

See accompanying notes to unaudited condensed consolidated financial statements.

AMN HEALTHCARE SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited and in thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------------|---------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | \$ 526,842 | \$ 494,406 | \$ 1,607,439 | \$ 1,479,378 |
| Cost of revenue | 351,695 | 334,867 | 1,083,512 | 997,051 |
| Gross profit | 175,147 | 159,539 | 523,927 | 482,327 |
| Operating expenses: | | | | |
| Selling, general and administrative | 121,216 | 100,579 | 341,488 | 299,325 |
| Depreciation and amortization | 11,296 | 8,132 | 29,788 | 23,759 |
| Total operating expenses | 132,512 | 108,711 | 371,276 | 323,084 |
| Income from operations | 42,635 | 50,828 | 152,651 | 159,243 |
| Interest expense, net, and other | 4,649 | 4,837 | 16,360 | 14,895 |
| Income before income taxes | 37,986 | 45,991 | 136,291 | 144,348 |
| Income tax expense | 10,068 | 17,863 | 30,163 | 52,957 |
| Net income | \$ 27,918 | \$ 28,128 | \$ 106,128 | \$ 91,391 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation and other | 133 | (73) | 205 | (111) |
| Cash flow hedge, net of income taxes | — | — | — | (15) |
| Other comprehensive income (loss) | 133 | (73) | 205 | (126) |
| Comprehensive income | \$ 28,051 | \$ 28,055 | \$ 106,333 | \$ 91,265 |
| Net income per common share: | | | | |
| Basic | \$ 0.59 | \$ 0.59 | \$ 2.23 | \$ 1.91 |
| Diluted | \$ 0.58 | \$ 0.57 | \$ 2.17 | \$ 1.85 |
| Weighted average common shares outstanding: | | | | |
| Basic | 47,286 | 47,912 | 47,556 | 47,870 |
| Diluted | 48,529 | 49,445 | 48,859 | 49,480 |

See accompanying notes to unaudited condensed consolidated financial statements.

AMN HEALTHCARE SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

| | Nine Months Ended September 30, | |
|--|---------------------------------|----------------------|
| | 2018 | 2017 *As Adjusted |
| Cash flows from operating activities: | | |
| Net income | \$ 106,128 | \$ 91,391 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 29,788 | 23,759 |
| Non-cash interest expense and other | 591 | 1,718 |
| Write-off of fees on the prior credit facilities | 574 | — |
| Change in fair value of contingent consideration | (1,307) | 66 |
| Increase in allowances for doubtful accounts and sales credits | 6,240 | 9,012 |
| Provision for deferred income taxes | (2,384) | (9,512) |
| Share-based compensation | 7,954 | 7,720 |
| Loss on disposal or sale of fixed assets | 40 | 130 |
| Amortization of discount on investments | (78) | (112) |
| Changes in assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | 743 | (10,631) |
| Accounts receivable, subcontractor | (3,879) | 12,033 |
| Income taxes receivable | 12,997 | (1,854) |
| Prepaid expenses | 2,334 | (1,643) |
| Other current assets | 446 | 6,100 |
| Other assets | (1,019) | (5,204) |
| Accounts payable and accrued expenses | 7,311 | (20,442) |
| Accrued compensation and benefits | 11,014 | 3,991 |
| Other liabilities | (10,423) | (5,112) |
| Deferred revenue | 1,062 | 678 |
| Restricted investments balance | (86) | 8 |
| Net cash provided by operating activities | 168,046 | 102,096 |
| Cash flows from investing activities: | | |
| Purchase and development of fixed assets | (23,922) | (17,168) |
| Purchase of investments | (27,185) | (11,021) |
| Proceeds from maturity of investments | 10,400 | 17,200 |
| Payments to fund deferred compensation plan | (7,800) | (10,056) |
| Equity investment | (4,600) | (2,000) |
| Cash paid for acquisitions, net of cash received | (217,361) | — |
| Cash paid for other intangibles | (1,180) | — |
| Cash paid for working capital adjustments and holdback liability for prior year acquisitions | — | (1,000) |
| Net cash used in investing activities | (271,648) | (24,045) |

| | Nine Months Ended September 30, | |
|---|---------------------------------|----------------------|
| | 2018 | 2017 *As Adjusted |
| Cash flows from financing activities: | | |
| Payments on term loans | — | (44,063) |
| Payments on revolving credit facility | (45,000) | — |
| Proceeds from revolving credit facility | 195,000 | — |
| Repurchase of common stock | (52,750) | (7,097) |
| Payment of financing costs | (2,331) | — |
| Earn-out payments for prior acquisitions | (1,713) | (3,677) |
| Proceeds from termination of derivative contract | — | 85 |
| Cash paid for shares withheld for taxes | (11,432) | (9,072) |
| Net cash provided by (used in) financing activities | 81,774 | (63,824) |
| Effect of exchange rate changes on cash | 205 | (111) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (21,623) | 14,116 |
| Cash, cash equivalents and restricted cash at beginning of period | 98,894 | 51,028 |
| Cash, cash equivalents and restricted cash at end of period | \$ 77,271 | \$ 65,144 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest (net of \$368 and \$113 capitalized for the nine months ended September 30, 2018 and 2017, respectively) | \$ 11,521 | \$ 9,395 |
| Cash paid for income taxes | \$ 21,223 | \$ 65,998 |
| Acquisitions: | | |
| Fair value of tangible assets acquired in acquisitions, net of cash received | \$ 24,027 | \$ — |
| Goodwill | 97,703 | — |
| Intangible assets | 122,111 | — |
| Liabilities assumed | (16,380) | — |
| Earn-out liabilities | (10,100) | — |
| Net cash paid for acquisitions | \$ 217,361 | \$ — |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Purchase of fixed assets recorded in accounts payable and accrued expenses | \$ 4,504 | \$ 3,156 |

* See Note (1) for a summary of adjustments.

See accompanying notes to unaudited condensed consolidated financial statements.

AMN HEALTHCARE SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share amounts)

1. BASIS OF PRESENTATION

The condensed consolidated balance sheets and related condensed consolidated statements of comprehensive income and cash flows contained in this Quarterly Report on Form 10-Q (this “Quarterly Report”), which are unaudited, include the accounts of AMN Healthcare Services, Inc. and its wholly-owned subsidiaries (collectively, the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all entries necessary for a fair presentation of such unaudited condensed consolidated financial statements have been included. These entries consisted of all normal recurring items. The results of operations for the interim period are not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year or for any future period.

The unaudited condensed consolidated financial statements do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”). Please refer to the Company’s audited consolidated financial statements and the related notes for the fiscal year ended December 31, 2017, contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission on February 16, 2018 (“2017 Annual Report”).

The preparation of financial statements in conformity with U.S. GAAP 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. On an ongoing basis, the Company evaluates its estimates, including those related to asset impairments, accruals for self-insurance, compensation and related benefits, accounts receivable, contingencies and litigation, earn-out liabilities, and income taxes. Actual results could differ from those estimates under different assumptions or conditions.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606).” The FASB also issued a series of other ASUs, which update ASU 2014-09 (collectively, the “new revenue recognition standard”). This new standard replaces all previous U.S. GAAP guidance on this topic and eliminates all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard effective January 1, 2018, using the modified retrospective transition method applied to those contracts which were not completed as of that date. Revenue from substantially all of our contracts with customers continues to be recognized over time as services are rendered. The Company recognized the cumulative effect of adopting this guidance as an adjustment to its opening balance of retained earnings of \$2,089, net of tax, primarily related to capitalization of contract costs. Prior period amounts are not retrospectively adjusted and continue to be reported in accordance with the accounting standards in effect for those periods. The impact of the adoption of the new standard was not material to the Company’s condensed consolidated financial statements for the three and nine months ended September 30, 2018. The Company expects the impact to be immaterial on an ongoing basis. See additional information regarding revenue recognition and disaggregated revenue in Note (3), “Revenue Recognition” and Note (5), “Segment Information,” respectively.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities.” The FASB also subsequently issued ASU 2018-03, which provides amendments to ASU 2016-01. These standards require equity investments, except those accounted for using the equity method of accounting, to be measured at fair value with changes in fair value recognized through net income. The new guidance also provides a measurement alternative for equity investments that do not have readily determinable fair values, which were previously accounted for under the cost method of accounting, to be recorded at cost, less impairment, adjusted for observable price changes from orderly transactions for identical or similar investments of the same issuer. For public entities, these standards are effective for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. The Company adopted the standards prospectively effective January 1, 2018 and elected to use the measurement alternative. See additional information in Note (7), “Fair Value Measurement.”

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The standard provides guidance on how certain cash receipts and payments are presented and classified in the statement of cash flows. For public entities, ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those annual periods, and requires a retrospective approach. The Company adopted this standard effective January 1, 2018 and the adoption did not have a material effect on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The standard requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents (collectively, "restricted cash"). Therefore, restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this standard retrospectively effective January 1, 2018 and included certain restricted cash amounts for the period ended September 30, 2017 within the accompanying condensed consolidated statements of cash flows. These adjustments had no effect on previously reported results of operations or retained earnings. The following table provides a summary of the adjustments from amounts previously reported.

| | Nine Months Ended September 30, 2017 | | |
|---|--------------------------------------|-------------|-------------|
| | As Previously Reported | Adjustments | As Adjusted |
| Cash flows from operating activities: | | | |
| Changes in assets and liabilities: | | | |
| Other current assets | 10,155 | (4,055) | 6,100 |
| Restricted cash, cash equivalents and investments balance | (9,761) | 9,769 | 8 |
| Net cash provided by operating activities | 96,382 | 5,714 | 102,096 |
| Cash flows from investing activities | | | |
| Change in restricted cash, cash equivalents and investments balance | 601 | (601) | — |
| Net cash used in investing activities | (23,444) | (601) | (24,045) |
| Net increase in cash, cash equivalents and restricted cash | \$ 9,003 | \$ 5,113 | \$ 14,116 |
| Cash, cash equivalents and restricted cash at the beginning of period | 10,622 | 40,406 | 51,028 |
| Cash, cash equivalents and restricted cash at the end of period | \$ 19,625 | \$ 45,519 | \$ 65,144 |

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the accompanying condensed consolidated balance sheets and related notes to the amounts presented in the accompanying condensed consolidated statements of cash flows.

| | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Cash and cash equivalents | \$ 18,614 | \$ 15,147 |
| Restricted cash and cash equivalents (included in other current assets) | 22,227 | 25,506 |
| Restricted cash, cash equivalents and investments | 59,453 | 64,315 |
| Total cash, cash equivalents and restricted cash and investments | 100,294 | 104,968 |
| Less restricted investments | (23,023) | (6,074) |
| Total cash, cash equivalents and restricted cash | \$ 77,271 | \$ 98,894 |

There were no other material impacts to the Company's consolidated financial statements as a result of adopting these updated standards.

Reclassification

To conform to the current year presentation, certain reclassifications that are not material have been made to the prior year's balances in Note (10), "Balance Sheet Details."

2. ACQUISITIONS

As set forth below, the Company completed two acquisitions during the nine months ended September 30, 2018. The Company accounted for each acquisition using the acquisition method of accounting. Accordingly, it recorded the tangible and intangible assets acquired and liabilities assumed at their estimated fair values as of the applicable date of acquisition. For each acquisition, the Company did not incur any material acquisition-related costs.

MedPartners Acquisition

On April 9, 2018, the Company completed its acquisition of MedPartners HIM (“MedPartners”), which provides case management, clinical documentation improvement, medical coding and registry services to hospitals and physician medical groups nationwide. The initial purchase price of \$200,711 included (1) \$196,533 cash consideration paid upon acquisition, funded through borrowings under the Company’s \$400,000 secured revolving credit facility (the “Senior Credit Facility”), provided for under a credit agreement (the “New Credit Agreement”), dated as of February 9, 2018, by and among the Company and several lenders, and (2) a contingent earn-out payment of up to \$20,000 with an estimated fair value of \$4,400 as of the acquisition date. The contingent earn-out payment is based on (A) up to \$10,000 based on the operating results of MedPartners for the twelve months ending December 31, 2018, and (B) up to \$10,000 based on the operating results of MedPartners for the six months ending June 30, 2019. As the acquisition’s operations are not considered material, pro forma information is not provided. The results of MedPartners have been included in the Company’s other workforce solutions segment since the date of acquisition. During the third quarter of 2018, \$222 was returned to the Company for the final working capital settlement.

The preliminary allocation of the \$200,711 purchase price consisted of (1) \$28,425 of fair value of tangible assets acquired, which included \$8,403 cash received, (2) \$11,809 of liabilities assumed, (3) \$103,000 of identified intangible assets, and (4) \$81,095 of goodwill, all of which is deductible for tax purposes. The fair value of intangible assets includes \$46,000 of trademarks and \$57,000 of customer relationships with a weighted average useful life of approximately sixteen years.

Phillips DiPisa and Leaders For Today Acquisition

On April 6, 2018, the Company completed its acquisition of two related entities, Phillips DiPisa and Leaders For Today (“PDA and LFT”), which offer a range of leadership staffing and permanent placement solutions for the healthcare industry. The initial purchase price of \$35,503 included (1) \$30,268 cash consideration paid upon acquisition, funded through cash on hand, and (2) a contingent earn-out payment of up to \$7,000 with an estimated fair value of \$5,700 as of the acquisition date. The contingent earn-out payment is based on the operating results of PDA and LFT for the twelve months ending December 31, 2018. As the acquisition’s operations are not considered material, pro forma information is not provided. The results of PDA and LFT have been included in the Company’s other workforce solutions segment since the date of acquisition. During the third quarter of 2018, \$465 was returned to the Company for the final working capital settlement.

The preliminary allocation of the \$35,503 purchase price consisted of (1) \$4,356 of fair value of tangible assets acquired, which included \$351 cash received, (2) \$4,571 of liabilities assumed, (3) \$19,110 of identified intangible assets, and (4) \$16,608 of goodwill, all of which is deductible for tax purposes. The fair value of intangible assets includes \$5,400 of trademarks, \$8,000 of customer relationships and \$5,710 of staffing databases with a weighted average useful life of approximately twelve years.

3. REVENUE RECOGNITION

Revenue primarily consists of fees earned from the temporary and permanent placement of healthcare professionals and executives as well as from the Company’s SaaS-based technology, including its vendor management systems and its scheduling software. Revenue is recognized when control of these services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Revenue from temporary staffing services is recognized as the services are rendered by clinical and non-clinical healthcare professionals. Under the Company’s managed services program arrangements, the Company manages all or a part of a customer’s supplemental workforce needs utilizing its own network of healthcare professionals along with those of third-party subcontractors. Revenue and the related direct costs under MSP arrangements are recorded in accordance with the accounting guidance on reporting revenue gross as a principal versus net as an agent. When the Company uses subcontractors and acts as an agent, revenue is recorded net of the related subcontractor’s expense. Revenue from executive search, physician permanent placement, and recruitment process outsourcing services is recognized as the services are rendered. The Company’s SaaS-based revenue is recognized ratably over the applicable arrangement’s service period.

The Company's customers are primarily billed as services are rendered. Any fees billed in advance of being earned are recorded as deferred revenue. During the nine months ended September 30, 2018, the amount recognized as revenue that was previously deferred was not material.

Under the new revenue recognition standard, the Company has elected to apply the following practical expedients and optional exemptions:

- Recognize incremental costs of obtaining a contract with amortization periods of one year or less as expense when incurred. These costs are recorded within selling, general and administrative expenses.
- Recognize revenue in the amount of consideration to which the Company has a right to invoice the customer if that amount corresponds directly with the value to the customer of the Company's services completed to date.
- Exemptions from disclosing the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less, (ii) contracts for which revenue is recognized in the amount of consideration to which the Company has a right to invoice for services performed and (iii) contracts for which variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct service that forms part of a single performance obligation.

See additional information regarding adoption of the new revenue standard in Note (1), "Basis of Presentation" and additional disclosures required by the new revenue standard in Note (5), "Segment Information."

4. NET INCOME PER COMMON SHARE

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period. The following table sets forth the computation of basic and diluted net income per common share for the three and nine months ended September 30, 2018 and 2017, respectively:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-----------|---------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$ 27,918 | \$ 28,128 | \$ 106,128 | \$ 91,391 |
| Net income per common share - basic | \$ 0.59 | \$ 0.59 | \$ 2.23 | \$ 1.91 |
| Net income per common share - diluted | \$ 0.58 | \$ 0.57 | \$ 2.17 | \$ 1.85 |
| Weighted average common shares outstanding - basic | 47,286 | 47,912 | 47,556 | 47,870 |
| Plus dilutive effect of potential common shares | 1,243 | 1,533 | 1,303 | 1,610 |
| Weighted average common shares outstanding - diluted | 48,529 | 49,445 | 48,859 | 49,480 |

Share-based awards to purchase 36 and 27 shares of common stock were not included in the above calculation of diluted net income per common share for the three and nine months ended September 30, 2018, respectively, because the effect of these instruments was anti-dilutive. Share-based awards to purchase 10 and 14 shares of common stock were not included in the above calculation of diluted net income per common share for the three and nine months ended September 30, 2017, respectively, because the effect of these instruments was anti-dilutive.

5. SEGMENT INFORMATION

The Company has three reportable segments: nurse and allied solutions, locum tenens solutions, and other workforce solutions.

The Company's chief operating decision maker relies on internal management reporting processes that provide revenue and operating income by reportable segment for making financial decisions and allocating resources. Segment operating income represents income before income taxes plus depreciation, amortization of intangible assets, share-based compensation, interest expense, net, and other, and unallocated corporate overhead. The Company's management does not evaluate, manage or measure performance of segments using asset information; accordingly, asset information by segment is not prepared or disclosed.

The following table provides a reconciliation of revenue and operating income by reportable segment to consolidated results and was derived from each segment's internal financial information as used for corporate management purposes:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|----------------------------------|-------------------|---------------------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | | | | |
| Nurse and allied solutions | \$ 306,292 | \$ 302,933 | \$ 977,199 | \$ 917,183 |
| Locum tenens solutions | 101,102 | 111,415 | 311,516 | 322,473 |
| Other workforce solutions | 119,448 | 80,058 | 318,724 | 239,722 |
| | <u>\$ 526,842</u> | <u>\$ 494,406</u> | <u>\$ 1,607,439</u> | <u>\$ 1,479,378</u> |
| Segment operating income | | | | |
| Nurse and allied solutions | \$ 42,165 | \$ 40,807 | \$ 137,906 | \$ 134,638 |
| Locum tenens solutions | 10,992 | 14,438 | 34,321 | 39,028 |
| Other workforce solutions | 29,010 | 19,890 | 77,437 | 61,788 |
| | <u>82,167</u> | <u>75,135</u> | <u>249,664</u> | <u>235,454</u> |
| Unallocated corporate overhead | 26,427 | 13,698 | 59,271 | 44,732 |
| Depreciation and amortization | 11,296 | 8,132 | 29,788 | 23,759 |
| Share-based compensation | 1,809 | 2,477 | 7,954 | 7,720 |
| Interest expense, net, and other | 4,649 | 4,837 | 16,360 | 14,895 |
| Income before income taxes | <u>\$ 37,986</u> | <u>\$ 45,991</u> | <u>\$ 136,291</u> | <u>\$ 144,348</u> |

The Company offers a comprehensive managed services program, in which the Company manages all or a portion of a client's contingent staffing needs. This service includes both the placement of the Company's own healthcare professionals and the utilization of other staffing agencies to fulfill the client's staffing needs. See additional information in Note (3), "Revenue Recognition." For the three months ended September 30, 2018 and 2017, revenue under the Company's managed services program arrangements comprised approximately 61% and 59% for nurse and allied solutions revenue, 17% and 13% for locum tenens solutions revenue and 5% and 7% for other workforce solutions revenue, respectively. For the nine months ended September 30, 2018 and 2017, revenue under the Company's managed services program arrangements comprised approximately 60% and 57% for nurse and allied solutions revenue, 16% and 12% for locum tenens solutions revenue and 7% and 7% for other workforce solutions revenue, respectively.

The following table summarizes the activity related to the carrying value of goodwill by reportable segment:

| | Nurse and Allied Solutions | Locum Tenens Solutions | Other Workforce Solutions | Total |
|--|----------------------------|------------------------|---------------------------|-------------------|
| Balance, January 1, 2018 | \$ 103,107 | \$ 19,743 | \$ 217,746 | \$ 340,596 |
| Goodwill from MedPartners acquisition | — | — | 81,095 | 81,095 |
| Goodwill from PDA and LFT acquisition | — | — | 16,608 | 16,608 |
| Balance, September 30, 2018 | <u>\$ 103,107</u> | <u>\$ 19,743</u> | <u>\$ 315,449</u> | <u>\$ 438,299</u> |
| Accumulated impairment loss as of December 31, 2017 and September 30, 2018 | <u>\$ 154,444</u> | <u>\$ 53,940</u> | <u>\$ 6,555</u> | <u>\$ 214,939</u> |

6. NEW CREDIT AGREEMENT

On February 9, 2018, the Company entered into the New Credit Agreement with several lenders to provide for the \$400,000 Senior Credit Facility to replace its then-existing credit facilities. The Senior Credit Facility includes a \$50,000 sublimit for the issuance of letters of credit and a \$50,000 sublimit for swingline loans. The obligations of the Company under the New Credit Agreement and the Senior Credit Facility are secured by substantially all of the assets of the Company. Borrowings under the Senior Credit Facility bear interest at floating rates, at the Company's option, based upon either LIBOR plus a spread of 1.00% to 2.00% or a base rate plus a spread of 0.00% to 1.00%. The applicable spread is determined quarterly based upon the Company's consolidated net leverage ratio. The Senior Credit Facility is available for working capital, capital expenditures, permitted acquisitions and general corporate purposes. The maturity date of the Senior Credit Facility is February 9, 2023.

In connection with obtaining the New Credit Agreement, the Company incurred \$2,331 in fees paid to lenders and other third parties, which were capitalized and are amortized to interest expense over the term of the New Credit Facility. In addition,

the Company wrote off \$574 of unamortized financing fees during the nine months ended September 30, 2018 relating to the prior credit facilities.

7. FAIR VALUE MEASUREMENT

The Company's valuation techniques and inputs used to measure fair value and the definition of the three levels (Level 1, Level 2, and Level 3) of the fair value hierarchy are disclosed in Part II, Item 8, "Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 4—Fair Value Measurement" of the 2017 Annual Report. The Company has not changed the valuation techniques or inputs it uses for its fair value measurement, except for its adoption of ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities," during the nine months ended September 30, 2018. See additional information regarding adoption of the new standard in Note (1), "Basis of Presentation" and additional disclosures below.

Assets and Liabilities Measured on a Recurring Basis

The Company's restricted cash equivalents that serve as collateral for the Company's outstanding letters of credit typically consist of money market funds that are measured at fair value based on quoted prices, which are Level 1 inputs.

The Company's restricted cash equivalents and investments that serve as collateral for the Company's captive insurance company primarily consist of commercial paper that is measured at observable market prices for identical securities that are traded in less active markets, which are Level 2 inputs. Of the \$61,567 commercial paper issued and outstanding as of September 30, 2018, \$23,023 had original maturities greater than three months, which were considered available-for-sale securities. As of December 31, 2017, the Company had \$28,708 commercial paper issued and outstanding, of which \$6,074 had original maturities greater than three months and were considered available-for-sale securities. The increase in commercial paper issued and outstanding is due to additional restricted investments related to the captive insurance company.

The Company's contingent consideration liabilities are measured at fair value using a probability-weighted discounted cash flow analysis or a simulation-based methodology for the acquired companies, which are Level 3 inputs. The Company recognizes changes to the fair value of its contingent consideration liabilities in selling, general and administrative expenses in the condensed consolidated statements of comprehensive income.

The following tables present information about the above-referenced assets and liabilities and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value:

| Fair Value Measurements as of September 30, 2018 | | | | |
|--|----------|--|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market funds | \$ 2,739 | \$ 2,739 | \$ — | \$ — |
| Commercial paper | 61,567 | — | 61,567 | — |
| Acquisition contingent consideration liabilities | (8,793) | — | — | (8,793) |

| Fair Value Measurements as of December 31, 2017 | | | | |
|--|----------|--|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market funds | \$ 2,713 | \$ 2,713 | \$ — | \$ — |
| Commercial paper | 28,708 | — | 28,708 | — |
| Acquisition contingent consideration liabilities | (2,070) | — | — | (2,070) |

Level 3 Information

The following tables set forth a reconciliation of changes in the fair value of contingent consideration liabilities classified as Level 3 in the fair value hierarchy:

| | Three Months Ended September 30, | |
|--|----------------------------------|-------------------|
| | 2018 | 2017 |
| Balance as of July 1, \$ | (10,119) | \$ (1,932) |
| Change in fair value of contingent consideration liability from HealthSource Global Staffing (“HSG”) acquisition | — | (20) |
| Change in fair value of contingent consideration liability from PDA and LFT acquisition | (1,194) | — |
| Change in fair value of contingent consideration liability from MedPartners acquisition | 2,520 | — |
| Balance as of September 30, | <u>\$ (8,793)</u> | <u>\$ (1,952)</u> |

| | Nine Months Ended September 30, | |
|---|---------------------------------|-------------------|
| | 2018 | 2017 |
| Balance as of January 1, \$ | (2,070) | \$ (6,816) |
| Settlement of The First String Healthcare contingent consideration liability for year ended December 31, 2016 | — | 3,000 |
| Settlement of HSG contingent consideration liability for year ended December 31, 2016 | 70 | 1,930 |
| Settlement of HSG contingent consideration liability for year ended December 31, 2017 | 2,000 | — |
| Contingent consideration liability from PDA and LFT acquisition on April 6, 2018 | (5,700) | — |
| Contingent consideration liability from MedPartners acquisition on April 9, 2018 | (4,400) | — |
| Change in fair value of contingent consideration liability from HSG acquisition | — | (66) |
| Change in fair value of contingent consideration liability from PDA and LFT acquisition | (1,213) | — |
| Change in fair value of contingent consideration liability from MedPartners acquisition | 2,520 | — |
| Balance as of September 30, | <u>\$ (8,793)</u> | <u>\$ (1,952)</u> |

Assets Measured on a Non-Recurring Basis

The Company applies fair value techniques on a non-recurring basis associated with valuing potential impairment losses related to its goodwill, indefinite-lived intangible assets, long-lived assets, and equity investments.

The Company evaluates goodwill and indefinite-lived intangible assets annually for impairment and whenever circumstances occur indicating that goodwill might be impaired. The Company determines the fair value of its reporting units based on a combination of inputs, including the market capitalization of the Company, as well as Level 3 inputs such as discounted cash flows, which are not observable from the market, directly or indirectly. The Company determines the fair value of its indefinite-lived intangible assets using the income approach (relief-from-royalty method) based on Level 3 inputs.

The Company’s equity investment represents an investment in a non-controlled corporation without a readily determinable market value. The Company has elected to measure the investment at cost minus impairment, if any, plus or minus changes resulting from observable price changes. The fair value is determined by using quoted prices for identical or similar investments of the same issuer, which are Level 2 inputs. The Company recognizes changes to the fair value of its equity investment in interest expense, net, and other in the condensed consolidated statements of comprehensive income.

The following tables set forth a reconciliation of changes in the balance of the equity investment classified as Level 2 in the fair value hierarchy:

| | Three Months Ended September 30, | |
|-----------------------------|----------------------------------|----------|
| | 2018 | 2017 |
| Balance as of July 1, \$ | 2,000 | \$ 2,000 |
| Additional investment | 4,600 | — |
| Change in fair value | 1,359 | — |
| Balance as of September 30, | \$ 7,959 | \$ 2,000 |

| | Nine Months Ended September 30, | |
|-----------------------------|---------------------------------|----------|
| | 2018 | 2017 |
| Balance as of January 1, \$ | 2,000 | \$ — |
| Initial investment | — | 2,000 |
| Additional investment | 4,600 | — |
| Change in fair value | 1,359 | — |
| Balance as of September 30, | \$ 7,959 | \$ 2,000 |

There were no triggering events identified, no indication of impairment of the Company's goodwill, indefinite-lived intangible assets, long-lived assets, or equity investments, and no impairment charges recorded during the nine months ended September 30, 2018 and 2017.

Fair Value of Financial Instruments

The Company is required to disclose the fair value of financial instruments for which it is practicable to estimate the value, even though these instruments are not recognized at fair value in the consolidated balance sheets. As of September 30, 2018, the Company's senior notes have a carrying amount of \$325,000 and an estimated fair value of \$314,438. As of December 31, 2017, the senior notes had a carrying amount of \$325,000 and an estimated fair value of \$335,156. Quoted market prices in active markets for identical liabilities based inputs (Level 1) were used to estimate fair value. The senior notes were issued in October 2016 and have a fixed rate of 5.125%. See additional information in "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note (8), Notes Payable and Credit Agreement" of our 2017 Annual Report.

The fair value of the Company's long-term self-insurance accruals cannot be estimated as the Company cannot reasonably determine the timing of future payments.

8. INCOME TAXES

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. With few exceptions, as of September 30, 2018, the Company is no longer subject to state, local or foreign examinations by tax authorities for tax years before 2009, and the Company is no longer subject to U.S. federal income or payroll tax examinations for tax years before 2015. The IRS conducted, completed, and settled audits of the Company's 2011-2012 and 2013 tax years related to income and employment tax issues for the Company's treatment of certain non-taxable per diem allowances and travel benefits in November 2017 and May 2018, respectively.

The Company believes its reserve for unrecognized tax benefits and contingent tax issues is adequate with respect to all open years. Notwithstanding the foregoing, the Company could adjust its provision for income taxes and contingent tax liability based on future developments.

Immaterial Tax Correction Related to Prior Periods

During the first quarter of 2018, the Company identified an error related to the income tax treatment of fair value changes in the cash surrender value of its Company Owned Life Insurance (COLI) for prior years. These fair value changes had not previously been included as a net tax benefit in the provision for prior periods. In accordance with ASC 250, *Accounting Changes and Error Corrections*, management evaluated the materiality of the error from qualitative and quantitative

perspectives, and concluded that the error was not material to the consolidated financial statements of prior years, nor is it believed to be material to 2018's full year consolidated financial statements. As a result, the Company recorded a net tax benefit of \$2,501 in the first quarter of 2018 to adjust for this immaterial error correction.

Tax Cuts and Jobs Act

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35 % to 21 %.

The Tax Act changes that affected the Company in 2017 are primarily tax rate changes on certain deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs"). The staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements.

The Tax Act also establishes new tax laws that will affect 2018 and beyond, including, but not limited to, (1) reduction of the U.S. federal corporate tax rate; (2) the repeal of the domestic production activity deduction; (3) limitations on the deductibility of certain executive compensation; and (4) limitations on various entertainment and meals deductions.

The Company's accounting for the Tax Act is incomplete, primarily relating to executive compensation. However, the Company was able to make reasonable estimates of these elements and, therefore, recorded provisional adjustments for these items. Final adjustments will be made in the quarter ended December 31, 2018 and are not expected to be material.

9. COMMITMENTS AND CONTINGENCIES: LEGAL PROCEEDINGS

From time to time, the Company is involved in various lawsuits, claims, investigations, and proceedings that arise in the ordinary course of business. These matters typically relate to professional liability, tax, compensation, contract, competitor disputes and employee-related matters and include individual and class action lawsuits, as well as inquiries and investigations by governmental agencies regarding the Company's employment and compensation practices. Additionally, some of the Company's clients may also become subject to claims, governmental inquiries and investigations, and legal actions relating to services provided by the Company's healthcare professionals. Depending upon the particular facts and circumstances, the Company may also be subject to indemnification obligations under its contracts with such clients relating to these matters. The Company records a liability when management believes an adverse outcome from a loss contingency is both probable and the amount, or a range, can be reasonably estimated. Significant judgment is required to determine both probability of loss and the estimated amount. The Company reviews its loss contingencies at least quarterly and adjusts its accruals and/or disclosures to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, or other new information, as deemed necessary. The most significant matters for which the Company has established loss contingencies are class actions related to wage and hour claims under California and Federal law. Specifically, among other claims in these lawsuits, it is alleged that employees were not afforded required breaks or compensated for all time worked, employees' wage statements are not sufficiently clear, and certain expense reimbursements should be included in the regular rate of pay for purposes of calculating overtime rates. The Company believes that its wage and hour practices conform with law in all material respects, but litigation is always subject to inherent uncertainty. As a result, the Company entered into settlement agreements relating to claims in two wage and hour class actions during September and October 2018. The settlement agreements are subject to court approval, which is considered probable. The Company recorded increases to its accruals established in connection with these matters amounting to \$12,140 during the three months ended September 30, 2018 .

With regard to outstanding loss contingencies as of September 30, 2018 , which are included in accounts payable and accrued expenses in the condensed consolidated balance sheet, the Company believes that such matters will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows.

10. BALANCE SHEET DETAILS

The consolidated balance sheets detail is as follows as of September 30, 2018 and December 31, 2017 :

| | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Other current assets: | | |
| Restricted cash and cash equivalents | \$ 22,227 | \$ 25,506 |
| Income tax receivable | 2,901 | 15,898 |
| Other | 10,230 | 9,589 |
| Other current assets | <u>\$ 35,358</u> | <u>\$ 50,993</u> |
| Fixed assets: | | |
| Furniture and equipment | \$ 32,814 | \$ 29,494 |
| Software | 155,534 | 132,770 |
| Leasehold improvements | 8,315 | 9,056 |
| | <u>196,663</u> | <u>171,320</u> |
| Accumulated depreciation | (109,846) | (97,889) |
| Fixed assets, net | <u>\$ 86,817</u> | <u>\$ 73,431</u> |
| Other assets: | | |
| Life insurance cash surrender value | \$ 58,576 | \$ 48,145 |
| Other | 34,630 | 26,221 |
| Other assets | <u>\$ 93,206</u> | <u>\$ 74,366</u> |
| Accounts payable and accrued expenses: | | |
| Trade accounts payable | \$ 21,217 | \$ 31,420 |
| Subcontractor payable | 46,276 | 41,786 |
| Accrued expenses | 37,802 | 29,238 |
| Loss contingencies | 25,042 | 12,548 |
| Professional liability reserve | 8,510 | 7,672 |
| Other | 3,696 | 7,655 |
| Accounts payable and accrued expenses | <u>\$ 142,543</u> | <u>\$ 130,319</u> |
| Accrued compensation and benefits: | | |
| Accrued payroll | \$ 39,665 | \$ 33,923 |
| Accrued bonuses | 18,795 | 19,489 |
| Accrued travel expense | 3,618 | 3,256 |
| Health insurance reserve | 3,820 | 3,658 |
| Workers compensation reserve | 7,789 | 8,553 |
| Deferred compensation | 59,502 | 49,330 |
| Other | 2,443 | 3,214 |
| Accrued compensation and benefits | <u>\$ 135,632</u> | <u>\$ 121,423</u> |
| Other long-term liabilities: | | |
| Workers compensation reserve | \$ 19,387 | \$ 19,074 |
| Professional liability reserve | 37,847 | 38,964 |
| Deferred rent | 15,053 | 14,744 |
| Unrecognized tax benefits | 4,221 | 5,270 |
| Deferred revenue | 994 | 960 |
| Other | 25 | 267 |
| Other long-term liabilities | <u>\$ 77,527</u> | <u>\$ 79,279</u> |

Item 2 . Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto and other financial information included elsewhere herein and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 , filed with the Securities and Exchange Commission (“SEC”) on February 16, 2018 (“ 2017 Annual Report”). 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.” We undertake no obligation to update the forward-looking statements in this Quarterly Report. References in this Quarterly Report to “AMN Healthcare,” the “Company,” “we,” “us” and “our” refer to AMN Healthcare Services, Inc. and its wholly owned subsidiaries.

Overview of Our Business

We provide healthcare workforce solutions and staffing services to healthcare facilities across the nation. As an innovative workforce solutions partner, our managed services programs, or “MSP,” vendor management systems, or “VMS,” workforce consulting services, predictive modeling, staff scheduling, mid-revenue cycle solutions and the placement of physicians, nurses, allied healthcare professionals and healthcare leaders into temporary and permanent positions enable our clients to successfully reduce staffing complexity, increase efficiency and lead their organizations within the rapidly evolving healthcare environment.

We conduct business through three reportable segments: (1) nurse and allied solutions, (2) locum tenens solutions, and (3) other workforce solutions. For the three months ended September 30, 2018 , we recorded revenue of \$526.8 million , as compared to \$494.4 million for the same period last year. For the three months ended September 30, 2018 , we recorded net income of \$27.9 million , as compared to \$28.1 million for the same period last year. For the nine months ended September 30, 2018 , we recorded revenue of \$1,607.4 million , as compared to \$1,479.4 million for the same period last year. For the nine months ended September 30, 2018 , we recorded net income of \$106.1 million , as compared to \$91.4 million for the same period last year.

Nurse and allied solutions segment revenue comprised 61% and 62% of total consolidated revenue for the nine months ended September 30, 2018 and 2017 , respectively. Through our nurse and allied solutions segment, we provide hospitals and other healthcare facilities with a comprehensive managed services solution in which we manage and staff all of the temporary nursing and allied staffing needs of a client and traditional clinical staffing solutions of variable assignment lengths.

Locum tenens solutions segment revenue comprised 19% and 22% of total consolidated revenue for the nine months ended September 30, 2018 and 2017 , respectively. Through our locum tenens solutions segment, we provide a comprehensive managed services solution in which we manage all of the locum tenens needs of a client and place physicians of all specialties, as well as dentists and advanced practice providers, with clients on a temporary basis as independent contractors. These locum tenens providers are used by our clients to fill temporary vacancies created by vacation and leave schedules and to bridge the gap while they seek permanent candidates or explore expansion. Our locum tenens clients represent a diverse group of healthcare organizations throughout the United States, including hospitals, health systems, medical groups, occupational medical clinics, psychiatric facilities, government institutions, and insurance entities. The professionals we place are recruited nationwide and are typically placed on contracts with assignment lengths ranging from a few days to one year.

Other workforce solutions segment revenue comprised 20% and 16% of total consolidated revenue for the nine months ended September 30, 2018 and 2017 , respectively. Through our other workforce solutions segment, we provide hospitals and other healthcare facilities with a range of workforce solutions, including: (1) identifying and recruiting physicians and healthcare leaders for permanent placement, (2) placing interim leaders and executives across all healthcare settings, (3) a software-as-a-service (“SaaS”) VMS through which our clients can manage all of their temporary staffing needs, (4) RPO services that leverage our expertise and support systems to replace or complement a client’s existing internal recruitment function for permanent placement needs, (5) an education program that provides custom healthcare education, research, professional practice tools, and professional development services, (6) mid-revenue cycle management and related consulting services, and (7) workforce optimization services that include consulting, data analytics, predictive modeling, and SaaS-based scheduling technology.

As part of our long-term growth strategy to add value for our clients, healthcare professionals, and shareholders, on April 6, 2018 and April 9, 2018, we acquired Phillips DiPisa and Leaders For Today (“PDA and LFT” or “PDA/LFT”) and MedPartners HIM (“MedPartners”), respectively. PDA and LFT offer a range of leadership staffing and permanent placement solutions for the healthcare industry. MedPartners provides mid-revenue cycle management solutions, including case

management, clinical documentation improvement, medical coding and registry services to hospitals and physician medical groups nationwide. See additional information in the accompanying Note (2), “Acquisitions.”

Recent Trends

Demand for our temporary and permanent placement staffing services is driven in part by U.S. economic and labor trends. The U.S. Bureau of Labor Statistics’ survey data reflects near record levels of healthcare job openings and quits. We view this data, along with a nearly 20-year-low unemployment rate and continued economic growth as positive trends for the healthcare staffing industry. The low unemployment rate has led to some wage growth to attract healthcare professionals.

The increasing consolidation within the healthcare industry is creating larger, more sophisticated and complex health systems that we believe has elevated the need for strategic workforce solutions capable of partnering to solve their recruiting, staffing and workforce optimization requirements. Given the increasing need for partners capable of offering a comprehensive workforce solution, we continue to see the benefits of our workforce solutions strategy, particularly with our MSPs. As a result of our ongoing focus on these strategic MSP relationships, the percentage of our staffing revenue derived from our MSP clients continues to increase.

In our nurse and allied solutions segment, although clients have focused this year on hiring more permanent staff and increasing the utilization of their staff, overall demand for our travel nurse staffing business has been improving and our nurse orders are now trending above prior year levels. Although we continue to negotiate bill rate increases, a reduced mix of nursing placements utilizing premium bill rates has lowered the overall average bill rates in this business.

In our locum tenens solutions segment, in late 2017 and in the first half of 2018 we made operating model changes and implemented new front and back office technologies. Although these changes are expected to have a long-term positive impact on our growth and profitability, they continue to be disruptive to our current sales productivity and revenue. We believe the overall demand environment for locum tenens is relatively stable and that client interest in managed service programs is increasing.

In our other workforce solutions segment, our permanent placement, mid-revenue cycle and workforce consulting businesses are growing, but continue to be offset by lower revenue in our vendor management systems business.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with United States generally accepted accounting principles (“U.S. GAAP”) 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 ongoing basis, we evaluate our estimates, including those related to asset impairments, accruals for self-insurance, compensation and related benefits, accounts receivable, contingencies and litigation, earn-out liabilities, and income taxes. We base these estimates on the information that is currently available to us and on various other assumptions that we believe are reasonable under the circumstances. Actual results could vary from these estimates under different assumptions or conditions. If these estimates differ significantly from actual results, our consolidated financial statements and future results of operations may be materially impacted. There have been no material changes in our critical accounting policies and estimates, other than the adoption of the Accounting Standards Updates (“ASUs”) described in Item 1. Condensed Consolidated Financial Statements—Note 1, “Basis of Presentation,” as compared to the critical accounting policies and estimates described in our 2017 Annual Report.

Results of Operations

The following table sets forth, for the periods indicated, selected unaudited condensed consolidated statements of operations data as a percentage of revenue. Our results of operations include three reportable segments: (1) nurse and allied solutions, (2) locum tenens solutions, and (3) other workforce solutions. The MedPartners and PDA/LFT acquisitions impact the comparability of the results between the three and nine months ended September 30, 2018 and 2017 depending on the timing of the applicable acquisition. Our historical results are not necessarily indicative of our future results of operations.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|--------|---------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Unaudited Condensed Consolidated Statements of Operations: | | | | |
| Revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of revenue | 66.8 | 67.7 | 67.4 | 67.4 |
| Gross profit | 33.2 | 32.3 | 32.6 | 32.6 |
| Selling, general and administrative | 23.0 | 20.3 | 21.2 | 20.2 |
| Depreciation and amortization | 2.1 | 1.7 | 1.9 | 1.6 |
| Income from operations | 8.1 | 10.3 | 9.5 | 10.8 |
| Interest expense, net, and other | 0.9 | 1.0 | 1.0 | 1.0 |
| Income before income taxes | 7.2 | 9.3 | 8.5 | 9.8 |
| Income tax expense | 1.9 | 3.6 | 1.9 | 3.6 |
| Net income | 5.3% | 5.7% | 6.6% | 6.2% |

Comparison of Results for the Three Months Ended September 30, 2018 to the Three Months Ended September 30, 2017

Revenue. Revenue increased 7% to \$526.8 million for the three months ended September 30, 2018 from \$494.4 million for the same period in 2017, primarily attributable to additional revenue of \$38.2 million from our PDA/LFT and MedPartners acquisitions. Excluding the additional revenue from acquisitions, revenue decreased 1%.

Nurse and allied solutions segment revenue increased 1% to \$306.3 million for the three months ended September 30, 2018 from \$302.9 million for the same period in 2017. The \$3.4 million increase was primarily attributable to a 2% increase in the average number of healthcare professionals on assignment, partially offset by a lower average bill rate during the three months ended September 30, 2018.

Locum tenens solutions segment revenue decreased 9% to \$101.1 million for the three months ended September 30, 2018 from \$111.4 million for the same period in 2017. The \$10.3 million decrease was primarily attributable to a 15% decrease in the number of days filled during the three months ended September 30, 2018, partially offset by a 7% increase in the revenue per day filled.

Other workforce solutions segment revenue increased 49% to \$119.4 million for the three months ended September 30, 2018 from \$80.1 million for the same period in 2017. Of the \$39.3 million increase, \$38.2 million was attributable to additional revenue in connection with the PDA/LFT and MedPartners acquisitions, with the remainder primarily attributable to growth in our permanent placement, mid-revenue cycle and workforce consulting businesses, partially offset by a decline in our interim leadership and VMS businesses during the three months ended September 30, 2018.

Gross Profit. Gross profit increased 10% to \$175.1 million for the three months ended September 30, 2018 from \$159.5 million for the same period in 2017, representing gross margins of 33.2% and 32.3%, respectively. The gross margin for the three months ended September 30, 2018 was positively impacted by higher-than-average gross margins from PDA/LFT and MedPartners and a change in our physician permanent placement business model that prompted a \$3.3 million classification of certain recruiter compensation expenses to SG&A (as defined below) that was previously in cost of revenue. Net of these factors, our year-over-year gross margin declined primarily due to a lower margin in our locum tenens solutions segment. Gross margin by reportable segment for the three months ended September 30, 2018 and 2017 was 27.4% and 27.3% for nurse and allied solutions, 28.4% and 30.1% for locum tenens solutions, and 52.4% and 54.1% for other workforce solutions, respectively. The other workforce solutions segment decrease during the three months ended September 30, 2018 was primarily due to the change in sales mix resulting from the additions of PDA/LFT and MedPartners.

Selling, General and Administrative Expenses. Selling, general and administrative (“SG&A”) expenses were \$121.2 million , representing 23.0% of revenue, for the three months ended September 30, 2018 , as compared to \$100.6 million , representing 20.3% of revenue, for the same period in 2017 . The increase in SG&A expenses was primarily due to \$8.7 million of additional SG&A expenses from the PDA/LFT and MedPartners acquisitions and a \$12.1 million increase in accruals related to the probable settlements of two legal matters. The year-over-year increase in SG&A expenses in unallocated corporate overhead was primarily driven by the increase in legal accruals during the three months ended September 30, 2018 . See additional information in the accompanying Note (9), “Commitments and Contingencies: Legal Proceedings.” SG&A expenses broken down among the reportable segments, unallocated corporate overhead, and share-based compensation are as follows:

| | (In Thousands) | |
|--------------------------------|----------------------------------|-------------------|
| | Three Months Ended September 30, | |
| | 2018 | 2017 |
| Nurse and allied solutions | \$ 41,643 | \$ 41,884 |
| Locum tenens solutions | 17,762 | 19,075 |
| Other workforce solutions | 33,575 | 23,445 |
| Unallocated corporate overhead | 26,427 | 13,698 |
| Share-based compensation | 1,809 | 2,477 |
| | <u>\$ 121,216</u> | <u>\$ 100,579</u> |

Depreciation and Amortization Expenses. Amortization expense increased 43% to \$6.7 million for the three months ended September 30, 2018 from \$4.7 million for the same period in 2017 , with the increase attributable to additional amortization expenses related to the intangible assets acquired in the PDA/LFT and MedPartners acquisitions. Depreciation expense increased 35% to \$4.6 million for the three months ended September 30, 2018 from \$3.4 million for the same period in 2017 , primarily attributable to an increase in purchased and developed hardware and software placed in service for our ongoing front and back office information technology initiatives.

Interest Expense, Net, and Other. Interest expense, net, and other, was \$4.6 million during the three months ended September 30, 2018 as compared to \$4.8 million for the same period in 2017 . The decrease is primarily due to a \$1.4 million gain related to the change in fair value of an equity investment, partially offset by higher average debt outstanding balance for the three months ended September 30, 2018 , which resulted from borrowings used to finance the MedPartners acquisition.

Income Tax Expense. Income tax expense was \$10.1 million for the three months ended September 30, 2018 as compared to \$17.9 million for the same period in 2017 , reflecting effective income tax rates of 27% and 39% for the three months ended September 30, 2018 and 2017 , respectively. The difference in the effective income tax rate was primarily attributable to the impact of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) which reduced the U.S. federal corporate tax rate from 35% to 21%, effective 2018. The decrease in the rate was partially offset by provisions of the Tax Act which disallowed certain fringe benefits, meals and entertainment deductions and performance based compensation for covered employees (Chief Executive Officer, Chief Financial Officer and the top three highest paid executive officers). We currently estimate our annual effective income tax rate to be approximately 24% for 2018 .

Comparison of Results for the Nine Months Ended September 30, 2018 to the Nine Months Ended September 30, 2017

Revenue. Revenue increased 9% to \$1,607.4 million for the nine months ended September 30, 2018 from \$1,479.4 million for the same period in 2017 , primarily attributable to additional revenue of \$73.8 million from our PDA/LFT and MedPartners acquisitions with the remainder of the increase driven by 4% organic growth.

Nurse and allied solutions segment revenue increased 7% to \$977.2 million for the nine months ended September 30, 2018 from \$917.2 million for the same period in 2017 . The \$60.0 million increase was primarily attributable to an approximately \$24.0 million increase in labor disruption revenue and a 4% increase in the average number of healthcare professionals on assignment, partially offset by a 2% decrease in the average bill rate during the nine months ended September 30, 2018 .

Locum tenens solutions segment revenue decreased 3% to \$311.5 million for the nine months ended September 30, 2018 from \$322.5 million for the same period in 2017 . The \$11.0 million decrease was primarily attributable to a 9% decrease in the number of days filled during the nine months ended September 30, 2018 , partially offset by a 6% increase in the revenue per day filled.

Other workforce solutions segment revenue increased 33% to \$318.7 million for the nine months ended September 30, 2018 from \$239.7 million for the same period in 2017 . Of the \$79.0 million increase , \$73.8 million was attributable to

additional revenue in connection with the PDA/LFT and MedPartners acquisitions, with the remainder primarily attributable to growth in our interim leadership, mid-revenue cycle management and workforce consulting businesses, partially offset by declines in our permanent placement and VMS businesses during the nine months ended September 30, 2018 .

Gross Profit. Gross profit increased 9% to \$523.9 million for the nine months ended September 30, 2018 from \$482.3 million for the same period in 2017 , representing gross margins of 32.6% for both periods. The gross margin for the nine months ended September 30, 2018 was positively impacted by higher-than-average gross margins from PDA/LFT and MedPartners and a change in our physician permanent placement business model that prompted a \$6.5 million classification of certain recruiter compensation expenses to SG&A that was previously in cost of revenue. These positives were partly offset by a below-average labor disruption gross margin. Net of these factors, our year-over-year gross margin declined primarily due to a lower margin in our locum tenens solutions segment. Gross margin by reportable segment for the nine months ended September 30, 2018 and 2017 was 27.2% and 27.6% for nurse and allied solutions, 29.0% and 30.2% for locum tenens solutions, and 52.6% and 54.9% for other workforce solutions, respectively. The other workforce solutions segment decrease during the nine months ended September 30, 2018 was primarily due to the change in sales mix resulting from the additions of PDA/LFT and MedPartners.

Selling, General and Administrative Expenses. SG&A expenses were \$341.5 million , representing 21.2% of revenue, for the nine months ended September 30, 2018 , as compared to \$299.3 million , representing 20.2% of revenue, for the same period in 2017 . The increase in SG&A expenses was primarily due to \$16.2 million of additional SG&A expenses from the PDA/LFT and MedPartners acquisitions, a \$12.1 million increase in accruals related to the probable settlements of two legal matters, \$2.1 million lower actuarial-based decrease in our professional liability reserves as compared to the same period in 2017 and other expenses associated with our revenue growth. The year-over-year increase in SG&A expenses in the nurse and allied solutions segment was primarily driven by additional expenses to support the labor disruption revenue during the nine months ended September 30, 2018 and additional employee and insurance expenses associated with the revenue growth. The year-over-year increase in SG&A expenses in unallocated corporate overhead was primarily driven by the increase in legal accruals during the nine months ended September 30, 2018 . See additional information in the accompanying Note (9), “Commitments and Contingencies: Legal Proceedings.” SG&A expenses broken down among the reportable segments, unallocated corporate overhead, and share-based compensation are as follows:

| | (In Thousands) | |
|--------------------------------|---------------------------------|------------|
| | Nine Months Ended September 30, | |
| | 2018 | 2017 |
| Nurse and allied solutions | \$ 128,107 | \$ 118,464 |
| Locum tenens solutions | 55,930 | 58,507 |
| Other workforce solutions | 90,226 | 69,902 |
| Unallocated corporate overhead | 59,271 | 44,732 |
| Share-based compensation | 7,954 | 7,720 |
| | \$ 341,488 | \$ 299,325 |

Depreciation and Amortization Expenses. Amortization expense increased 27% to \$17.6 million for the nine months ended September 30, 2018 from \$13.9 million for the same period in 2017 , with the increase attributable to additional amortization expenses related to the intangible assets acquired in the PDA/LFT and MedPartners acquisitions. Depreciation expense increased 24% to \$12.2 million for the nine months ended September 30, 2018 from \$9.8 million for the same period in 2017 , primarily attributable to an increase in purchased and developed hardware and software placed in service for our ongoing front and back office information technology initiatives.

Interest Expense, Net, and Other . Interest expense, net, and other, was \$16.4 million during the nine months ended September 30, 2018 as compared to \$14.9 million for the same period in 2017 . The increase is primarily due to the write-off of unamortized deferred financing fees in connection with the refinancing of our prior credit facilities during the first quarter of 2018 and a higher average debt outstanding balance for the nine months ended September 30, 2018 , which resulted from borrowings used to finance the MedPartners acquisition. See additional information in the accompanying Note (6), “New Credit Agreement.” The overall increase is partially offset by a \$1.4 million gain related to the change in fair value of an equity investment during the nine months ended September 30, 2018 .

Income Tax Expense . Income tax expense was \$30.2 million for the nine months ended September 30, 2018 as compared to income tax expense of \$53.0 million for the same period in 2017 , reflecting effective income tax rates of 22% and 37% for the nine months ended September 30, 2018 and 2017 , respectively. The difference in the effective income tax rate was primarily attributable to the impact of the Tax Act which reduced the U.S. federal corporate tax rate from 35% to 21%, effective

2018. In addition, the Company recorded a net tax benefit of \$3.0 million during the nine months ended September 30, 2018 to adjust for the tax treatment of fair value changes in the cash surrender value of its Company Owned Life Insurance (“COLI”). See accompanying Note (8), “Income Taxes” for discussion of immaterial tax correction related to prior periods. The decrease in the rate was partially offset by provisions of the Tax Act which disallowed certain fringe benefits, meals and entertainment deductions and performance based compensation for covered employees (Chief Executive Officer, Chief Financial Officer and the top three highest paid executive officers). We currently estimate our annual effective income tax rate to be approximately 24% for 2018 . The 22% effective tax rate in the nine months ended September 30, 2018 differs from our estimated annual effective income tax rate of 24% primarily due to a discrete tax benefit of \$5.1 million in the nine months ended September 30, 2018 relating to the application of ASU 2016-09, “Stock Compensation - Improvements to Employee Share-Based Payment Accounting” and the net tax benefit recorded in the nine months ended September 30, 2018 relating to COLI as discussed above. We have described ASU 2016-09 in further detail in “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note (1)(r), Recently Adopted Accounting Pronouncements” of our 2017 Annual Report on Form 10-K.

Liquidity and Capital Resources

In summary, our cash flows were:

| | (In Thousands) | |
|---|---------------------------------|----------------------|
| | Nine Months Ended September 30, | |
| | 2018 | 2017 *As Adjusted |
| Net cash provided by operating activities | \$ 168,046 | \$ 102,096 |
| Net cash used in investing activities | (271,648) | (24,045) |
| Net cash provided by (used in) financing activities | 81,774 | (63,824) |

* See Note (1) to the accompanying Condensed Consolidated Financial Statements, “Basis of Presentation” for a summary of adjustments resulting from the adoption of ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.”

Historically, our primary liquidity requirements have been for acquisitions, working capital requirements, and debt service under our credit facilities and the Notes. We have funded these requirements through internally generated cash flow and funds borrowed under our credit facilities. During the third quarter of 2017, we paid off the remaining balance of our term debt. On February 9, 2018, we replaced our then-existing credit agreement with our New Credit Agreement (as defined below). As of September 30, 2018 , \$150 million was drawn with \$239.8 million of available credit under the Senior Credit Facility (as defined below) and the aggregate principal amount of our 5.125% Senior Notes due 2024 (the “Notes”) outstanding equaled \$325.0 million . We describe in further detail our New Credit Agreement, under which our Senior Credit Facility is governed, and the Notes in “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note (8), Notes Payable and Credit Agreement” of our 2017 Annual Report on Form 10-K.

We believe that cash generated from operations and available borrowings under our Senior Credit Facility will be sufficient to fund our operations, including expected capital expenditures, for the next 12 months and beyond. We intend to finance potential future acquisitions with cash provided from operations, borrowings under our Senior Credit Facility or other borrowings under our New Credit Agreement, 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

Net cash provided by operating activities for the nine months ended September 30, 2018 was \$168.0 million , compared to \$102.1 million for the same period in 2017 . The increase in net cash provided by operating activities was primarily attributable to (1) improved operating results, (2) a decrease in income taxes receivable, and (3) increases in accounts payable and accrued expenses as well as accrued compensation and benefits between periods due to timing of payments. The overall increase was partially offset by a decrease in other liabilities and an increase in other current assets between periods. Our Days Sales Outstanding (“DSO”) was 64 days at September 30, 2018 , 63 days at December 31, 2017 , and 64 days at September 30, 2017 .

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2018 was \$271.6 million , compared to \$24.0 million for the same period in 2017 . The increase was primarily due to (1) \$217.4 million used for acquisitions during the nine months ended September 30, 2018 , as compared to no cash paid for acquisitions during the nine months ended September

30, 2017 , and (2) a net purchase of restricted investments related to our captive insurance company of \$16.8 million during the nine months ended September 30, 2018 , as compared to net proceeds of \$6.2 million during the nine months ended September 30, 2017 . See additional information in the accompanying Note (2), “Acquisitions.” Capital expenditures were \$23.9 million and \$17.2 million for the nine months ended September 30, 2018 and 2017 , respectively.

Financing Activities

Net cash provided by financing activities during the nine months ended September 30, 2018 was \$81.8 million , primarily due to borrowings of \$195.0 million under the Senior Credit Facility (as defined below), partially offset by (1) the repayment of \$45.0 million under the Senior Credit facility, (2) \$52.8 million in connection with the repurchase of our common stock, (3) \$2.3 million payment of financing costs in connection with the new credit agreement, (4) \$1.7 million for prior acquisition contingent consideration earn-out payments, and (5) \$11.4 million in cash paid for shares withheld for payroll taxes resulting from the vesting of employee equity awards. Net cash used in financing activities during the nine months ended September 30, 2017 was \$63.8 million , primarily due to (1) the repayment of \$44.1 million under our then-existing term loan, (2) \$3.7 million for prior acquisitions contingent consideration earn-out payments, (3) \$7.1 million paid in connection with the repurchase of our common stock, and (4) \$9.1 million in cash paid for shares withheld for payroll taxes resulting from the vesting of employee equity awards.

New Credit Agreement

On February 9, 2018, we entered into a credit agreement (the “New Credit Agreement”) with several lenders to provide for a \$400 million secured revolving credit facility (the “Senior Credit Facility”) to replace our then-existing Credit Agreement. The Senior Credit Facility includes a \$50 million sublimit for the issuance of letters of credit and a \$50 million sublimit for swingline loans. Our obligations under the New Credit Agreement and the Senior Credit Facility are secured by substantially all of our assets. Borrowings under the Senior Credit Facility bear interest at floating rates, at our option, based upon either LIBOR plus a spread of 1.00% to 2.00% or a base rate plus a spread of 0.00% to 1.00% . The applicable spread is determined quarterly based upon our consolidated net leverage ratio. The Senior Credit Facility is available for working capital, capital expenditures, permitted acquisitions and general corporate purposes. The maturity date of the Senior Credit Facility is February 9, 2023.

In connection with obtaining the New Credit Agreement, we incurred \$2.3 million in fees paid to lenders and other third parties, which were capitalized and are amortized to interest expense over the term of the Senior Credit Facility. In addition, we wrote off \$0.6 million of unamortized financing fees during the nine months ended September 30, 2018 related to our prior credit facilities. To help finance the MedPartners acquisition, we borrowed \$195.0 million from the Senior Credit Facility in April 2018. We paid down \$45 million during the nine months ended September 30, 2018 . The acquisition is more fully described in Note (2) to the accompanying Condensed Consolidated Financial Statements, “Acquisitions.”

Letters of Credit

At September 30, 2018 , we maintained outstanding standby letters of credit totaling \$12.9 million as collateral in relation to our workers’ compensation insurance agreements and a corporate office lease agreement. Of the \$12.9 million of outstanding letters of credit, we have collateralized \$2.7 million in cash and cash equivalents and the remaining amounts are collateralized by the Senior Credit Facility. Outstanding standby letters of credit at December 31, 2017 totaled \$22.0 million .

Off-Balance Sheet Arrangements

At September 30, 2018 , we did not have any off-balance sheet arrangement that has or is reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

Contractual Obligations

There have been no material changes during the nine months ended September 30, 2018 , other than the New Credit Agreement described in the accompanying Note (6), “New Credit Agreement” and the associated borrowings, to the table entitled “Contractual Obligations” in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth in our 2017 Annual Report.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, “Leases.” This standard requires organizations that lease assets to recognize the assets and liabilities created by those leases. The standard also will require disclosures to help investors and other

financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The ASU becomes effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are in the process of analyzing the impact of this standard and evaluating the impact on our consolidated financial statements. This includes reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. We completed our preliminary evaluation of the impact of this standard, including assessing the completeness of the lease population and analyzing the practical expedients. We expect to complete the evaluation of the impact of the accounting and disclosure requirements on our business processes, controls and systems by the end of 2018. The FASB recently issued guidance that provides an optional transition method for adoption of this standard, which allows organizations to initially apply the new requirements at the effective date, recognize a cumulative effect adjustment to the opening balance of retained earnings, and continue to apply the legacy guidance in Accounting Standards Codification 840, Leases, including its disclosure requirements, in the comparative periods presented. We will adopt this standard in the first quarter of 2019, and plan to apply the optional transition method and optional practical expedients. The adoption of this standard, which is subject to the completion of our assessment, will result in a significant increase to our consolidated balance sheet for lease liabilities and right-of-use assets.

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The standard simplifies the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure impairment. Instead, any goodwill impairment will equal the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Further, the guidance eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. This standard is effective for annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019, with early adoption permitted for impairment tests performed after January 1, 2017. While we continue to assess the timing of adopting this standard, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” The standard modifies the current disclosure requirements on fair value measurements and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating the timing of this new standard’s adoption and the effect that adopting it will have on our disclosures.

There have been no other new accounting pronouncements issued but not yet adopted that are expected to materially affect our consolidated financial condition or results of operations.

Special Note Regarding Forward-Looking Statements

This Quarterly Report 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 base these forward-looking statements on our expectations, estimates, forecasts, and projections about future events and about the industry in which we operate. Forward-looking statements are identified by words such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “will,” “should,” “would,” “project,” “may,” variations of such words, and other similar expressions. In addition, any statements that refer to projections of financial items, anticipated growth, future growth and revenues, future economic conditions and performance, plans, objectives and strategies for future operations, expectations, or other characterizations of future events or circumstances are forward-looking statements. All forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. Factors that could cause actual results to differ materially from those implied by the forward-looking statements in this Quarterly Report are set forth in our 2017 Annual Report and include but are not limited to:

- the effects of economic downturns or slow recoveries, which could result in less demand for our services and pricing pressures;
- any inability on our part to anticipate and quickly respond to changing marketplace conditions, such as alternative modes of healthcare delivery, reimbursement, or client needs;
- the negative effects that intermediary organizations may have on our ability to secure new and profitable contracts with our clients;
- the level of consolidation and concentration of buyers of healthcare workforce solutions and staffing services, which could affect the pricing of our services and our ability to mitigate concentration risk;

- the ability of our clients to increase the efficiency and effectiveness of their staffing management and recruiting efforts, through predictive analytics, online recruiting or otherwise, which may negatively affect our revenue, results of operations, and cash flows;
- the repeal or significant erosion of the Patient Protection and Affordable Care Act without a corresponding replacement may negatively affect the demand for our services;
- any inability on our part to grow and operate our business profitably in compliance with federal and state healthcare industry regulation, including conduct of operations, costs and payment for services and payment for referrals as well as laws regarding employment and compensation practices and government contracting;
- any challenge to the classification of certain of our healthcare professionals as independent contractors, which could adversely affect our profitability;
- the effect of investigations, claims, and legal proceedings alleging medical malpractice, violation of employment and wage regulations and other legal theories of liability asserted against us, which could subject us to substantial liabilities;
- security breaches and other disruptions that could compromise our information and expose us to liability, which could cause our business and reputation to suffer and could subject us to substantial liabilities;
- any technology disruptions or our inability to implement new infrastructure and technology systems effectively may adversely affect our operating results and our ability to manage our business effectively;
- disruption to or failures of our SaaS-based technology within certain of our service offerings or our inability to adequately protect our intellectual property rights with respect to such technology, which could reduce client satisfaction, harm our reputation, and negatively affect our business;
- the effect of cybersecurity risks and cyber incidents, which could adversely affect our business and disrupt our operations;
- any inability on our part to recruit and retain sufficient quality healthcare professionals at reasonable costs, which could increase our operating costs and negatively affect our business and profitability;
- any inability on our part to properly screen and match quality healthcare professionals with suitable placements, which may adversely affect demand for our services;
- any inability on our part to successfully attract, develop and retain a sufficient number of quality sales and operations personnel;
- our increasing dependence on third parties for the execution of certain critical functions;
- the loss of our key officers and management personnel, which could adversely affect our business and operating results;
- any inability to consummate and effectively integrate acquisitions into our business operations may adversely affect our long-term growth and our results of operations;
- any inability on our part to maintain our positive brand awareness and identity;
- any recognition by us of an impairment to the substantial amount of goodwill or indefinite-lived intangibles on our balance sheet;
- our substantial indebtedness and any inability on our part to generate sufficient cash flow to service our debt, which could adversely affect our ability to raise additional capital to fund operations and limit our ability to react to changes in the economy or our industry;
- the terms of our debt instruments that impose restrictions on us that may affect our ability to successfully operate our business; and
- the effect of significant adverse adjustments by us to our insurance-related accruals, which could decrease our earnings or increase our losses, as the case may be.

Item 3. Quantitative and Qualitative Disclosures 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. During the three and nine months ended September 30, 2018, our primary exposure to market risk was interest rate risk associated with our variable interest debt instruments. A 100 basis point increase

in interest rates on our variable rate debt would not have resulted in a material effect on our unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2018 . During the three and nine months ended September 30, 2018 , we generated substantially all of our revenue in the United States. Accordingly, we believe that our foreign currency risk is immaterial.

Item 4. *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 September 30, 2018 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 the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. *Legal Proceedings*

None.

Item 1A. *Risk Factors*

We do not believe that there have been any material changes to the risk factors disclosed in Part I, Item 1A of our 2017 Annual Report.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None.

Item 6. Exhibits

| Exhibit Number | Description |
|---------------------------|--|
| 31.1 | Certification by Susan R. Salka pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.* |
| 31.2 | Certification by Brian M. Scott pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.* |
| 32.1 | Certification by Susan R. Salka 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 Brian M. Scott pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 101.INS | XBRL Instance Document.* |
| 101.SCH | XBRL Taxonomy Extension Schema Document.* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.* |

* Filed herewith.

SIGNATURES

Pursuant to the requirements 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.

Date: November 2, 2018

AMN HEALTHCARE SERVICES, INC.

/ s / S U S A N R. S A L K A

Susan R. Salka
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2018

/ s / B R I A N M. S C O T T

Brian M. Scott
Chief Accounting Officer,
Chief Financial Officer and Treasurer
(Principal Accounting and Financial Officer)

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

I, Susan R. Salka, certify that:

1. I have reviewed this report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) Disclosed in this report any change in the registrant's internal control 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; and
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 / S USAN R. S ALKA

Susan R. Salka
Director, President and Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2018

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

I, Brian M. Scott, certify that:

1. I have reviewed this report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) Disclosed in this report any change in the registrant's internal control 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; and
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 / B R I A N M. S C O T T

**Brian M. Scott
Chief Accounting Officer,
Chief Financial Officer and Treasurer
(Principal Accounting and Financial Officer)**

Date: November 2, 2018

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 Quarterly Report of AMN Healthcare Services, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Susan R. Salka, President and 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/ SUSAN R. SALKA

Susan R. Salka
Director, President and Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2018

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 Quarterly Report of AMN Healthcare Services, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian M. Scott, Chief Accounting Officer, Chief Financial Officer and Treasurer 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/ B R I A N M. S C O T T

Brian M. Scott
Chief Accounting Officer,
Chief Financial Officer and Treasurer
(Principal Accounting and Financial Officer)

Date: November 2, 2018