
**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, 2006

Or

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

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)

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

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

92130
(Zip Code)

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 November 3, 2006, there were 34,025,819 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)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,511	\$ 19,110
Accounts receivable, net of allowance of \$3,077 and \$2,375 at September 30, 2006 and December 31, 2005, respectively	180,410	154,926
Prepaid expenses	11,212	12,763
Income tax receivable	5,625	8,311
Deferred income taxes, net	18,369	31,305
Other current assets	2,059	1,848
Total current assets	221,186	228,263
Fixed assets, net	22,286	20,164
Deposits and other assets	5,033	7,964
Goodwill, net	240,324	240,844
Intangible assets, net	117,788	121,152
Total assets	<u>\$ 606,617</u>	<u>\$ 618,387</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank overdraft	\$ 692	\$ —
Accounts payable and accrued expenses	22,582	19,092
Accrued compensation and benefits	43,167	32,208
Current portion of notes payable	10,340	10,250
Deferred revenue	7,533	7,610
Other current liabilities	25,891	59,018
Total current liabilities	110,205	128,178
Notes payable, less current portion	188,700	194,750
Deferred income taxes, net	55,343	65,132
Other long-term liabilities	27,908	37,127
Total liabilities	<u>382,156</u>	<u>425,187</u>
Stockholders' equity:		
Common stock, \$0.01 par value; 200,000 shares authorized; 44,663 and 43,747 shares issued at September 30, 2006 and December 31, 2005, respectively	446	437
Additional paid-in capital	376,321	355,762
Treasury stock, at cost (10,969 and 12,551 shares at September 30, 2006 and December 31, 2005, respectively)	(189,286)	(210,529)
Retained earnings	37,015	47,784
Accumulated other comprehensive loss	(35)	(254)
Total stockholders' equity	224,461	193,200
Total liabilities and stockholders' equity	<u>\$ 606,617</u>	<u>\$ 618,387</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue	\$ 282,728	\$ 166,883	\$ 798,169	\$ 484,414
Cost of revenue	206,036	127,339	583,154	371,985
Gross profit	<u>76,692</u>	<u>39,544</u>	<u>215,015</u>	<u>112,429</u>
Operating expenses:				
Selling, general and administrative	54,071	25,198	154,316	78,199
Depreciation and amortization	2,638	1,481	7,628	4,017
Total operating expenses	<u>56,709</u>	<u>26,679</u>	<u>161,944</u>	<u>82,216</u>
Income from operations	19,983	12,865	53,071	30,213
Interest expense, net	4,174	1,509	12,666	4,998
Income before income taxes	15,809	11,356	40,405	25,215
Income tax expense	6,337	4,508	15,361	9,958
Net income	<u>\$ 9,472</u>	<u>\$ 6,848</u>	<u>\$ 25,044</u>	<u>\$ 15,257</u>
Net income per common share:				
Basic	<u>\$ 0.29</u>	<u>\$ 0.24</u>	<u>\$ 0.78</u>	<u>\$ 0.53</u>
Diluted	<u>\$ 0.28</u>	<u>\$ 0.22</u>	<u>\$ 0.73</u>	<u>\$ 0.48</u>
Weighted average common shares outstanding:				
Basic	<u>32,453</u>	<u>28,763</u>	<u>32,146</u>	<u>28,621</u>
Diluted	<u>33,995</u>	<u>31,673</u>	<u>34,313</u>	<u>31,571</u>

See accompanying notes to unaudited condensed consolidated financial statements.

AMN HEALTHCARE SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Nine Months Ended September 30, 2006
(Unaudited and in thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance, December 31, 2005	43,747	\$ 437	\$ 355,762	\$ (210,529)	\$ 47,784	\$ (254)	\$ 193,200
Repurchase of common stock into treasury	—	—	—	(37,534)	—	—	(37,534)
Issuance of treasury stock for acquisition earnout	—	—	—	12,087	(1,427)	—	10,660
Exercise of stock options	916	9	5,827	46,690	(34,386)	—	18,140
Income tax benefit from stock option exercises	—	—	9,717	—	—	—	9,717
Stock-based compensation	—	—	5,015	—	—	—	5,015
Comprehensive income (loss):							
Foreign currency translation adjustment	—	—	—	—	—	(83)	(83)
Unrealized gain for derivative financial instruments, net of tax	—	—	—	—	—	302	302
Net income	—	—	—	—	25,044	—	25,044
Total comprehensive income							25,263
Balance, September 30, 2006	<u>44,663</u>	<u>\$ 446</u>	<u>\$ 376,321</u>	<u>\$ (189,286)</u>	<u>\$ 37,015</u>	<u>\$ (35)</u>	<u>\$ 224,461</u>

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,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 25,044	\$ 15,257
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,628	4,017
Provision for bad debts	2,122	903
Non-cash interest expense	2,647	887
Provision for deferred income taxes	12,662	3,513
Non-cash stock-based compensation	5,015	121
Loss (gain) on disposal or sale of fixed assets	54	(54)
Changes in assets and liabilities:		
Accounts receivable	(27,606)	568
Prepaid expenses and other current assets	1,181	668
Deposits and other assets	3,049	(1,691)
Accounts payable and accrued expenses	3,490	(895)
Accrued compensation and benefits	10,959	1,271
Income taxes payable	(3,081)	708
Other liabilities	2,784	2,923
Net cash provided by operating activities	<u>45,948</u>	<u>28,196</u>
Cash flows from investing activities:		
Purchase and development of fixed assets	(6,717)	(3,056)
Cash paid for acquisition, net of cash received	(35,963)	(411)
Net cash used in investing activities	<u>(42,680)</u>	<u>(3,467)</u>
Cash flows from financing activities:		
Capital lease repayments	(367)	(261)
Proceeds from issuance of notes payable	30,000	—
Payments on notes payable	(35,960)	(13,893)
Payment of financing costs	(330)	(82)
Repurchase of common stock	(37,534)	—
Proceeds from exercise of stock options	18,140	1,976
Issuance costs of common stock	—	(544)
Excess tax benefit from stock option exercises	6,575	—
Change in bank overdraft	692	(1,093)
Net cash used in financing activities	<u>(18,784)</u>	<u>(13,897)</u>
Effect of exchange rate changes on cash	(83)	(1)
Net increase (decrease) in cash and cash equivalents	(15,599)	10,831
Cash and cash equivalents at beginning of period	19,110	3,908
Cash and cash equivalents at end of period	<u>\$ 3,511</u>	<u>\$ 14,739</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest (net of \$50 and \$26 capitalized during the nine months ended September 30, 2006 and 2005, respectively)	<u>\$ 10,659</u>	<u>\$ 4,260</u>
Cash paid (received) for income taxes	<u>\$ (896)</u>	<u>\$ 5,736</u>
Supplemental disclosures of non-cash investing and financing activities:		
Fixed assets acquired through capital leases	<u>\$ 793</u>	<u>\$ 591</u>
Net change in foreign currency translation adjustment and unrealized gain on derivative financial instruments, net of tax	<u>\$ 219</u>	<u>\$ 45</u>
Issuance of treasury stock for acquisition earnout	<u>\$ 10,660</u>	<u>\$ —</u>

See accompanying notes to unaudited condensed consolidated financial statements.

AMN HEALTHCARE SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated balance sheets and related condensed consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows contained in this Quarterly Report on Form 10-Q, which are unaudited, include the accounts of AMN Healthcare Services, Inc. (the "Company") and its wholly-owned subsidiaries. The Company completed its acquisition of The MHA Group, Inc. and subsidiaries ("MHA") in November 2005. Thus, the condensed consolidated statements of operations for the three and nine month periods ended September 30, 2005, and the condensed consolidated statement of cash flows for the nine month period ended September 30, 2005 do not include the results of operations and cash flows of MHA. 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 condensed consolidated financial statements have been included. These entries consisted only of 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.

The 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 United States generally accepted accounting principles. Please refer to the Company's audited consolidated financial statements and the related notes for the year ended December 31, 2005, contained in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission (the "SEC").

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Certain amounts in the condensed consolidated financial statements for the three and nine month periods ended September 30, 2005 have been reclassified to conform to the three and nine month periods ended September 30, 2006 presentation.

2. STOCK-BASED COMPENSATION

The Company adopted the provisions of Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards No. 123 (SFAS No. 123R), *Share-Based Payment*, on January 1, 2006. Under SFAS No. 123R, stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period. The Company adopted the provisions of SFAS No. 123R using a modified prospective application. The provisions of SFAS No. 123R apply to new awards and to awards that are outstanding on the effective date and subsequently modified or cancelled. Estimated compensation expense for unvested awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), adjusted for estimated forfeitures. The Company previously applied Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and provided the required pro forma disclosures under SFAS No. 123.

In November 1999, the Company established two performance stock option plans (the 1999 Plans), which were approved by the Company's shareholders prior to the Company's initial public offering, to provide for the grant of options to the Company's upper management. Options under the 1999 Plans have a maximum contractual life of ten years and began vesting at 25% per year beginning in the year 2000 provided certain

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

earnings performance criteria were met and the grantee remained an employee. If the Company did not meet the performance criteria for a particular year, the portion of the option which was eligible to become vested terminated. Pursuant to the amended provisions of the 1999 Plans, all options previously granted under the 1999 Plans became fully vested upon the November 2001 common stock offering and at September 30, 2006 are fully exercisable. Upon optionee exercise of outstanding stock options, the Company issues shares from its authorized but unissued common stock or shares of common stock reacquired by the Company. All previously granted options under the 1999 Plans expire in 2009.

In July 2001, the Company established the 2001 Stock Option Plan to provide a means to attract and retain employees. In May 2004, the Company's shareholders approved the amended and restated 2001 Stock Option Plan, which was renamed the Stock Option Plan. Stock options granted have a maximum contractual life of ten years. Exercise prices are determined at the time of grant and are no less than fair market value of the underlying common stock on the date of grant. Unless otherwise provided at the time of the grant, the options shall vest and become exercisable in increments of 25% on each of the first four anniversaries of the date of grant. Upon optionee exercise of outstanding stock options, the Company issues shares from its authorized but unissued common stock or shares of common stock reacquired by the Company. The plan expires on the tenth anniversary of the effective date.

In April 2006, the Company established the AMN Healthcare Equity Plan ("Equity Plan"), which was approved by the Company's shareholders. Equity awards, based on the Company's common stock, may be issued under the Equity Plan for a maximum of 723,275 shares plus the number of shares of common stock underlying any grants under the Company's Stock Option Plan that are forfeited, cancelled or terminated (other than by exercise) from and after the effective date of the Equity Plan. There will be no further equity awards granted from the Stock Option Plan or the 1999 Plans. Pursuant to the Equity Plan, equity awards granted have a maximum contractual life of ten years and exercise prices will be determined at the time of grant and will be no less than fair market value of the underlying common stock on the date of grant. Any shares to be issued under the Equity Plan will be issued by the Company from authorized but unissued common stock or shares of common stock reacquired by the Company. For the nine months ended September 30, 2006, 386,000 stock appreciation rights ("SARs") and 262,000 restricted stock units ("RSUs") were granted to employees, officers and directors of the Company under the Equity Plan. The SARs typically vest ratably over a three year period, with one third of the awards vesting annually. The RSUs typically vest at the end of a three year vesting period, however one-third of the awards may vest on each of the first and second anniversary date if certain performance targets are met. There were no stock options granted during the nine months ended September 30, 2006. The Equity Plan expires on the tenth anniversary of the effective date.

Stock Options and SARs

Stock options entitle the holder to purchase, at the end of a vesting period, a specified number of shares of the Company's common stock at a price per share set at the date of grant. SARs, granted under the Company's Equity Plan, entitle the holder to receive, at the end of a vesting period, shares of the Company's common stock equal to the difference between the exercise price of the SAR, which is set at the date of grant, and the current fair market value of the Company's common stock on the date of exercise.

Stock-based compensation cost of stock options and SARs is measured based on several criteria including, but not limited to, the valuation model used and associated input factors such as expected term of the award, stock price volatility, dividend rate, risk-free interest rate, and award forfeiture rate. The input factors to be used in the valuation model are based on subjective future expectations combined with management judgment. The Company estimates the fair value of awards granted using the Black-Scholes option pricing model. After consideration of both its implied volatility and historical volatility, the Company determined its historical

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

volatility to be the most accurate estimate of future volatility and therefore utilizes this measure. The Company estimates the expected term based on historical exercise patterns, and based the dividend yield assumption on historical dividend payouts, which is zero. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected term of the Company's options. The Company uses historical data to estimate pre-vesting award forfeitures and records stock-based compensation expense only for those awards that are expected to vest. The fair value of awards granted is amortized on a straight-line basis over the requisite service periods of the awards, which are the vesting periods.

Prior to January 1, 2006, for disclosure purposes under SFAS No. 123, the Company estimated the fair value of awards granted consistent with the current methodology utilizing the Black-Scholes option pricing model. The Company estimated the option term, dividend yield, and risk-free interest rate assumptions consistent with the current methodology, however the volatility of the Company's common stock at the date of grant was based on a combination of the Company's historical volatility rate and the historical volatility rate of comparable companies. Also, prior to January 1, 2006, compensation expense previously recorded for unvested employee stock-based compensation awards that were forfeited upon employee termination was reversed in the period of forfeiture.

Stock-based compensation expense for the nine months ended September 30, 2006 and pro-forma stock-based compensation expense for the nine months ended September 30, 2005 for stock options and SARs granted was estimated at the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions (annualized percentages):

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Expected term	4.5 years	5.0 years
Risk-free interest rate	5.1%	4.0%
Volatility	46%	48%
Dividend yield	0%	0%

The weighted average grant date fair value of the 386,000 SARs granted during the nine months ended September 30, 2006 was \$8.04 per SAR, and the weighted average grant date fair value of stock options granted during the nine months ended September 30, 2005 was \$6.99 per stock option. As of September 30, 2006, there was \$10.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to non-vested stock options and SARs. The Company expects to recognize such cost over a weighted average period of 2.1 years. The total intrinsic value of stock options exercised was \$60,020,000 and \$4,732,000 for the nine months ended September 30, 2006 and 2005, respectively.

The following table summarizes stock option and SAR activity for the nine months ended September 30, 2006:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2006	7,171	\$ 9.55		
Granted	386	\$ 18.07		
Exercised	(3,629)	\$ 5.00		
Cancelled/forfeited/expired	(47)	\$ 17.07		
Outstanding at September 30, 2006	<u>3,881</u>	<u>\$ 14.57</u>	<u>7.2</u>	<u>\$ 35,628</u>
Exercisable at September 30, 2006	<u>2,143</u>	<u>\$ 14.20</u>	<u>6.2</u>	<u>\$ 20,466</u>

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Restricted Stock Units

RSUs, granted under the Company's Equity Plan, entitle the holder to receive, at the end of a vesting period, a specified number of shares of the Company's common stock. Stock-based compensation cost of RSUs is measured by the market value of the Company's common stock on the date of grant. The weighted average grant date fair value was \$18.08 per RSU for the 262,000 RSUs granted during the nine months ended September 30, 2006. The Company uses historical data to estimate pre-vesting award forfeitures and records stock-based compensation expense only for those awards that are expected to vest. The fair value of awards granted is amortized on a straight-line basis over the requisite service periods of the awards, which are the vesting periods.

The following table summarizes RSU activity for non-vested awards for the nine months ended September 30, 2006:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested at January 1, 2006	—	—
Granted	262	\$ 18.08
Vested	—	—
Cancelled/forfeited/expired	(3)	\$ 18.03
Unvested at September 30, 2006	<u>259</u>	<u>\$ 18.08</u>

As of September 30, 2006, there was \$3.8 million of total unrecognized compensation cost, net of estimated forfeitures, related to non-vested RSUs. The Company expects to recognize such cost over a period of 2.5 years. The remaining contractual term is 9.5 years, and the aggregate intrinsic value was \$6,162,000 as of September 30, 2006.

Stock-Based Compensation under SFAS No. 123R

The following table shows the total estimated stock-based compensation expense, related to all of the Company's equity awards, recognized for the three and nine month periods ended September 30, 2006, in accordance with SFAS No. 123R (in thousands, except per share amounts):

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Stock-based employee compensation before tax	\$ 1,857	\$ 5,015
Related income tax benefits	(744)	(1,873)
Stock-based employee compensation, net of tax	<u>\$ 1,113</u>	<u>\$ 3,142</u>
Net stock-based employee compensation per common share:		
Basic	<u>\$ 0.03</u>	<u>\$ 0.10</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.09</u>

For the nine months ended September 30, 2006, the adoption of SFAS No. 123R resulted in cash flows from financing activities of \$6,575,000 for excess tax benefits related to stock options exercised during the period.

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Had compensation expense been recognized for stock-based compensation during the three and nine month periods ended September 30, 2005 by applying the fair value provisions of SFAS No. 123, net income and earnings per common share would have been recorded as follows (in thousands, except per share amounts):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	\$ 6,848	\$ 15,257
Deduct: Incremental stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	(928)	(2,598)
Pro forma net income	<u>\$ 5,920</u>	<u>\$ 12,659</u>
Earnings per common share:		
Basic—as reported	<u>\$ 0.24</u>	<u>\$ 0.53</u>
Basic—pro forma	<u>\$ 0.21</u>	<u>\$ 0.44</u>
Diluted—as reported	<u>\$ 0.22</u>	<u>\$ 0.48</u>
Diluted—pro forma	<u>\$ 0.19</u>	<u>\$ 0.40</u>

3. 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. Diluted net income per common share reflects the effects of potentially dilutive common stock-based equity instruments.

Common stock-based equity instruments equivalent to 902,000 and 1,126,000 shares for the three and nine month periods ended September 30, 2006, respectively, and 570,000 and 585,000 shares for the three and nine month periods ended September 30, 2005, respectively, were not included in the calculations of diluted net income per common share because the effect of these instruments was anti-dilutive.

The following table sets forth the computation of basic and diluted net income per common share for the three and nine month periods ended September 30, 2006 and 2005 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	<u>\$ 9,472</u>	<u>\$ 6,848</u>	<u>\$ 25,044</u>	<u>\$ 15,257</u>
Weighted average common shares outstanding—basic	<u>32,453</u>	<u>28,763</u>	<u>32,146</u>	<u>28,621</u>
Net income per common share—basic	<u>\$ 0.29</u>	<u>\$ 0.24</u>	<u>\$ 0.78</u>	<u>\$ 0.53</u>
Weighted average common shares outstanding—basic	32,453	28,763	32,146	28,621
Plus dilutive potential common shares	1,542	2,910	2,167	2,950
Weighted average common shares outstanding—diluted	<u>33,995</u>	<u>31,673</u>	<u>34,313</u>	<u>31,571</u>
Net income per common share—diluted	<u>\$ 0.28</u>	<u>\$ 0.22</u>	<u>\$ 0.73</u>	<u>\$ 0.48</u>

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

4. COMPREHENSIVE INCOME

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting of comprehensive income and its components. Comprehensive income (loss) includes net income, net gains and losses on derivative contracts and foreign currency translation adjustments. For the three months ended September 30, 2006 and 2005, comprehensive income was \$7,818,000 and \$6,927,000 and included a (\$1,585,000) and \$66,000 unrealized (loss) gain on interest swap arrangements, net of tax, and a (\$69,000) and \$13,000 foreign currency translation adjustment (loss) gain, respectively. For the nine months ended September 30, 2006 and 2005, comprehensive income was \$25,263,000 and \$15,302,000 and included a \$302,000 and \$46,000 unrealized gain on interest swap arrangements, net of tax, and a (\$83,000) and (\$1,000) foreign currency translation adjustment loss, respectively.

5. GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

As of September 30, 2006 and December 31, 2005, the Company had the following intangible assets (in thousands):

	September 30, 2006		December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Staffing databases	\$ 1,600	\$ (292)	\$ 1,600	\$ (52)
Customer relationships	32,000	(2,083)	32,000	(368)
Tradenames and trademarks	1,200	(218)	1,200	(39)
Noncompete agreements	950	(182)	1,150	(222)
Deferred financing costs	7,906	(2,993)	7,576	(1,593)
	<u>\$ 43,656</u>	<u>\$ (5,768)</u>	<u>\$ 43,526</u>	<u>\$ (2,274)</u>
Intangible assets not subject to amortization:				
Goodwill (1)	\$250,776	\$ (10,452)	\$251,296	\$ (10,452)
Tradenames and trademarks	79,900	—	79,900	—
	<u>\$330,676</u>	<u>\$ (10,452)</u>	<u>\$331,196</u>	<u>\$ (10,452)</u>

- (1) Goodwill accumulated amortization represents amortization expense recorded prior to the Company's adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, on January 1, 2002.

The carrying amount of goodwill was \$240,324,000 and \$240,844,000 as of September 30, 2006 and December 31, 2005, respectively. The decrease in goodwill was related to a \$983,000 tax related purchase accounting adjustment to reduce income tax payable during the three months ended September 30, 2006 related to the acquisition of MHA. The decrease was partially offset by \$288,000 of acquisition costs incurred during the three months ended March 31, 2006 and insignificant purchase accounting adjustments during the three months ended June 30, 2006.

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Aggregate amortization expense for the intangible assets presented in the above table was \$1,193,000 and \$247,000 for the three months ended September 30, 2006 and 2005, respectively, and \$3,694,000 and \$946,000 for the nine months ended September 30, 2006 and 2005, respectively. Amortization of deferred financing costs is included in interest expense. Estimated future aggregate amortization expense of intangible assets, including deferred financing costs, as of September 30, 2006 is as follows (in thousands):

	<u>Amount</u>
Three months ending December 31, 2006	\$ 1,073
Year ending December 31, 2007	4,267
Year ending December 31, 2008	4,206
Year ending December 31, 2009	4,121
Year ending December 31, 2010	3,838
Thereafter	20,383
	<u>\$ 37,888</u>

6. SEGMENT INFORMATION

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenue and incur expenses, and for which discrete financial information is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assess performance.

The Company provides hospital and healthcare facilities with temporary staffing for physicians, nurses and allied healthcare professionals and physician permanent placement services through the use of several brand names, each having their own marketing and supply distinction. The Company's operating segments are identified in the same manner as they are reported internally and used by the Company's chief operating decision maker for the purposes of evaluating performance and allocating resources. Prior to fiscal year 2005, the Company disclosed one reportable segment, healthcare staffing for hospitals and healthcare facilities. With the acquisition of MHA in November 2005, the Company disclosed two reportable segments: nurse and allied healthcare staffing and physician staffing. Effective April 1, 2006, the Company disclosed three reportable segments: nurse and allied healthcare staffing, locum tenens staffing (temporary physician staffing) and physician permanent placement services. The locum tenens staffing and physician permanent placement services segments are separate operating segments, which were aggregated into the physician staffing reportable segment prior to April 1, 2006.

The Company's management relies on internal management reporting processes that provide revenue and segment operating income for making financial decisions and allocating resources. Segment operating income includes income from operations before depreciation, amortization of intangible assets and amortization of stock-based compensation expense. Management believes that segment operating income is an appropriate measure of evaluating the operational performance of the Company's segments. However, this measure should be considered in addition to, not as a substitute for, or superior to, income from operations or other measures of financial performance prepared in accordance with United States generally accepted accounting principles. 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 information in the following table is derived from the segments' internal financial information as used for corporate management purposes.

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table provides a reconciliation of revenue and segment operating income by reportable segment to consolidated results (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue				
Nurse and allied healthcare staffing	\$ 201,925	\$ 166,883	\$ 561,122	\$ 484,414
Locum tenens staffing	68,491	—	199,992	—
Physician permanent placement services	12,312	—	37,055	—
	<u>\$ 282,728</u>	<u>\$ 166,883</u>	<u>\$ 798,169</u>	<u>\$ 484,414</u>
Segment operating income				
Nurse and allied healthcare staffing	\$ 16,104	\$ 14,386	\$ 42,228	\$ 34,351
Locum tenens staffing	4,800	—	14,418	—
Physician permanent placement services	3,574	—	9,068	—
	<u>24,478</u>	<u>14,386</u>	<u>65,714</u>	<u>34,351</u>
Depreciation and amortization	2,638	1,481	7,628	4,017
Non-cash stock-based compensation	1,857	40	5,015	121
Interest expense, net	4,174	1,509	12,666	4,998
Income before income tax	<u>\$ 15,809</u>	<u>\$ 11,356</u>	<u>\$ 40,405</u>	<u>\$ 25,215</u>

7. ACQUISITION

On November 2, 2005, the Company acquired MHA and recorded the acquisition using the purchase method of accounting. Thus, the results of operations from MHA are included in the Company's consolidated financial statements from the acquisition date. The total purchase price of \$210.3 million consisted of (i) an initial price of \$160.0 million, paid approximately 75% in cash, excluding a \$15.0 million holdback for potential claims indemnified by the MHA shareholders, and approximately 25% in unregistered shares of the Company's common stock, (ii) a contingent purchase price of \$47.3 million, paid in March 2006 approximately 75% in cash and 25% in unregistered shares of the Company's common stock, and (iii) \$3.0 million of direct acquisition costs. The purchase price included contingent consideration based on the financial performance of MHA for the twelve months ended December 31, 2005. The earn-out of \$47.3 million was finalized on December 31, 2005 and recorded as additional purchase price at its fair value. The holdback, net of any indemnified claims made against the selling shareholders, will be released to the selling shareholders in March 2007. In addition to cash consideration paid, the Company issued 2.3 million unregistered shares of common stock in connection with the acquisition of MHA, and issued an additional 0.7 million unregistered shares on March 9, 2006 for payment of earnout amounts as provided in the acquisition agreement. The cash and stock components of the earnout and holdback, as well as the stock portion of the initial purchase price, have been recorded at their fair values, including discounts for restrictions on the marketability of the stock and the timing of expected future cash payments.

The following summary presents pro forma consolidated results of operations for the nine months ended September 30, 2005 as if the acquisition of MHA described above had occurred at the beginning of that period. The following unaudited pro forma financial information gives effect to certain adjustments, including the reduction in compensation expense related to non-recurring executive salary expense and non-recurring professional service fees, the amortization of intangible assets and interest expense on acquisition related debt and accretion of fair valued liabilities. The pro forma financial information is not necessarily indicative of the

AMN HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

operating results that would have occurred had the acquisition been consummated as of the date indicated, nor are they necessarily indicative of future operating results.

	Pro Forma Unaudited Nine Months Ended September 30, 2005 (in thousands, except per share amounts)
Revenue	\$ 710,859
Income from operations	\$ 45,478
Net income	\$ 21,820
Net income per common share:	
Basic	\$ 0.71
Diluted	\$ 0.64
Weighted average common shares:	
Basic	30,947
Diluted	33,897

8. STOCK REPURCHASE

On April 28, 2006, the Company entered into a Stock Purchase Agreement with several former MHA stockholders to purchase from them an aggregate of 1,852,000 shares of the Company's common stock issued in connection with the acquisition of MHA. The share purchase price was \$20.17, calculated as the volume weighted average sales price of the common stock on the New York Stock Exchange for the 20 consecutive trading days immediately preceding the closing date, for a total aggregate purchase price of \$37.5 million, including \$0.2 million of transaction costs. The Stock Purchase Agreement contains customary representations and warranties.

9. CREDIT AMENDMENT

On May 1, 2006, the Company entered into a First Amendment (the "First Amendment") to its Credit Agreement dated November 2, 2005. The First Amendment provides that the Company may request, on a one-time basis, an additional term loan ("Incremental Term Loan") in an amount not to exceed \$45 million and permits the Company to repurchase up to \$45 million of its capital stock (subject to certain conditions). The First Amendment also reset the applicable interest rate for term loan borrowings based upon the Company's then current leverage ratio. The Company incurred \$0.3 million of financing costs in conjunction with the First Amendment. On May 15, 2006, the Company borrowed an Incremental Term Loan of \$30 million, which along with cash on hand was used to fund the purchase of 1,852,000 shares of its common stock under the Stock Purchase Agreement. Effective May 15, 2006, the interest rate for all term loans outstanding (including the Incremental Term Loan) under the Credit Agreement initially bore interest, at the Company's option, at either LIBOR plus 2.00% or the Base Rate plus 1.00%. Beginning in August 2006 and thereafter, based on the Company's leverage ratio, all term loans outstanding bear interest, at the Company's option, at either LIBOR plus 1.75% or the Base Rate plus 0.75%. The terms of the Incremental Term Loan are consistent with the existing term loan under the Credit Agreement.

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

The following discussion should be read in conjunction with, and is qualified in its entirety by, our consolidated financial statements and the notes thereto and other financial information included elsewhere herein and in our Annual Report on Form 10-K for the year ended December 31, 2005. 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."

Overview

We are the largest temporary healthcare staffing company in the United States. As the leading nationwide provider of travel nurse and allied healthcare staffing services and the largest provider of locum tenens (temporary physician staffing) and physician permanent placement services, we recruit physicians, nurses, and allied healthcare professionals, our "healthcare professionals", nationally and internationally and place them on assignments of variable lengths and in permanent positions at acute-care hospitals, physician groups and other healthcare facilities throughout the United States.

We completed our acquisition of The MHA Group, Inc. ("MHA") in November 2005, therefore the condensed consolidated statements of operations for the three month and nine month periods ended September 30, 2005 and the condensed consolidated statement of cash flows for the nine month period ended September 30, 2005 do not include the results of operations and cash flows of MHA. For the three months ended September 30, 2006, we recorded revenue of \$282.7 million, as compared to revenue of \$166.9 million for the three months ended September 30, 2005. We recorded net income of \$9.5 million for the three months ended September 30, 2006, as compared to net income of \$6.8 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, we recorded revenue of \$798.2 million, as compared to revenue of \$484.4 million for the nine months ended September 30, 2005. We recorded net income of \$25.0 million for the nine months ended September 30, 2006, as compared to net income of \$15.3 million for the nine months ended September 30, 2005.

Both our temporary healthcare staffing services and permanent placement services are marketed to two distinct customer bases: healthcare professionals and hospitals, healthcare facilities and physician practice group clients. We use distinct brands to market our differentiated services throughout the healthcare staffing spectrum.

We use a multi-brand recruiting strategy to enhance our ability to successfully attract nursing and allied healthcare professionals in the United States and internationally. We market our nurse and allied healthcare professional staffing to our healthcare professionals under multiple recruitment brands including American Mobile Healthcare, Medical Express, NurseChoice InDemand, NursesRx, Preferred Healthcare Staffing, Med Travelers, RN Demand and O'Grady Peyton International. Each brand has distinct clinician focus, market strengths and brand reputation. We market our travel nursing services to hospitals and healthcare facilities under one brand, AMN Healthcare, as a single staffing provider with access to healthcare professionals from several recruitment brands. We market allied services to our clients under the brand name Med Travelers, and we market long-term nursing services to our clients under the brand name O'Grady Peyton International. We market our locum tenens and physician permanent placement services under the brand names Staff Care, Inc. and Merritt, Hawkins & Associates, respectively, to both healthcare professionals and hospital and healthcare facilities and physician staffing groups.

Physicians, nurses and allied healthcare professionals join us on temporary assignments for a wide variety of reasons that include: seeking flexible work opportunities, exploring different areas of the country, building their clinical skills and resume by working at prestigious healthcare facilities, escaping the demands and political environment of working as permanent staff and working through life and career transitions.

Our large number of hospital and healthcare facility clients provides us with the opportunity to offer temporary or permanent positions in all 50 states and in a variety of work environments and clinical settings. In

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addition, we provide our temporary healthcare professionals with an attractive benefits package that may include free or subsidized housing, free or reimbursed travel, competitive pay, professional development opportunities, a 401(k) plan, and health and professional liability insurance. We believe that we attract temporary healthcare professionals due to our long-standing reputation for providing a high level of service, our numerous job opportunities, our benefit packages, our innovative marketing programs and word-of-mouth referrals from our thousands of current and former temporary healthcare professionals.

Our clients include hospitals and healthcare systems such as Georgetown University Hospital, HCA, NYU Medical Center, Stanford Health Care, UCLA Medical Center, The University of Chicago Hospitals and Mayo Health System. We also provide services to military facilities, sub-acute healthcare facilities, physician practice groups, dialysis centers, clinics and schools.

As of September 30, 2006, we had healthcare professionals on assignment at over 1,500 different healthcare facility clients. Our hospital and healthcare facility clients utilize our services to cost-effectively manage shortages in their staff due to a variety of circumstances such as attrition, the Family Medical Leave Act, new unit openings, seasonal patient census variations and other short-term, long-term and permanent staffing needs. In addition to providing continuity of care and quality patient care, we believe hospitals and healthcare facilities contract with us due to our high-quality temporary healthcare professionals, our ability to meet their specific staffing needs, our flexible staffing assignment lengths, our reliable and deep infrastructure, our superior customer service, our ability to offer a large national network of temporary healthcare professionals and our ability to provide temporary staffing solutions while we assist the facility in filling permanent staffing needs.

Recent Trends

Temporary healthcare staffing industry revenues grew at a compound annual growth rate of approximately 9% from 1997 through 2005, according to industry estimates, growing each year except 2003 and 2004, in which the industry declined on an annual basis. In 2006, industry revenues are expected to grow by 5% over 2005. The market segments in which we provide service offerings, travel nursing, locum tenens and allied healthcare professionals are expected to achieve positive growth in 2006. According to Staffing Industry Analysts, projected growth rates in 2006 are 6% for travel nursing, 12% for locum tenens, and 9% for allied healthcare. We believe that this growth reflects generally favorable overall economic conditions coupled with an increase in healthcare job openings and turnover that has led to relatively stable high demand.

In the nurse and allied healthcare segment, our largest reporting segment, this solid demand environment during 2005 and 2006 has resulted in increased bill rates for our healthcare facility clients as they seek to draw healthcare professionals to their facilities. These bill rate increases are passed on to our healthcare professionals in a targeted manner in an effort to attract them to our facility clients.

Although we have experienced recent improvements in our nurse supply, the supply market continues to be constrained relative to the demands of our healthcare facility clients. While roughly 90% of our nurse and allied healthcare segment is comprised of nurses and allied healthcare professionals trained in the United States, we recruit nurses from international channels through our O'Grady-Peyton International brand to meet our facility client needs. Our continued utilization of this international supply channel is reliant upon an increase or exemption from current permanent immigrant visa quotas.

Critical Accounting Principles and Estimates

We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements. The preparation of our financial statements in conformity with United States generally accepted accounting principles requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to asset impairment, accruals for self-insurance and compensation and related benefits,

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allowance for doubtful accounts, contingencies and litigation and share-based payments. We state these accounting policies in the notes to the audited financial statements for the year ended December 31, 2005, contained in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission, and in relevant sections in this discussion and analysis. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from these estimates under different assumptions or conditions.

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

Goodwill and Intangible Assets

We have recorded goodwill resulting from our past acquisitions. Commencing with the adoption of Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, on January 1, 2002, we ceased amortizing goodwill and have thereafter performed annual impairment analyses to assess the recoverability of the goodwill, in accordance with the provisions of SFAS No. 142. Upon our annual impairment analysis on December 31, 2005, we determined that there was no impairment of goodwill or indefinite lived intangible assets. If we are required to record an impairment charge in the future, it could have an adverse impact on our results of operations. SFAS No. 142 also requires that intangible assets with estimable useful lives continue to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We analyze our amortizable intangible assets for impairment in accordance with the provisions of SFAS No. 144, and we have determined that there is no impairment. As of September 30, 2006 and December 31, 2005, we had \$240.3 million and \$240.8 million of goodwill, respectively, net of accumulated amortization, and \$117.8 million and \$121.2 million, respectively, of net intangible assets recorded on our consolidated balance sheets. The decrease in goodwill is primarily due to a \$1.0 million tax related purchase accounting adjustment to reduce income tax payable recorded during the three months ended September 30, 2006, partially offset by acquisition costs incurred during the three months ended March 31, 2006.

Professional Liability Reserve

We maintain an accrual for professional liability self-insured retention limits, net of our insurance recoverable, which is included in accounts payable and accrued expenses and other long term liabilities in our consolidated balance sheets. We determine the adequacy of this accrual by evaluating our historical experience and trends, loss reserves established by our insurance carriers, management and third party administrators, as well as through the use of independent actuarial studies. For the nurse and allied healthcare staffing segment, we obtain updated actuarial studies on a regular basis that use actual claims data to determine the appropriate reserves for incurred, but not reported, professional liability claims for each year, and reserves for reported claims are based upon loss reserves established by management and our third party administrators. For the physician staffing segment, we obtain updated actuarial studies on a regular basis to determine the appropriate reserves for both reported claims and incurred, but not reported, claims. As of September 30, 2006 and December 31, 2005, we had \$16.6 million and \$13.9 million, respectively, accrued for professional liability retention, of which \$2.6 million and \$1.9 million, respectively, was classified as a current liability. The increase in the professional liability accrual was related to an increase in expected claims incurred but not reported, as a result of an increase in the number of healthcare providers on assignment during the nine months ended September 30, 2006, partially offset by payments made during the period.

Self-Insured Health Insurance Claims Reserve

We maintain an accrual for incurred, but not reported, claims arising from self-insured health benefits we provide to our temporary nurse and allied healthcare professionals, which is included in accrued

compensation and benefits in our consolidated balance sheets. We determine the adequacy of this accrual by evaluating our historical experience and trends related to both health insurance claims and payments, information provided to us by our insurance broker and third party administrator and industry experience and trends. If such information indicates that our accruals are overstated or understated, we reduce or provide for additional accruals. Our accrual at September 30, 2006 was based on (i) a monthly average of our actual historical health insurance claim amounts and (ii) the average period of time from the date the claim is incurred to the date that it is reported to us and paid. We believe this is the best estimate of the amount of incurred, but not reported, self-insured health benefit claims. As of September 30, 2006 and December 31, 2005, we had \$1.8 million and \$2.4 million, respectively, accrued for incurred, but not reported health insurance claims. The decrease is due to a favorable trend in insurance claims paid and a decrease in the reporting and processing time for claims. Historically, our accrual for health insurance has been adequate to provide for incurred claims and has fluctuated with increases or decreases in the average number of temporary healthcare professionals on assignment, changes in our claims experience and changes in the reporting and processing time for claims.

Workers Compensation Reserve

We maintain an accrual for workers compensation self-insured retention limits, which is included in accrued compensation and benefits and other long term liabilities in our consolidated balance sheets. We determine the adequacy of these accruals by evaluating our historical experience and trends, loss reserves established by our insurance carriers and third party administrators, as well as through the use of independent actuarial studies. We obtain updated actuarial studies on a semi-annual basis that use actual claims data to determine the appropriate reserve both for reported claims and incurred, but not reported, claims for each policy year. The actuarial study for workers compensation provides us with the estimated losses for prior policy years and an estimated percentage of payroll compensation to be accrued for the current year. We record our accruals based on the amounts provided in the actuarial study, and we believe this is the best estimate of our liability for reported claims and incurred, but not reported, claims. As of September 30, 2006 and December 31, 2005, we had \$8.9 million and \$10.1 million, respectively, accrued for workers compensation claims, of which \$2.7 million and \$3.0 million, respectively, was classified as a current liability. The decrease in the accrual was attributable to an actuarial-based reserve reduction of \$1.8 million based on favorable historical claims experience, offset by the fact that claim payments made against the reserve during the nine months ended September 30, 2006 for the current and prior years are lagging slightly behind the additions to the reserve, as reserves continue to remain outstanding for workers compensation claims incurred during the course of the last four years.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated credit losses resulting from collection risks, including the inability of our customers to make required payments. This results in a provision for bad debt expense. The allowance for doubtful accounts is reported as a reduction of accounts receivable in our consolidated balance sheets. We determine the adequacy of this allowance by evaluating historical delinquency and write-off trends, the credit risk for individual customer receivables, the financial condition and credit history of each customer, historical payment trends and current economic conditions. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances would be provided. As of September 30, 2006 and December 31, 2005, our allowance for doubtful accounts was \$3.1 million and \$2.4 million, respectively. The increase is primarily attributable to the passage of time since our acquisition of MHA in November 2005, at which time we recorded MHA's accounts receivable at fair value. As MHA has generated revenue and accounts receivable since the acquisition date, the allowance for doubtful accounts has increased accordingly.

Contingent Liabilities

We are subject to various claims and legal actions in the ordinary course of our business. Some of these matters include payroll and employee-related matters and investigations by governmental agencies regarding our employment practices. As we become aware of such claims and legal actions, we provide accruals if the exposures are probable and estimable. If an adverse outcome of such claims and legal actions is reasonably possible, we assess materiality and provide disclosure, as appropriate. We may also become subject to claims, governmental inquiries and investigations, and legal actions relating to services provided by our temporary healthcare professionals, and we maintain accruals for these matters if the amounts are probable and estimable. We currently are not aware of any such pending or threatened litigation that would be considered reasonably likely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Share-Based Payments

Prior to January 1, 2006, we accounted for our share-based employee compensation plans under the measurement and recognition provisions of Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. We also provided disclosures in accordance with the requirements of SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*.

Effective January 1, 2006, we adopted the provisions of revised SFAS No. 123 (SFAS No. 123R), which established accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee’s requisite service period. The measurement of stock based compensation cost is based on several criteria including, but not limited to, the valuation model used and associated input factors such as expected term of the award, our stock price volatility, dividend rate, risk free interest rate, and award forfeiture rate. The input factors to use in the valuation model are based on subjective future expectations combined with management judgment. We estimate the fair value of stock options and stock appreciation rights granted using the Black-Scholes valuation model and the assumptions shown in Note 2 to the accompanying condensed consolidated financial statements. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. We estimate the option term, dividend yield, and risk-free interest rate assumptions consistent with the methodologies used prior to January 1, 2006, however the volatility of our common stock at the date of grant was previously based on a combination of our historical volatility rate and the historical volatility rate of comparable companies. The fair value of equity awards granted is amortized on a straight-line basis over the requisite service periods of the awards, which are the vesting periods. If factors change, we may decide to use different assumptions under the Black-Scholes valuation model, or a different valuation model, in the future, which could materially affect our net income and earnings per share.

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Results of Operations

The following table sets forth, for the periods indicated, certain condensed consolidated statements of operations data as a percentage of our revenue. Our results of operations include three reportable segments: (1) nurse and allied healthcare staffing; (2) locum tenens staffing; and (3) physician permanent placement services. We completed our acquisition of MHA in November 2005, therefore the condensed consolidated statements of operations for the three and nine month periods ended September 30, 2005 do not include the results of operations of MHA. Our results of operations are reported on a consolidated basis as segment data is not meaningful due to the fact that there was only one reportable segment during the three and nine month periods ended September 30, 2005.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Consolidated Statements of Operations:				
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	72.9	76.3	73.1	76.8
Gross profit	27.1	23.7	26.9	23.2
Selling, general and administrative	19.1	15.1	19.3	16.1
Depreciation and amortization	0.9	0.9	1.0	0.9
Income from operations	7.1	7.7	6.6	6.2
Interest expense, net	1.5	0.9	1.6	1.0
Income before income taxes	5.6	6.8	5.0	5.2
Income tax expense	2.2	2.7	1.9	2.1
Net income	3.4%	4.1%	3.1%	3.1%

Comparison of Results for the Three Months Ended September 30, 2006 to the Three Months Ended September 30, 2005

Revenue. Revenue increased 69%, to \$282.7 million for the three months ended September 30, 2006 from \$166.9 million for the same period in 2005. Of the \$115.8 million increase, \$94.6 million was attributable to the acquisition of MHA in November 2005, \$10.0 million was attributable to the organic increase in revenue generated per temporary healthcare professional due primarily to an increase in the average bill rates charged to hospital and healthcare facility clients, \$7.4 million was attributable to the increase in the average number of temporary healthcare professionals on assignment, and \$3.8 million was attributable to a shift in the mix of temporary healthcare professionals working on flat rate contracts to hours and days worked contracts.

Cost of Revenue. Cost of revenue increased 62%, to \$206.0 million for the three months ended September 30, 2006 from \$127.3 million for the same period in 2005. Of the \$78.7 million increase, \$65.7 million was attributable to the acquisition of MHA in November 2005, \$5.7 million was attributable to the increase in the average number of temporary healthcare professionals on assignment, \$4.2 million was attributable to increases in compensation provided to our temporary healthcare professionals, which was net of a \$1.6 million decrease in traveler health insurance costs due primarily to favorable health insurance claims experience, and \$3.1 million was attributable to the shift in the mix of temporary healthcare professionals working on flat rate contracts to hours and days worked contracts.

Gross Profit. Gross profit increased 94%, to \$76.7 million for the three months ended September 30, 2006 from \$39.5 million for the same period in 2005, representing gross margins of 27.1% and 23.7%, respectively. The increase in gross margin was primarily attributable to an increase in average bill rates, lower traveler health insurance costs and the addition of the higher gross margin locum tenens staffing and physician permanent placement services segments through the acquisition of MHA in November 2005.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 115%, to \$54.1 million for the three months ended September 30, 2006 from \$25.2 million for the same period in 2005. Of the \$28.9 million increase, \$20.1 million was attributable to the acquisition of MHA in November 2005, \$5.2 million was attributable to an increase in employee expenses to support growth in the nurse and allied healthcare staffing segment, \$1.7 million was attributable to the increase in non-cash stock-based compensation charges resulting from the adoption of SFAS No. 123R on January 1, 2006, and the remaining \$1.9 million increase was primarily attributable to increases in office expenses and travel and related expenses.

Depreciation and Amortization Expenses. Amortization expense increased to \$0.8 million for the three months ended September 30, 2006 from less than \$0.1 million for the same period in 2005. The increase was primarily attributable to the amortization of identifiable amortizable intangible assets recorded as a result of the acquisition of MHA in November 2005. Depreciation expense increased 20%, to \$1.8 million for the three months ended September 30, 2006 from \$1.5 million for the same period in 2005. The \$0.3 million increase was primary attributable to the acquisition of MHA in November 2005.

Interest Expense, Net. Interest expense, net, was \$4.2 million for the three months ended September 30, 2006 as compared to \$1.5 million for the same period in 2005. The \$2.7 million increase was primarily attributable to the \$111.2 million increase in debt outstanding from September 30, 2005 to September 30, 2006.

Income Tax Expense. Income tax expense increased to \$6.3 million for the three months ended September 30, 2006 from \$4.5 million for the same period in 2005, reflecting effective income tax rates of 40.1% and 39.7% for these periods, respectively. The increase in the effective income tax rate was primarily attributable to changes in the state tax provision.

Comparison of Results for the Nine Months Ended September 30, 2006 to the Nine Months Ended September 30, 2005

Revenue. Revenue increased 65%, to \$798.2 million for the nine months ended September 30, 2006 from \$484.4 million for the same period in 2005. Of the \$313.8 million increase, \$273.5 million was attributable to the acquisition of MHA in November 2005, \$24.8 million was attributable to the organic increase in revenue generated per temporary healthcare professional due primarily to an increase in the average bill rates charged to hospital and healthcare facility clients, \$11.9 million was attributable to a shift in the mix of temporary healthcare professionals working on flat rate contracts to hours and days worked contracts, and \$3.6 million was attributable to the increase in the average number of temporary healthcare professionals on assignment.

Cost of Revenue. Cost of revenue increased 57%, to \$583.2 million for the nine months ended September 30, 2006 from \$372.0 million for the same period in 2005. Of the \$211.2 million increase, \$188.6 million was attributable to the acquisition of MHA in November 2005, \$10.2 million was attributable to increases in compensation provided to our temporary healthcare professionals, partially offset by a decrease in expense related to a \$1.6 million positive actuarial based workers compensation adjustment in 2006, \$9.6 million was attributable to the shift in the mix of temporary healthcare professionals working on flat rate contracts to hours and days worked contracts, and \$2.8 million was attributable to the increase in the average number of temporary healthcare professionals on assignment.

Gross Profit. Gross profit increased 91%, to \$215.0 million for the nine months ended September 30, 2006 from \$112.4 million for the same period in 2005, representing gross margins of 26.9% and 23.2%, respectively. The increase in gross margin was primarily attributable to an increase in average bill rates, the benefit from a \$1.6 million positive workers compensation adjustment in 2006, and the addition of the higher gross margin locum tenens staffing and physician permanent placement services segments through the acquisition of MHA in November 2005.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 97%, to \$154.3 million for the nine months ended September 30, 2006 from \$78.2 million for the same period in

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2005. Of the \$76.1 million increase, \$59.8 million was attributable to the acquisition of MHA in November 2005, \$9.8 million was attributable to the increase in employee expenses to support growth in the nurse and allied healthcare staffing segment, \$4.7 million was attributable to the increase in non-cash stock-based compensation charges resulting from the adoption of SFAS No. 123R on January 1, 2006, and the remaining \$1.8 million increase was primarily attributable to increases in office expenses and travel and related expense, partially offset by a decrease in professional liability insurance expenses.

Depreciation and Amortization Expenses. Amortization expense increased to \$2.3 million for the nine months ended September 30, 2006 from less than \$0.1 million for the same period in 2005. The increase was primarily attributable to the amortization of identifiable amortizable intangible assets recorded as a result of the acquisition of MHA in November 2005. Depreciation expense increased 33%, to \$5.3 million for the nine months ended September 30, 2006 from \$4.0 million for the same period in 2005. The increase was primarily attributable to the acquisition of MHA in November 2005.

Interest Expense, Net. Interest expense, net, was \$12.7 million for the nine months ended September 30, 2006 as compared to \$5.0 million for the same period in 2005. The \$7.7 million increase was attributable to the \$111.2 million increase in debt outstanding from September 30, 2005 to September 30, 2006 as well as imputed interest expense related to recording assets and liabilities at fair value in conjunction with the acquisition of MHA.

Income Tax Expense. Income tax expense increased to \$15.4 million for the nine months ended September 30, 2006 from \$10.0 million for the same period in 2005, reflecting effective income tax rates of 38.0% and 39.5% for these periods, respectively. The decrease in the effective income tax rate in 2006 was primarily attributable to a \$0.8 million tax benefit recorded in the second quarter of 2006 from the adjustment of deferred taxes due to recently enacted Texas tax legislation.

Liquidity and Capital Resources

Historically, our primary liquidity requirements have been for acquisitions, working capital requirements and debt service under our credit facility. We have funded these requirements through internally generated cash flow and funds borrowed under our credit facility. At September 30, 2006, \$199.0 million was outstanding under our credit facility. We believe that cash generated from operations and available borrowings under our revolving credit facility will be sufficient to fund our operations for at least the next 12 months. We expect to be able to finance any future acquisitions either with cash provided from operations, borrowings under our revolving credit facility, bank loans, debt or equity offerings, or some combination of the foregoing. The following discussion provides further details of our liquidity and capital resources.

Operating Activities:

Historically, our principal working capital need has been for accounts receivable. At September 30, 2006, our days sales outstanding (“DSO”) was 59 days. At September 30, 2005, our DSO was 59 days and at December 31, 2005, our DSO was 57 days. The increase in DSO compared to December 31, 2005 was due to fluctuations in the timing of payments received from our hospital and healthcare facility clients. Our principal sources of cash to fund our working capital needs are cash generated from operating activities and borrowings under our revolving credit facility. Net cash provided by operations increased \$17.7 million from \$28.2 million in the nine months ended September 30, 2005 to \$45.9 million in the nine months ended September 30, 2006. This increase in net cash provided by operations was primarily driven by increased earnings compared to the nine months ended September 30, 2005.

Investing Activities:

Our business acquisition expenditures were \$36.0 million during the nine months ended September 30, 2006, compared to \$0.4 million in the same period of 2005. Of the \$36.0 million of expenditures during the nine

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months ended September 30, 2006, we paid \$35.7 million related to the cash portion of the earnout payment for the November 2005 acquisition of MHA, which was paid with cash on hand. The remaining \$0.3 million related to transaction costs incurred during the three months ended March 31, 2006.

We continue to have relatively low capital investment requirements. Capital expenditures were \$6.7 million and \$3.1 million for the nine months ended September 30, 2006 and 2005, respectively. For the first nine months of 2006, our capital expenditures were \$4.0 million for purchased and internally developed software and \$2.7 million for computers, furniture and equipment and other expenditures. We expect our capital expenditure requirements in the near future to be similar to those during the nine months ended September 30, 2006.

Financing Activities:

On November 2, 2005, in connection with the acquisition of MHA, we amended and restated our existing credit facility. Our new credit facility, the Second Amended and Restated Credit Agreement (“Credit Agreement”), provides for, among other things, a \$75.0 million secured revolving credit facility, a \$30.0 million letter of credit sub-facility, a \$15.0 million swing-line sub-facility, all maturing in November 2010, and a new \$205.0 million secured term loan facility maturing in November 2011. The new secured term loan facility was used to pay off existing borrowings of \$87.8 million of term debt and provide financing for the cash portion, net of the \$15.0 million holdback, of the initial \$160.0 million of acquisition consideration and related acquisition and financing costs of \$3.0 million and \$4.8 million, respectively.

On April 28, 2006, we entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) with several former MHA stockholders (the “Selling Stockholders”), to purchase from them an aggregate of 1,852,000 shares of our common stock issued in connection with the acquisition of MHA for an aggregate of \$37.5 million, including \$0.2 million of transaction costs.

On May 1, 2006, we entered into a First Amendment (the “First Amendment”) to our Credit Agreement dated November 2, 2005. The First Amendment provides that we may request, on a one-time basis and subject to meeting certain conditions, an additional term loan (“Incremental Term Loan”) in an amount not to exceed \$45 million and permits us to repurchase up to \$45 million of our capital stock (subject to certain conditions). The First Amendment also resets the applicable interest rate for term loan borrowings based upon our then current leverage ratio. We incurred \$0.3 million of financing costs in conjunction with the First Amendment.

On May 15, 2006, we borrowed an Incremental Term Loan of \$30 million, which along with cash on hand was used to fund the purchase of 1,852,000 shares of our common stock under the Stock Purchase Agreement for a total purchase price of \$37.5 million, including transaction costs. Effective May 15, 2006, the interest rate for all term loans outstanding (including the Incremental Term Loan) under the Credit Agreement initially bore interest, at our option, at either LIBOR plus 2.00% or the Base Rate plus 1.00%. Beginning in August 2006 and thereafter, based on our then current leverage ratio, all term loans bear interest, at our option, at either LIBOR plus 1.75% or the Base Rate plus 0.75%. The terms of the Incremental Term Loan are consistent with the existing term loan under the Credit Agreement.

The revolving credit facility portion of our Credit Agreement carries an unused fee of between 0.5% and 0.375% per annum based on our then current leverage ratio, and there are no mandatory reductions in the revolving commitment under the revolving credit facility. Borrowings under this revolving credit facility bear interest at floating rates based upon either a LIBOR or a prime interest rate option selected by us, plus a spread of 1.50% to 2.25% and 0.50% to 1.25%, respectively, to be determined based on our then current leverage ratio. Amounts available under our revolving credit facility may be used for working capital, capital expenditures, permitted acquisitions and general corporate purposes, subject to various limitations.

The term loan portion of our Credit Agreement is subject to quarterly amortization of principal (in equal installments), with an amount equal to 1.25% of the initial aggregate principal amount of the facility payable

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quarterly through September 30, 2007 (except in the case of the initial quarterly payment on June 30, 2006 of 2.5%) and 2.5% of the initial aggregate principal amount of the facility payable quarterly from December 31, 2007 through September 30, 2010 with any remaining amounts payable in 2011. Voluntary prepayments of the term loan portion of the credit facility are applied as we may elect, including ratably to the remaining quarterly amortization payments. In May and August 2006, we made voluntary prepayments of \$20.0 million and \$8.0 million, respectively, which were applied ratably to the remaining quarterly amortization payments. In June and September 2006 we made the \$5.4 million and \$2.6 million, respectively, quarterly amortization payments.

We are required to make additional mandatory prepayments on the term loan with the proceeds of asset dispositions, extraordinary receipts, debt issuances and certain equity issuances. We also are required to make mandatory prepayments on the term loan within ninety days after the end of each fiscal year, commencing with the fiscal year ended December 31, 2006 in an amount equal to 50% of our excess cash flow (as defined in the Credit Agreement), less any voluntary prepayments made during the fiscal year. These mandatory prepayment amounts, if any, are applied ratably to the remaining quarterly amortization payments. We believe that the voluntary prepayments made to date will satisfy this additional prepayment requirement for the year ending December 31, 2006.

We are required to maintain a maximum leverage ratio, based on EBITDA and funded indebtedness as defined in the Credit Agreement, as of the end of each fiscal quarter of not more than 3.75 to 1.00 for the fiscal quarter ending September 30, 2006, decreasing throughout the term of the agreement to ultimately arrive at a ratio of 2.00 to 1.00 for the fiscal quarter ending March 31, 2009 and thereafter. We are also required to maintain a minimum fixed charge coverage ratio, based on EBITDA and debt and interest payments as defined in the Credit Agreement, as of the end of each fiscal quarter of not less than 1.50 to 1.00 for the fiscal quarter ending September 30, 2006, decreasing throughout the term of the agreement to ultimately arrive at a ratio of 1.25 to 1.00 for the fiscal quarter ending September 30, 2008 and thereafter. We are also subject to limitations on the amount of our annual capital expenditures and on the amount of consolidated total assets and consolidated EBITDA that may be owned or attributable to our foreign subsidiaries. We were in compliance with these requirements at September 30, 2006.

Under our Credit Agreement, our subsidiaries are not permitted to pay dividends or distributions to us, except for certain permitted dividends and distributions, including those related to taxes, certain reporting obligations under federal and state law and certain other ordinary course operating expenses, subject to the limitations contained in our Credit Agreement.

We are also required to maintain interest rate protection on at least 50% of the term loan portion of our Credit Agreement beginning May 2006 until November 2008. As of September 30, 2006, we maintain seven interest rate swap agreements with notional amounts totaling \$175 million, of which \$10 million relates to a forward starting agreement that will become effective in March 2007. We pay fixed rates ranging from 3.99% to 4.97% under these agreements and receive a floating three-month LIBOR. The agreements expire beginning March 2007 through December 2010, and no initial investments were made to enter into these agreements.

At September 30, 2006 and December 31, 2005, the interest rate swap agreements had a fair value of \$0.4 million and (\$0.1) million, respectively, which is included in other assets and liabilities in the accompanying consolidated balance sheets. We have formally documented the hedging relationships and account for these arrangements as cash flow hedges.

As of September 30, 2006 and December 31, 2005, our credit facility also served to collateralize certain letters of credit aggregating \$19.5 million and \$9.6 million, respectively, issued by us in the normal course of business.

Potential Fluctuations in Quarterly Results and Seasonality

Due to the regional and seasonal fluctuations in the hospital patient census and staffing needs of our hospital and healthcare facility clients and due to the seasonal preferences for destinations of our temporary healthcare professionals, revenue, earnings and the number of temporary healthcare professionals on assignment are subject to moderate seasonal fluctuations. Many of our hospital and healthcare facility clients are located in areas that experience seasonal fluctuations in population during the winter and summer months. These facilities adjust their staffing levels to accommodate the change in this seasonal demand and many of these facilities utilize temporary healthcare professionals to satisfy these seasonal staffing needs. This historical seasonality of revenue and earnings may vary due to a variety of factors and the results of any one quarter are not necessarily indicative of the results to be expected for any other quarter or for any year.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes" which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the de-recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 will be effective for us beginning January 1, 2007. We are currently assessing the impact, if any, the adoption of FIN 48 will have on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB No. 108), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements", which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. Early application is encouraged, but not required. We are required to adopt SAB No. 108 for our fiscal year ending December 31, 2006. We are currently assessing the impact, if any, the adoption of SAB No. 108 will have on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS No. 157), "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures related to fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. We are required to adopt SFAS No. 157 beginning January 1, 2008. We are currently assessing the impact, if any, the adoption of SFAS No. 157 will have on our consolidated financial statements.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We based these forward-looking statements on our current expectations and projections about future events. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking

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statements. The following factors could cause our actual results to differ materially from those implied by the forward-looking statements in this Quarterly Report:

- our ability to continue to recruit qualified temporary and permanent healthcare professionals at reasonable costs;
- our ability to retain qualified temporary healthcare professionals for multiple assignments at reasonable costs;
- our ability to attract and retain sales and operational personnel;
- our ability to enter into contracts with hospitals, healthcare facility clients, affiliated healthcare networks and physician practice groups on terms attractive to us and to secure orders related to those contracts;
- our ability to demonstrate the value of our services to our healthcare and facility clients;
- changes in the timing of hospital, healthcare facility and physician practice group clients' orders for temporary healthcare professionals;
- the general level of patient occupancy at our hospital and healthcare facility clients' facilities;
- the overall level of demand for services offered by temporary and permanent healthcare staffing providers;
- the ability of our hospital, healthcare facility and physician practice group clients to retain and increase the productivity of their permanent staff;
- the variation in pricing of the healthcare facility contracts under which we place temporary healthcare professionals;
- our ability to successfully implement our strategic growth, acquisition and integration strategies;
- our ability to leverage our cost structure;
- the performance of our management information and communication systems;
- the effect of existing or future government legislation and regulation;
- our ability to grow and operate our business in compliance with legislation and regulations;
- the challenge to the classification of certain of our healthcare professionals as independent contractors;
- the impact of medical malpractice and other claims asserted against us;
- the impact on our earnings related to share-based payment awards due to changes in accounting rules;
- the disruption or adverse impact to our business as a result of a terrorist attack;
- our ability to carry out our business strategy and maintain sufficient cash flow and capital structure to support our business;
- the loss of key officers and management personnel that could adversely affect our ability to remain competitive;
- the effect of recognition by us of an impairment to goodwill; and
- the effect of adjustments by us to accruals for self-insured retentions.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this Quarterly Report on Form 10-Q are set forth in our Annual Report on Form 10-K for the year ended December 31, 2005, our Current Reports on Form 8-K and our Registration Statement on Form S-3 (File No. 333-132371). We undertake no obligation to update the forward-looking statements in this filing. References in this filing to "AMN Healthcare," the "Company," "we," "us" and "our" refer to AMN Healthcare Services, Inc. and its wholly owned subsidiaries.

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. We do not believe that we have any material market risk exposure with respect to derivative or other financial instruments.

During 2006 and 2005, our primary exposure to market risk was interest rate risk associated with our debt instruments. See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further description of our debt instruments. Excluding the effect of our interest rate swap agreements, a 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately \$1.7 million during the nine months ended September 30, 2006. Considering the effect of our interest rate swap agreements, a 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately \$0.3 million during the nine months ended September 30, 2006.

Our international operations create exposure to foreign currency exchange rate risks. 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, 2006 were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission’s rules and forms.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 6. Exhibits.

<u>Exhibit No.</u>	<u>Description of Document</u>
10.1	Letter of Resignation to Board of Directors of AMN Healthcare Services, Inc., dated July 17, 2006, from Steven C. Francis (incorporated by reference to Exhibit 99.1 filed with the Registrant's Current Report on Form 8-K filed on July 19, 2006).
31.1	Certification by Susan R. Nowakowski, Chief Executive Officer and President, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.*
31.2	Certification by David C. Dreyer, Chief Accounting Officer, Chief Financial Officer and Treasurer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.*
32.1	Certification by Susan R. Nowakowski, Chief Executive Officer and President, 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 David C. Dreyer, Chief Accounting Officer, Chief Financial Officer and Treasurer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* 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 6, 2006

AMN HEALTHCARE SERVICES, INC.

/s/ SUSAN R. NOWAKOWSKI

Name: Susan R. Nowakowski
Title: President and Chief Executive Officer

Date: November 6, 2006

/s/ DAVID C. DREYER

Name: David C. Dreyer
Title: Chief Accounting Officer,
Chief Financial Officer & Treasurer

EXHIBIT INDEX

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31.2	Certification by David C. Dreyer, Chief Accounting Officer, Chief Financial Officer and Treasurer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.*
32.1	Certification by Susan R. Nowakowski, Chief Executive Officer and President, 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 David C. Dreyer, Chief Accounting Officer, Chief Financial Officer and Treasurer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith.

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

I, Susan R. Nowakowski, 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.

Date: November 6, 2006

/s/ SUSAN R. NOWAKOWSKI

Name:	Susan R. Nowakowski
Title:	President and Chief Executive Officer

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

I, David C. Dreyer, 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 controls 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.

Date: November 6, 2006

/s/ DAVID C. DREYER

Name:

David C. Dreyer

Title:

Chief Accounting Officer,
Chief Financial Officer & Treasurer

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, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Susan R. Nowakowski, Chief Executive Officer and President 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.

Date: November 6, 2006

/s/ SUSAN R. NOWAKOWSKI

Susan R. Nowakowski
President and Chief Executive Officer

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, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David C. Dreyer, 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.

Date: November 6, 2006

/s/ DAVID C. DREYER

David C. Dreyer
Chief Accounting Officer, Chief Financial Officer & Treasurer