HUDSON HIGHLAND GROUP INC
Form 10-Q
April 28, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from to

Commission file number: 000-50129

HUDSON HIGHLAND GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	59-3547281 (IRS Employer Identification No.)

560 Lexington Avenue, New York, New York 10022
(Address of principal executive offices) (Zip Code)

(212) 351-7300
(Registrant’s telephone number, including area code)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding on April 7, 2010
Common Stock - $0.001 par value	32,148,895

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HUDSON HIGHLAND GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31, 2010	2009
Revenue	$ 180,118	$ 165,150
Direct costs	113,697	103,146
Gross margin	66,421	62,004
Operating expenses:		
Selling, general and administrative expenses	68,333	71,702
Depreciation and amortization	2,287	3,788
Business reorganization and integration expenses	113	5,839
Operating loss	(4,312)	(19,325)
Other (expense) income :		
Interest, net	(232)	(191)
Other, net	658	621
Loss from continuing operations before provision for income taxes	(3,886)	(18,895)
Provision for (benefit from) income taxes	252	(4,060)
Loss from continuing operations	(4,138)	(14,835)
(Loss) income from discontinued operations, net of income taxes	(69)	9,276
Net loss	$ (4,207)	$ (5,559)
(Loss) earnings per share:		
Basic and diluted		
(Loss) income from continuing operations	$ (0.16)	$ (0.59)
Income from discontinued operations	-	0.37
Net (loss) income	$ (0.16)	$ (0.22)
Basic and diluted weighted average shares outstanding:	26,257	25,171

See accompanying notes to condensed consolidated financial statements.

HUDSON HIGHLAND GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,128	$ 36,064
Accounts receivable, less allowance for doubtful accounts of $2,006 and $2,423, respectively	113,213	98,994
Prepaid and other	13,752	13,308
Total current assets	151,093	148,366
Property and equipment, net	17,874	19,433
Other assets	12,420	14,145
Total assets	$ 181,387	$ 181,944
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,844	$ 12,811
Accrued expenses and other current liabilities	62,395	54,103
Short-term borrowings	11,380	10,456
Accrued business reorganization expenses	5,315	8,784
Total current liabilities	91,934	86,154
Other non-current liabilities	9,603	10,768
Income tax payable, non-current	8,573	8,415
Accrued business reorganization expenses, non-current	369	347
Total liabilities	110,479	105,684
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000 shares authorized; none issued or outstanding	-	-
Common stock, $0.001 par value, 100,000 shares authorized; issued 27,319 and 26,836 shares, respectively	27	27
Additional paid-in capital	446,118	445,541
Accumulated deficit	(407,721)	(403,514)
Accumulated other comprehensive income—translation adjustments	32,484	34,509
Treasury stock, 0 and 114 shares, respectively, at cost	-	(303)
Total stockholders' equity	70,908	76,260
Total liabilities and stockholders' equity	$ 181,387	$ 181,944

See accompanying notes to condensed consolidated financial statements.

HUDSON HIGHLAND GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31, 2010	2009
Cash flows from operating activities:		
Net loss	$ (4,207)	$ (5,559)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,287	3,818
Recovery of doubtful accounts	(228)	(150)
Benefit from deferred income taxes	(766)	(2,324)
Stock-based compensation	371	449
Net gain on disposal of assets	-	(11,625)
Other, net	(762)	-
Changes in assets and liabilities, net of effects of business acquisitions:		
(Increase) decrease in accounts receivable	(16,495)	22,992
(Increase) decrease in other assets	(1,318)	757
Increase (decrease) in accounts payable, accrued expenses and other liabilities	9,704	(18,422)
(Decrease) increase in accrued business reorganization expenses	(3,409)	2,513
Net cash used in operating activities	(14,823)	(7,551)
Cash flows from investing activities:		
Capital expenditures	(1,102)	(500)
Payment received on note from asset sale	3,500	-
Net cash provided by (used in) investing activities	2,398	(500)
Cash flows from financing activities:		
Borrowings under credit facility and other short term financing	10,963	39,985
Repayments under credit facility and other short term financing	(10,039)	(34,035)
Purchase of treasury stock, including fees	-	(703)
Purchase of restricted stock from employees	(32)	(55)
Net cash provided by financing activities	892	5,192
Effect of exchange rates on cash and cash equivalents	(403)	(90)
Net decrease in cash and cash equivalents	(11,936)	(2,949)
Cash and cash equivalents, beginning of the period	36,064	49,209
Cash and cash equivalents, end of the period	$ 24,128	$ 46,260
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 315	$ 238
Cash payment (refund), net during the period for income taxes	$ 582	$ (609)

See accompanying notes to condensed consolidated financial statements.

HUDSON HIGHLAND GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common stock		Additional paid-in	Accumulated	Accumulated other comprehensive	Treasury	
	Shares	Value	capital	deficit	income (loss)	stock	Total
Balance at January 1, 2010	26,722	$ 27	$ 445,541	$ (403,514)	$ 34,509	$ (303)	$ 76,260
Net loss	-	-	-	(4,207)	-	-	(4,207)
Other comprehensive loss, translation adjustments	-	-	-	-	(2,025)	-	(2,025)
Purchase of restricted stock from employees	(7)	-	-	-	-	(32)	(32)
Issuance of shares for 401(k) plan contribution	121	-	206	-	-	335	541
Stock-based compensation	483	-	371	-	-	-	371
Balance at March 31, 2010	27,319	$ 27	$ 446,118	$ (407,721)	$ 32,484	$ -	$ 70,908

See accompanying notes to condensed consolidated financial statements.

HUDSON HIGHLAND GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(unaudited)

NOTE 1 – BASIS OF PRESENTATION

These interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of Hudson Highland Group, Inc. and its subsidiaries (the “Company”) filed in its Annual Report on Form 10-K for the year ended December 31, 2009.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of operating revenues and expenses. These estimates are based on management’s knowledge and judgments. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The results of operations for interim periods are not necessarily indicative of the results of operations for the full year. The Condensed Consolidated Financial Statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. All significant intra-entity balances and transactions between and among the Company and its subsidiaries have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current period presentation.

NOTE 2 – DESCRIPTION OF BUSINESS

The Company provides professional staffing services on a permanent and contract basis and a range of human capital services to businesses operating in a wide variety of industries. The Company’s operations, assets and liabilities are organized into four reportable segments—Hudson Americas, Hudson Europe, Hudson Australia and New Zealand (‘ANZ”), and Hudson Asia (“Hudson regional businesses” or “Hudson”), which constituted approximately 14%, 49%, 27%, and 10%, respectively, of the Company’s gross margin for the three months ended March 31, 2010.

Corporate expenses are reported separately from the four reportable segments and pertain to certain functions, such as executive management, corporate governance, human resources, accounting, administration, tax and treasury some of which are attributable and have been allocated to the reportable segments.

Hudson Americas operates from 28 offices in the United States (“U.S.”) and Canada, with 98% of its gross margin generated in the U.S. during the three months ended March 31, 2010. Hudson Europe operates from 38 offices in 13 countries, with 45% of its gross margin generated in the United Kingdom (“U.K.”) during the three months ended March 31, 2010. Hudson ANZ operates from 12 offices in Australia and New Zealand, with 89% of its gross margin generated in Australia during the three months ended March 31, 2010. Hudson Asia operates from 5 offices in China, Hong Kong and Singapore, with 48% of its gross margin generated in China during the three months ended March 31, 2010.

The Hudson regional businesses provide professional contract personnel and permanent recruitment services to a wide range of clients. With respect to contract personnel, Hudson focuses on providing to its clients candidates with specialized functional skills and competencies, such as accounting and finance, legal and information technology. Hudson provides permanent recruitment services on both a retained and contingent basis and focuses on mid-level professionals. The Hudson regional businesses also provide human capital services, the largest of which are assessment and development services, through their Talent Management Solutions units.

NOTE 3 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updates (“ASU”) 2010-09 “Amendments to Certain Recognition and Disclosure Requirements” amending FASB Accounting Standards Codification (“ASC”) Topic 855, “Subsequent Events.” The amendment eliminates the requirement in ASC Topic 855 to disclose the date through which subsequent events have been evaluated in the consolidated financial statements of SEC filers and is effective for reports filed after February 24, 2010. The Company evaluated all events and transactions through the issuance date of our condensed consolidated financial statements. No recognized or unrecognized subsequent events and transactions were noted.

In January 2010, the FASB issued ASU 2010-6, “Improving Disclosures about Fair Measurements." ASU 2010-6 provides amendments to ASC Topic 820 that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the presentation of separate information regarding purchases, sales, issuances and settlements for Level 3 fair value measurements. Additionally, ASU 2010-6 provides amendments to ASC Topic 820 that clarify existing disclosures about the level of disaggregation and inputs and valuation techniques. The new disclosures and clarification of existing disclosures of ASU 2010-6 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuance, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company expects the adoption of ASU 2010-06 will not have a material impact on the Company’s results of operations or financial position.

NOTE 4 – EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share are computed by dividing the Company's net (loss) income by the weighted average number of shares outstanding during the period. When the effects are not anti-dilutive, diluted earnings (loss) per share are computed by dividing the Company's net (loss) income by the weighted average number of shares outstanding and the impact of all dilutive potential common shares, primarily stock options and unvested restricted stock. The dilutive impact of stock options and unvested restricted stock is determined by applying the "treasury stock" method. For the periods in which losses are presented, dilutive loss per share calculations do not differ from basic loss per share because the effects of any potential common stock were anti-dilutive and therefore not included in the calculation of dilutive earnings per share. For the three months ended March 31, 2010 and 2009, the effect of approximately 2,771,459, and 2,492,335, respectively, of outstanding stock options and other common stock equivalents was excluded from the calculation of diluted loss per share because the effect was anti-dilutive.

NOTE 5 – STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with ASC Topic 718 "Compensation – Stock Compensation", as interpreted by the Securities Exchange Commission ("SEC") Staff Accounting Bulletins No. 107 and No. 110. Under ASC Topic718, stock-based compensation is based on the fair value of the award on the date of grant, which is recognized over the related service period, net of estimated forfeitures. For awards with graded vesting conditions, the values of the awards are determined by valuing each tranche separately and expensing each tranche over the required service period. The service period is the period over which the related service is performed, which is generally the same as the vesting period. The Company uses the Black-Scholes option-pricing model to determine the compensation expense related to stock options.

Incentive Compensation Plan

The Company maintains the Hudson Highland Group, Inc. 2009 Incentive Stock and Awards Plan (the "ISAP") pursuant to which it can issue equity-based compensation incentives to eligible participants. The ISAP permits the granting of stock options and restricted stock as well as other types of equity-based awards. The Compensation Committee of the Company's Board of Directors will establish such conditions as it deems appropriate on the granting or vesting of stock options or restricted stock. While the Company historically granted both stock options and restricted stock to its employees, since 2008 the Company has primarily granted restricted stock to its employees. Occasionally, the Company continues to grant stock options to certain of its executive employees at the time of hire.

The ISAP provides that an aggregate of 1,600,000 shares of the Company's common stock are reserved for issuance to participants. The Compensation Committee of the Company's Board of Directors administers the ISAP and may designate any of the following as a participant under the ISAP: any officer or other employee of the Company or its affiliates or individuals engaged to become an officer or employee, consultants or other independent contractors who provide services to the Company or its affiliates and non-employee directors of the Company.

Stock Options

Stock options granted under the ISAP generally expire ten years after the date of grant. Stock options granted under the ISAP have an exercise price of at least 100% of the fair market value of the underlying stock on the date of grant and generally vest ratably over a four year period.

For the three months ended March 31, 2010 and 2009, the Company recognized $52 and $193, respectively, of stock-based compensation expense related to stock options.

As of March 31, 2010, the Company had $117 of total unrecognized stock-based compensation expense related to outstanding non-vested stock options. The Company expects to recognize that cost over a weighted average service period of approximately 1.3 years.

Changes in the Company’s stock options for the three months ended March 31, 2010 were as follows:

	Number of Options Outstanding	Weighted Average Exercise Price per Share
Options outstanding, beginning of year	1,763,250	$ 12.79
Forfeited	(12,625)	15.59
Expired	(950)	8.53
Options outstanding at March 31, 2010	1,749,675	12.78
Options exercisable at March 31, 2010	1,661,175	$ 12.86

Restricted Stock

During the three months ended March 31, 2010, the Company granted 524,332 shares of restricted stock to various employees. Shares of restricted stock with only service-based vesting conditions and shares of restricted stock with performance vesting conditions are valued at the closing market value of the Company’s common stock on the date of grant. The Company recognizes compensation cost for the awards with performance conditions if and when the Company concludes that it is probable that the performance condition will be achieved. Of the 524,332 shares granted, (i) 14,667 shares vested immediately, (ii) 224,332 shares vest ratably over a three year period from the date of grant with only service-based conditions, (iii) 240,333 shares vest ratably over a three year period from the date of grant based on performance of the Company’s Gross Margin and Earnings Before Interest, Income Taxes, Depreciation and Amortization (“EBITDA”) and (iv) 45,000 shares vest in full on April 1, 2013.

For the three months ended March 31, 2010 and 2009, the Company recognized $319 and $256, respectively, of stock-based compensation expense related to restricted stock.

As of March 31, 2010, the Company had $2,883 of total unrecognized stock-based compensation expense related to outstanding nonvested restricted stock. That cost is expected to be recognized over a weighted average service period of 2.0 years.

Changes in the Company's restricted stock for the three months ended March 31, 2010 were as follows:

	Number of Shares of Restricted Stock	Weighted Average Grant-Date Fair Value
Nonvested restricted stock, beginning of year	531,083	$ 2.70
Granted	524,332	4.55
Vested	(71,671)	2.57
Forfeited	(18,000)	1.57
Nonvested restricted stock at March 31, 2010	965,744	$ 3.74

Defined Contribution Plans

The Company maintains the Hudson Highland Group, Inc. 401(k) Savings Plan (the "401(k) plan"). The 401(k) plan allows eligible employees to contribute up to 15% of their earnings to the 401(k) plan. The Company has the discretion to match employees' contributions up to 3% through a contribution of the Company's common stock. Vesting of the Company's contribution occurs over a five-year period. For the three months ended March 31, 2010 and 2009, the Company recognized $233 and $272, respectively, of expense for the 401(k) plan. In March 2010, the Company issued 121,016 shares of its common stock with a value of $541 plus cash of $111 to satisfy the 2009 contribution liability to the 401(k) plan. In March 2009, the Company issued 1,318,161 shares of its common stock with a value of $1,226 to satisfy the 2008 contribution liability to the 401(k) plan.

NOTE 6 – DISCONTINUED OPERATIONS

In the second and first quarter of 2009, the Company exited the markets in Italy and Japan, respectively. In accordance with the provision of ASC Topic 205-20-45 "Reporting Discontinued Operations" the assets, liabilities, and results of operations of the Italy and Japan operations were reclassified as discontinued operations.

In the first quarter of 2008, the Company sold substantially all of the assets of Hudson Americas' energy, engineering and technical staffing division ("ETS") to System One Holdings LLC.

In the third quarter of 2006, the Company sold its Highland Partners executive search business ("Highland") to Heidrick & Struggles International, Inc. As a result of Highland achieving certain revenue metrics in 2008, the Company received an additional and final earn-out payment of $11,625 on April 9, 2009, which was accrued in the three months ended March 31, 2009 and reflected within discontinued operations as a gain from sale of discontinued operations.

Italy was part of the Hudson Europe reportable segment, Japan was part of the Hudson Asia reportable segment, and ETS was part of the Hudson Americas reportable segment. The Highland business was a separate reportable segment of the Company at the time of its sale. The gain or loss on sale and results of operations of the disposed businesses were reported in discontinued operations in the relevant periods.

Reported results for the discontinued operations were insignificant for the three months ended March 31, 2010. The reported results for the discontinued operations for the three months ended March 31, 2009 were as follows:

	For The Three Months Ended March 31, 2009				
	Italy	Japan	ETS	Highland	Total
Revenue	$ 333	$ 743	$ -	$ -	$ 1,076
Gross margin	$ 309	$ 727	$ -	$ -	$ 1,036
Operating income (loss)	$ (390)	$ (1,650)	$ (62)	$ -	$ (2,102)
Other income (expense)	(3)	(244)	-	-	(247)
Gain (loss) from sale of discontinued operations	-	-	-	11,625	11,625
Provision for (benefit from) income taxes (a)	-	-	-	-	-
Income (loss) from discontinued operations	$ (393)	$ (1,894)	$ (62)	$ 11,625	$ 9,276

(a) Income tax expense is provided at the effective tax rate by taxing jurisdiction and differs from the U.S. statutory tax rate of 35% due to differences in the foreign statutory tax rates, as well as the ability to offset certain net operating losses (“NOLs”) against taxable profits.

NOTE 7 – REVENUE, DIRECT COSTS AND GROSS MARGIN

The Company's revenue, direct costs and gross margin were as follows:

	For The Three Months Ended March 31, 2010			For The Three Months Ended March 31, 2009 (2)		
	Temporary	Other	Total	Temporary	Other	Total
Revenue	$ 135,033	$ 45,085	$ 180,118	$ 125,261	$ 39,889	$ 165,150
Direct costs (1)	110,556	3,141	113,697	99,647	3,499	103,146
Gross margin	$ 24,477	$ 41,944	$ 66,421	$ 25,614	$ 36,390	$ 62,004

(1) Direct costs include the direct staffing costs of salaries, payroll taxes, employee benefits, travel expenses and insurance costs for the Company's contractors and reimbursed out-of-pocket expenses and other direct costs. Other than reimbursed out-of-pocket expenses, there are no other direct costs associated with the Other category, which includes the search, permanent recruitment and other human resource solutions' revenue. Gross margin represents revenue less direct costs. The region where services are provided, the mix of contracting and permanent recruitments, and the functional nature of the staffing services provided can affect gross margin. The salaries, commissions, payroll taxes and employee benefits related to recruitment professionals are included in selling, general and administrative expenses.

(2) For the three months ended March 31, 2009, the Company reclassified $1,331 of Temporary Revenue, $1,128 of Temporary Direct Costs and $203 of Temporary Gross Margin from Other Revenue, Other Direct Costs and Other Gross Margin, respectively. The Company reclassified these amounts to be consistent with similar arrangements.

NOTE 8 – PROPERTY AND EQUIPMENT, NET

As of March 31, 2010 and December 31, 2009, property and equipment, net consisted of the following:

	March 31, 2010	December 31, 2009
Computer equipment	$ 18,840	$ 19,095
Furniture and equipment	14,135	14,635
Capitalized software costs	32,605	32,074
Leasehold and building improvements	22,753	24,194
Transportation equipment	22	22
	88,355	90,020
Less: accumulated depreciation and amortization	70,481	70,587
Property and equipment, net	$ 17,874	$ 19,433

NOTE 9 – INCOME TAXES

The provision for income taxes for the three months ended March 31, 2010 was $252 on a pre-tax loss of $3,886, compared with a benefit from income taxes of $4,060 on pre-tax loss of $18,895 for the same period of 2009. The effective tax rate for the three months ended March 31, 2010 was negative 6.5% as compared to 21.5% for the same period of 2009. In the current period, the effective tax rate differs from the U.S. federal statutory rate of 35% primarily due to the ability to benefit from losses incurred in foreign jurisdictions and the inability to recognize tax benefits on net U.S. losses. The Company records a valuation allowance against deferred tax assets to the extent that it is more likely than not that some portion, or all of, the deferred tax assets will not be realized.

Under ASC Topic 270, “Interim Reporting”, and ASC Topic 740-270, “Income Taxes – Intra Tax Allocation”, the Company is required to adjust its effective tax rate for each quarter to be consistent with the estimated annual effective tax rate. Jurisdictions with a projected loss for the full year where no tax benefit can be recognized are excluded from the calculation of the estimated annual effective tax rate. Applying the provision of ASC Topic 270 and 740 could result in a higher or lower effective rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.

As of March 31, 2010 and December 31, 2009, the Company had $8,529 and $8,528, respectively, of uncertain tax benefits, including interest and penalties, which if recognized in the future, would affect the annual effective income tax rate. Reductions to uncertain tax positions from the lapse of the applicable statutes of limitations during the next twelve months are estimated to be approximately $1,000 to $4,400, not including any potential new additions.

Estimated interest costs and penalties are classified as part of the provision for income taxes in the Company’s Condensed Consolidated Statements of Operations and totaled ($18) and $81, respectively, for the three months ended March 31, 2010 and 2009. Accrued interest and penalties were $1,992 and $2,014 as of March 31, 2010 and December 31, 2009, respectively. In many cases, the Company’s uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. Tax years that had NOLs would remain open until the expiration of the statute of limitations of the future tax years those NOLs would be utilized. Notwithstanding the above, the open tax years are 2006 through 2009 for the U.S. Federal and 2005 through 2009 for most U.S. state and local jurisdictions, 2007 through 2009 for the U.K., 2000 through 2003 and 2005 through 2009 for Australia and 2003 through 2009 for most other jurisdictions. The Company is currently under income tax examination in China (2008), Switzerland (2008), France (2006-2008), the State of Texas (2004 to 2006) and the State of Pennsylvania (2004-2005).

NOTE 10 – BUSINESS REORGANIZATION EXPENSES

The following table contains amounts for Changes in Estimate and Additional Charges related to prior restructuring plans that were incurred or recovered in the current period. These amounts are classified as business reorganization expenses in the Company’s Condensed Consolidated Statements of Operations. Amounts in the “Payments” column represent the cash payments associated with the reorganization plans. Changes in the accrued business reorganization expenses for the three months ended March 31, 2010 were as follows:

For The Three Months Ended March 31, 2010	December 31, 2009	Changes in Estimate	Additional Charges	Payments	March 31, 2010
Lease termination payments	$ 4,897	$ (45)	$ -	$ (919)	$ 3,933
Employee termination benefits	4,100	146	-	(2,613)	1,633
Contract cancellation costs	134	12	-	(28)	118
Total	$ 9,131	$ 113	$ -	$ (3,560)	$ 5,684

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Company has entered into various consulting, employment and non-compete agreements with certain key management personnel, executive search consultants and former owners of acquired businesses. Agreements with key members of management are on an at will basis, provide for compensation and severance payments under certain circumstances, and are automatically renewed annually unless either party gives sufficient notice of termination. Agreements with certain consultants and former owners of acquired businesses are generally two to five years in length. The Company is subject, from time to time, to disputes under these agreements, typically associated with terminations. The Company routinely monitors claims such as these, and records provisions for losses when the claims become probable and the amounts due are estimable.

The Company is subject to, from time to time, various claims, lawsuits, and other complaints from, for example, clients, candidates, suppliers, landlords, and taxing authorities in the ordinary course of business. The Company routinely monitors claims such as these, and records provisions for losses when the claim becomes probable and the amount due is estimable. Although the outcome of these claims cannot be determined, the Company believes that the final resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

The Company's reserves were not significant as of March 31, 2010 and December 31, 2009.

On May 13, 2009, the Company received a "Wells Notice" from the SEC. For further information refer to Part II – Other Information, Item 1 Legal Proceedings of this Form 10-Q.

The Company has certain asset retirement obligations that are primarily the result of legal obligations for the removal of leasehold improvements and restoration of premises to their original condition upon termination of leases. As of March 31, 2010 and December 31, 2009, $2,340 and $2,935, respectively, of asset retirement obligations were included in the Condensed Consolidated Balance Sheets under the caption "Other non-current liabilities."

NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended March 31, 2010, the Company issued 121,016 shares of its common stock held in treasury with a value of $541 for these shares at issuance, plus cash of $111 to satisfy its 2009 contribution liability to its 401(k) plan.

NOTE 13 – FINANCIAL INSTRUMENTS

Credit Agreements

The Company has a primary credit facility (the “Credit Agreement”) with Wells Fargo Foothill, Inc. and another lender that provides the Company with the ability to borrow up to $75,000, including the issuance of letters of credit. The Company’s available borrowings under the Credit Agreement are based on an agreed percentage of eligible accounts receivable less required reserves, principally related to the Company’s North America, the U.K. and Australia operations, as defined in the Credit Agreement. As of March 31, 2010, the Company’s borrowing base was $49,938 and the Company is required to maintain a minimum borrowing base of $25,000. As of March 31, 2010, the Company had $10,490 of outstanding borrowings under the Credit Agreement and a total of $4,153 of outstanding letters of credit issued under the Credit Agreement, resulting in the Company being able to borrow up to an additional $10,295 after deducting the minimum borrowing base.

The maturity date of the Credit Agreement is July 31, 2012. Borrowings may be made with an interest rate based on the prime rate plus a margin based on borrowing availability or an interest rate based on the LIBOR rate plus a margin based on borrowing availability. The interest rate on outstanding borrowings was 6.75% as of March 31, 2010. Borrowings under the Credit Agreement are secured by substantially all of the assets of the Company.

The Credit Agreement contains various restrictions and covenants, including those that (1) prohibit payments of dividends; (2) limit the Company’s capital expenditures in each fiscal year to $11,000; (3) restrict the ability of the Company to make additional borrowings, or to consolidate, merge or otherwise fundamentally change the ownership of the Company; (4) limit dispositions of assets to permitted dispositions in the aggregate not to exceed $15,000 per year; (5) limit guarantees of indebtedness; (6) prohibit the Company from making stock repurchases; and (7) limit the amount of permitted acquisitions to $10,000 per year. The Company was in compliance with all financial covenants under the Credit Agreement as of March 31, 2010.

The Company has entered into lending arrangements with local banks through its subsidiaries in Belgium, the Netherlands, New Zealand, and China. The outstanding borrowings under these lending arrangements were $890 and $0 as of March 31, 2010 and December 31, 2009, respectively. The Belgium and the Netherlands subsidiaries can borrow up to $3,590 based on an agreed percentage of accounts receivable related to their operations. Borrowings under the Belgium and the Netherlands credit agreements may be made with an interest rate based on the EURIBOR plus 2.5%, or about 2.9% on March 31, 2010. The lending arrangements will expire in 2011. In New Zealand, the Company’s subsidiary can borrow up to NZD$1,500 (or approximately $1,065 as of March 31, 2010) for working capital purposes. The lending arrangement expires on March 31, 2011. Interest on borrowings under the New Zealand facility is based on a three month cost of funds rate as determined by the bank, plus a 1.84% margin, and was 6.1% on March 31, 2010. In China, the Company’s subsidiary can borrow up to $1,000 for working capital purposes. Interest on borrowings under the overdraft facility is based on the People’s Republic of China’s six month rate, plus 200 basis points and was 6.86% on March 31, 2010. The lending arrangement expires annually each September but can be renewed for one year periods at that time.

The Company expects to continue to use the aforementioned credit, if and when required, to support its ongoing working capital requirements, capital expenditures and other corporate purposes and to support letters of credit. Letters of credit are used to support primarily office leases.

Restricted Cash

The Company had approximately $3,329 and $3,665 of restricted cash included in the accompanying Condensed Consolidated Balance Sheets on March 31, 2010 and December 31, 2009, respectively. Included in these balances was $1,893 held as collateral under a collateral trust agreement which supports the Company’s workers’ compensation policy as of March 31, 2010 and December 31, 2009, respectively. The Company had $154 and $159 deposits with a bank for a customer guarantee in Belgium and $273 and $293 deposits with a bank in the Netherlands as guarantees for the rent on the Company’s offices as of March 31, 2010 and December 31, 2009, respectively. These balances are included in the caption “Prepaid and other” and “Other assets” in the accompanying Condensed Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009, respectively.

The Company maintained $860 and $1,127 of deposits with banks in the Netherlands as required by law as a reserve for employee social tax payments, $134 and $179 of deposits with banks in Spain as guarantees for the rent on the Company’s offices, and insignificant business license deposits with a bank in Singapore as of March 31, 2010 and December 31, 2010, respectively. These deposits totaled to approximately $1,009, and $1,320 as of March 31, 2010 and December 31, 2009, respectively, and were included in the caption “Cash and cash equivalents” in the accompanying Condensed Consolidated Balance Sheets.

Acquisition Shelf Registration Statement

The Company has a shelf registration on file with the SEC to enable it to issue up to 1,350,000 shares of its common stock from time to time in connection with acquisitions of businesses, assets or securities of other companies, whether by purchase, merger or any other form of acquisition or business combination. If any shares are issued using this shelf registration, the Company will not receive any proceeds from these offerings other than the assets, businesses or securities acquired. As of March 31, 2010, all of the 1,350,000 shares were available for issuance.

Shelf Registration and Common Stock Offering

In December 2009, the Company filed a shelf registration statement (the “2009 Shelf Registration”) with the SEC to enable it to issue up to $30,000 equivalent of securities or combinations of securities. The types of securities permitted for issuance under the 2009 Shelf Registration are debt securities, common stock, preferred stock, warrants, stock purchase contracts and stock purchase units.

On April 6, 2010, the Company issued in a registered public offering under the 2009 Shelf Registration 4,830,000 shares (which share number includes the exercise of the underwriter’s overallotment option of 630,000 shares) of common stock at $4.35 per share. Total net proceeds to the Company after underwriting discounts and expenses of the public offering were approximately $19,186.

After this offering, the Company may issue up to $8,990 equivalent of securities or combinations of securities under the 2009 Shelf Registration.

NOTE 14– COMPREHENSIVE INCOME

An analysis of the Company’s comprehensive loss is as follows:

	Three Months Ended March 31, 2010	2009
Net loss	$ (4,207)	$ (5,559)
Other comprehensive loss—translation adjustments	(2,025)	(773)
Total comprehensive loss	$ (6,232)	$ (6,332)

NOTE 15 – SEGMENT AND GEOGRAPHIC DATA

The Company operates in four reportable segments: the Hudson regional businesses of Hudson Americas, Hudson Europe, Hudson ANZ, and Hudson Asia. Corporate expenses are reported separately from the four reportable segments and pertain to certain functions, such as executive management, corporate governance, human resources, accounting, administration, tax and treasury which are not attributable to the reportable segments.

Segment information is presented in accordance with ASC Topic 280, “Segments Reporting”. This standard is based on a management approach that requires segmentation based upon the Company’s internal organization and disclosure of revenue, certain expenses and operating income based upon internal accounting methods. The Company’s financial reporting systems present various data for management to run the business, including internal profit and loss statements prepared on a basis not consistent with generally accepted accounting principles. Accounts receivable, net and long-lived assets are the only significant assets separated by segment for internal reporting purposes.

In the first quarter of 2010, the Company revised its reportable segments by segregating the segments of Hudson ANZ and Hudson Asia (previously included in the results for Hudson Asia Pacific). The Company has reclassified prior period information to reflect this change to the segment reporting in accordance with the requirement of ASC Topic 280-10-50-12 to 19, “Quantitative Thresholds”.

	Hudson Americas	Hudson Europe	Hudson ANZ	Hudson Asia	Corporate	Total
For The Three Months Ended March 31, 2010						
Revenue	$ 39,507	$ 76,654	$ 56,822	$ 7,135	$ -	$ 180,118
Gross margin	$ 9,279	$ 32,530	$ 17,776	$ 6,836	$ -	$ 66,421
Business reorganization and integration expenses (recovery)	$ 142	$ 87	$ (116)	$ -	$ -	$ 113
EBITDA (loss) (a)	$ (241)	$ 436	$ 249	$ 597	$ (2,408)	$ (1,367)
Depreciation and amortization	884	629	557	172	45	2,287
Interest income (expense), net	(3)	(24)	28	(1)	(232)	(232)
(Loss) income from continuing operations before income taxes	(1,128)	(217)	(280)	424	(2,685)	(3,886)
As of March 31, 2010						
Accounts receivable, net	$ 24,258	$ 51,811	$ 30,701	$ 6,443	$ -	$ 113,213
Long-lived assets, net of accumulated depreciation and amortization	$ 2,210	$ 5,990	$ 7,166	$ 413	$ 2,510	$ 18,289
Total assets	$ 29,390	$ 79,787	$ 47,190	$ 11,853	$ 13,167	$ 181,387

	Hudson Americas	Hudson Europe	Hudson ANZ	Hudson Asia	Corporate	Total
For The Three Months Ended March 31, 2009						