HUDSON HIGHLAND GROUP INC
Form 10-K
March 06, 2008
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

(Mark one)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

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

COMMISSION FILE NUMBER 000-50129

# HUDSON HIGHLAND GROUP, INC.

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

| **Delaware** | **59-3547281** |
|---|---|
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification Number)** |

**560 Lexington Avenue, New York, New York 10022**

**(Address of Principal Executive Offices)**

**(212) 351-7300**

**(Registrant s telephone number, including area code)**

**Securities Registered Pursuant to Section 12(b) of the Act:**

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| **Common Stock, $0.001 par value** | **The NASDAQ Stock Market LLC** |
| **Preferred Share Purchase Rights** | **The NASDAQ Stock Market LLC** |

**Securities Registered Pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Act. Yes ¨ No x

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ¨ No x

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. (Check one):

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

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant was approximately $543,880,000 as of June 30, 2007.

The number of shares of Common Stock, $.001 par value, outstanding as of January 31, 2008 was 25,617,931.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated by reference into Part III.

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**PART I**

**ITEM 1. BUSINESS**

Hudson Highland Group, Inc. (the Company or we , us and our ) is one of the world s largest specialized professional staffing and talent management solutions providers. The Company provides professional staffing services on a permanent and contract consulting basis and a range of talent management services to businesses operating in many industries. The Company helps its clients in recruiting and developing employees for professional-level functional and managerial positions.

The Company is organized into three reportable segments, Hudson Americas, Hudson Europe and Hudson Asia Pacific. These reportable segments constituted approximately 17%, 47%, and 36% of the Company s gross margin, respectively, for the year ended December 31, 2007. The Hudson regional businesses were historically the combination of 54 acquisitions made between 1999 and 2001, which became the eResourcing division of Monster Worldwide, Inc. ( Monster ), formerly TMP Worldwide, Inc. Some of the Company s constituent businesses have operated for more than 20 years. On March 31, 2003, Monster distributed all of the outstanding shares of the Company to its stockholders of record on March 14, 2003 (the Distribution ). Since the Distribution, the Company has operated as an independent publicly held company, adding one mid-sized and six smaller acquisitions, and divesting or reorganizing a number of smaller business units after determining that those businesses were not viable profit centers.

Hudson s three regional businesses provide professional contract consultants and permanent recruitment services to a wide range of clients. With respect to temporary and contract personnel, Hudson focuses on providing candidates with specialized functional skills and competencies, such as accounting and finance, legal and information technology. The length of a contract assignment can vary, but engagements at the professional level tend to be longer than those in the general clerical or industrial sectors. With respect to permanent recruitment, Hudson focuses on mid-level professionals typically earning between $50,000 and $150,000 annually and possessing the professional skills and/or profile required by clients. Hudson provides permanent recruitment services on both a retained and contingent basis. In larger markets, Hudson s sales strategy focuses on both clients operating in particular industry sectors, such as financial services or technology, and candidates possessing particular professional skills, such as accounting and finance, information technology, legal and human resources. Hudson uses both traditional and interactive methods to select potential candidates for its clients, employing a suite of products that assesses talent and helps predict whether a candidate will be successful in a given role.

All of the Hudson regional businesses also provide organizational effectiveness and development services through their talent management units. These services encompass candidate assessment, competency modeling, leadership development, performance management, and career transition. These services enable Hudson to offer clients a comprehensive set of management services, across the entire employment life-cycle from attracting, assessing and selecting best-fit employees to engaging and developing those individuals to help build a high-performance organization.

Hudson Americas operates from 35 offices in two countries, with 95% of its 2007 gross margin generated in the United States. Hudson Europe operates from 46 offices in 17 countries, with 54% of its 2007 gross margin coming from the United Kingdom operations. Hudson Asia Pacific operates from 21 offices in 6 countries, with 65% of its 2007 gross margin stemming from Australia.

Corporate expenses are reported separately from the three reportable segments and consist primarily of expenses for compensation, marketing programs, rent and professional consulting.

**DISCONTINUED OPERATIONS**

On February 4, 2008, the Company completed the sale of substantially all of the assets of its Hudson Americas energy, engineering and technical staffing division ( ETS ), which was part of the Hudson Americas regional business. In the fourth quarter of 2007, the Company sold its Netherlands reintegration subsidiary, Hudson Human Capital Solutions B.V. ( HHCS ), which was part of the Hudson Europe regional business, and its Australian blue-collar market s Trade & Industrial subsidiary ( T&I ), which was part of the Hudson Asia

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Pacific regional business. In the fourth quarter of 2006, the Company sold its Highland Partners ( Highland ) executive search business, which was a separate reportable segment of the Company.

As the result of the sales, ETS, HHCS, T&I and Highland operations have been accounted for as discontinued operations and accordingly, amounts in the financial statements and related notes for all historical periods have been restated to reflect these operations as discontinued operations.

**SALES AND MARKETING**

Each of Hudson s regional businesses maintains a sales force composed of business development specialists that is aligned along functional practice areas or industry sector groups as appropriate for the market. These business development specialists receive incentives for cross-selling services with other practices and business units as the client need arises. In addition, the specialty practices have a business liaison for international sales opportunities that arise for global recruitment and/or talent management needs from a client or prospect.

The Company s global marketing and communications function is responsible for brand and marketing strategy, client and candidate lead generation campaigns, public relations and corporate/employee communications. This team closely coordinates with the operational leadership and regional/practice/business unit marketing and sales teams to generate leads, support sales efforts and build a strong brand reputation both in the external market and within the organization.

We use three principal channels for marketing our services and promoting our brand: (1) in the United Kingdom, Australia, New Zealand, and other countries where it is an accepted practice, we use client paid and Company paid advertising for vacant positions; (2) public relations to promote our experts and offerings, and original research on business management and human capital issues of particular relevance to senior business managers; and (3) the Internet, both for promoting the Company s services to clients and attracting, assisting and managing candidates.

**CLIENTS**

The Company s clients include small to large-sized corporations and government agencies. No one client accounted for more than 5% of total annual revenue in 2007. At December 31, 2007, there were approximately 800 Hudson Americas clients, 5,200 Hudson Europe clients and 4,500 Hudson Asia Pacific clients.

**COMPETITION**

The markets for the Company s services and products are highly competitive. There are few barriers to entry, so new entrants occur frequently, resulting in considerable market fragmentation. Companies in this industry compete on price, service quality, new capabilities and technologies, client attraction methods, and speed of completing assignments.

**EMPLOYEES**

The Company employs approximately 3,600 people worldwide. In most jurisdictions, our employees are not represented by a labor union or a collective bargaining agreement. The Company regards its relationships with its employees as satisfactory.

**SEGMENT AND GEOGRAPHIC DATA**

Financial information concerning the Company s reportable segments and geographic areas of operation is included in Note 19 in the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K.

**AVAILABLE INFORMATION**

We maintain a Web site with the address *www.hudson.com*. We are not including the information contained on our Web site as part of, or incorporating it by reference into, this report. Through our Web site, we make available free of charge (other than an investor s own Internet access charges) our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports in a timely manner after we provide them to the Securities and Exchange Commission.

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**ITEM 1A. RISK FACTORS**

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected.

**We have had periods of negative cash flows and operating losses that may reoccur in the future.**

We have experienced negative cash flows and shown operating and net losses in the past. For example, we recorded net cash used in operating activities of $26.3 million in 2005 and losses from continuing operations of $8.2 million and $16.3 million in 2006 and 2005, respectively. We cannot provide any assurance that we will have positive cash flows or operating profitability in the future. If our revenue grows more slowly than we anticipate or if operating expenses exceed our expectations, we may not be profitable or may not generate positive operating cash flows. In addition, we have disposed of a number of non-core businesses during the last eighteen months and these divestitures may reduce our ability to continue our upwards earnings trend.

**Our revenue can vary because our clients can terminate their relationship with us at any time with limited or no penalty.**

We provide professional search and mid-market professional staffing services on a temporary assignment-by-assignment basis, which clients can generally terminate at any time or reduce their level of use when compared to prior periods. Our professional staffing business is also significantly affected by our clients hiring needs and their views of their future prospects. Clients may, on very short notice, reduce or postpone their recruiting assignments with us and therefore, affect demand for our services.

**Our operations will be affected by global economic fluctuations.**

Demand for our services may fluctuate with changes in economic conditions, especially those resulting in slower or reduced employment growth. Because we operate from many small offices with fixed overhead, we have only limited flexibility to reduce expenses during economic downturns. Further, we may face increased pricing pressures during these times. For example, during 2001 and 2002, employers across the United States reduced their overall workforce to reflect the slowing demand for their products and services. In turn, our revenue was significantly reduced in the United States. Economic conditions could deteriorate in 2008, which could have a material adverse effect on our business, financial condition and operating results.

**Our credit facility restricts our operating flexibility.**

We have a $75.0 million senior secured bank credit facility. As of December 31, 2007, there were no outstanding borrowings under the facility and there were a total of $7.9 million of outstanding letters of credit issued under the credit facility. Available credit for use under the credit facility as of December 31, 2007 was $67.1 million. Our ability to borrow under the credit facility is tied to a borrowing base of our eligible accounts receivable. If the amount or quality of our accounts receivable deteriorates, our ability to borrow under the credit facility will be directly affected. In addition, our credit facility requires that we satisfy certain financial covenants, including complying with targeted levels of EBITDA. As a result, we cannot provide any assurance that we will be able to borrow under our credit agreement if we need money to fund working capital or other needs. In addition, our credit facility contains various restrictions and covenants that restrict our operating flexibility including:

- prohibitions on payments of dividends;
- restrictions on our ability to make additional borrowings, or to consolidate, merge or otherwise fundamentally change our ownership; and

limitations on investments, dispositions of assets, guarantees of indebtedness and repurchases of stock.

These restrictions and covenants could have important consequences for investors, including the need to use a portion of our cash flow from operations for debt service rather than for our operations, an inability to incur additional debt financing for future working capital or capital expenditures, a lesser ability to take advantage of significant business opportunities, such as acquisition opportunities, or to react to market conditions, lesser ability to sell assets, grant or incur liens on our assets, or engage in mergers or consolidations.

Our ability to comply with these financial requirements and other restrictions may be affected by events outside our control, in particular macroeconomic events. Our inability to comply with them could result in a default under our credit facility or other debt instruments. If a default occurs under our credit facility, the lenders under this facility could elect to declare all of the outstanding borrowings, and accrued interest and fees, to be due and payable and require us to apply all of our available cash to repay those borrowings. In addition, a default may result in higher rates of interest and the inability to obtain additional borrowings. Further, debt incurred under our credit facility bears interest at variable rates. Any increase in interest expense could reduce the funds available for operations.

**We face risks relating to our international operations.**

We conduct operations in more than twenty countries. For the years ended December 31, 2007, 2006 and 2005, approximately 76%, 74% and 74%, respectively, of our revenue was earned outside of the United States. Our financial results could be materially affected by a number of factors particular to international operations. These include but are not limited to difficulties in staffing and managing international operations, operational issues such as longer customer payment cycles and greater difficulties in collecting accounts receivable, changes in tax laws or other regulatory requirements; issues relating to uncertainties of laws and enforcement relating to the regulation and protection of intellectual property; and currency fluctuation. If we are forced to discontinue any of our international operations, we could incur material costs to close down such operations.

Regarding the foreign currency risk inherent in international operations, the results of our local operations are reported in the applicable foreign currencies and then translated into U.S. dollars at the applicable foreign currency exchange rates for inclusion in our financial statements. In addition, we generally pay operating expenses in the corresponding local currency. Because of devaluations and fluctuations in currency exchange rates or the imposition of limitations on conversion of foreign currencies into U.S. dollars, we are subject to currency translation exposure on the revenue and income of our operations in addition to economic exposure. This risk could have a material adverse effect on our business, financial condition and operating results.

**Our acquisition strategy subjects us to risks.**

From time to time, we make acquisitions and our growth strategy is based in part upon acquisitions. We may not be able to identify suitable acquisition candidates or complete future acquisitions, which could adversely affect our future growth. Businesses we acquire may not perform as well as expected, which could adversely affect our business and financial results. The success of these acquisitions is dependent upon our ability to effectively integrate acquired personnel, operations, products and technologies into our organization; and our ability to retain and motivate key personnel and to retain the clients of acquired firms. The process of integrating these acquisitions may disrupt our business and divert our resources and if we are not successful at integrating an acquisition into our operations, our financial results may be materially adversely affected. In addition, we may incur unforeseen obligations or liabilities in connection with acquisitions and the acquisition agreements may require us to make future payments to the sellers. Furthermore, we may need to borrow more money from lenders or sell equity or debt securities to the public to finance future acquisitions and the terms of these financings may be adverse to us.

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**We face risks associated with our dispositions of non-core businesses.**

We have disposed of a number of non-core businesses during the last eighteen months. We have retained assets and liabilities of these businesses and we may not be able to recover the assets or settle the liabilities at the recorded value in our financial statements. In addition, we may be responsible for any potential indemnification claims by the purchasers, which may adversely impact our financial results. Further, we have risks associated with our ability to effectively restructure our operations following these dispositions.

**We rely on our information systems, and if we lose that technology or fail to further develop our technology, our business could be harmed.**

Our success depends in large part upon our ability to store, retrieve, process, and manage substantial amounts of information, including our client and candidate databases. To achieve our strategic objectives and to remain competitive, we must continue to develop and enhance our information systems. This may require the acquisition of equipment and software and the development, either internally or through independent consultants, of new proprietary software. Our inability to design, develop, implement and utilize, in a cost-effective manner, information systems that provide the capabilities necessary for us to compete effectively, or any interruption or loss of our information processing capabilities, for any reason, could harm our business, results of operations or financial condition.

**Our markets are highly competitive.**

The markets for our services are highly competitive and those markets are characterized by pressures to reduce prices, provide high levels of service, incorporate new capabilities and technologies, accelerate job completion schedules and attract and retain highly skilled professionals who possess the skills and experience necessary to fulfill our clients employee search needs.

Furthermore, we face competition from a number of sources. These sources include other executive search firms and professional search, staffing and consulting firms. Several of our competitors have greater financial and marketing resources than we do.

Due to competition, we may experience reduced margins on our products and services, and loss of market share and our customers. If we are not able to compete effectively with current or future competitors as a result of these and other factors, our business, financial condition and results of operations could be materially adversely affected.

We have no significant proprietary technology that would preclude or inhibit competitors from entering the mid-market professional staffing contract consulting markets. We cannot provide assurance that existing or future competitors will not develop or offer services and products that provide significant performance, price, creative or other advantages over our services. In addition, we believe that with continuing development and increased availability of information technology, the industries in which we compete may attract new competitors. Specifically, the advent and increased use of the Internet may attract technology-oriented companies to the professional staffing industry. We cannot provide assurance that we will be able to continue to compete effectively against existing or future competitors. Any of these events could have a material adverse effect on our business and operating results.

**Our operating results fluctuate from quarter to quarter and therefore quarterly results cannot be used to predict future periods results.**

Our operating results fluctuate quarter to quarter primarily due to the vacation periods of the first quarter in the Asia Pacific region and the third quarter in the Americas and Europe regions. Demand for our services is typically lower during vacation periods.

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**We may be exposed to employment-related claims, legal liability and costs from both clients and employers that could adversely affect our business, financial condition and results of operations, and our insurance coverage may not cover all of our potential liability.**

We are in the business of employing people and placing them in the workplaces of other businesses. Risks relating to these activities include:

- claims of misconduct or negligence on the part of our employees;
- claims by our employees of discrimination or harassment directed at them, including claims relating to action of our clients;
- claims related to the employment of illegal aliens or unlicensed personnel;
- claims for payment of workers compensation claims and other similar claims;
- claims for violations of wage and hour requirements;
- claims for retroactive entitlement to employee benefits;
- claims of errors and omissions of our temporary employees, particularly in the case of professionals;
- claims by taxing authorities related to our employment of independent contractors and the risk that such contractors could be considered employees for tax purposes;
- claims related to our non-compliance with data protection laws which require the consent of a candidate to transfer resumes and other data; and
- claims by our clients relating to our employees misuse of client proprietary information, misappropriation of funds, other criminal activity or similar claims.

We are exposed to potential claims with respect to the recruitment process. A client could assert a claim for matters such as breach of a blocking arrangement or recommending a candidate who subsequently proves to be unsuitable for the position filled. Similarly, a client could assert a claim for deceptive trade practices on the grounds that we failed to disclose certain referral information about the candidate or misrepresented material information about the candidate. Further, the current employer of a candidate whom we place could file a claim against us alleging interference with an employment contract. In addition, a candidate could assert an action against us for failure to maintain the confidentiality of the candidate s employment search or for alleged discrimination or other violations of employment law by one of our clients.

We may incur fines and other losses or negative publicity with respect to these problems. In addition, some or all of these claims may give rise to litigation, which could be time-consuming to our management team, costly and could have a negative impact on our business. In some cases, we have agreed to indemnify our clients against some or all of these types of liabilities. We cannot assure you that we will not experience these problems in the future, that our insurance will cover all claims or that our insurance coverage will continue to be available at economically feasible rates.

**We depend on our key management personnel.**

Our continued success will depend to a significant extent on our senior management, including Jon F. Chait, our Chairman and Chief Executive Officer. The loss of the services of Mr. Chait or one or more key employees could have a material adverse effect on our business, financial condition and operating results. In addition, if one or more key employees join a competitor or form a competing company, the resulting loss of existing or potential clients could have a material adverse effect on our business, financial condition and operating results.

**There may be volatility in our stock price.**

The market price for our common stock has fluctuated in the past and could fluctuate substantially in the future. Factors such as the announcement of variations in our quarterly financial results or expected financial

results could cause the market price of our common stock to fluctuate significantly. Further, due to the volatility of the stock market generally, the price of our common stock could fluctuate for reasons unrelated to our operating performance.

**Government regulations may result in the prohibition, regulation or restriction of certain types of employment services we offer or in the imposition of additional licensing or tax requirements that may reduce our future earnings.**

In many jurisdictions in which we operate, the contract staffing industry is heavily regulated. For example, governmental regulations can restrict the length of contracts of contract employees and the industries in which they may be used. In some countries, special taxes, fees or costs are imposed in connection with the use of contract workers. For example, contractors in France are entitled to a 10% allowance for the precarious nature of employment, which is eliminated if a full-time position is offered to them within three days. The countries in which we operate may:

- create additional regulations that prohibit or restrict the types of employment services that we currently provide;
- impose new or additional benefit requirements;
- require us to obtain additional licensing to provide staffing services;
- impose new or additional visa restrictions on movements between countries; or
- increase taxes, such as sales or value-added taxes, payable by the providers of staffing services.

Any future regulations that make it more difficult or expensive for us to continue to provide our staffing services may have a material adverse effect on our financial condition, results of operations and liquidity.

**Provisions in our organizational documents and Delaware law will make it more difficult for someone to acquire control of us.**

Our certificate of incorporation and by-laws and the Delaware General Corporation Law contain several provisions that make more difficult an acquisition of control of us in a transaction not approved by our Board of Directors, including transactions in which stockholders might otherwise receive a premium for their shares over then current prices, and that may limit the ability of stockholders to approve transactions that they may deem to be in their best interests. Our certificate of incorporation and by-laws include provisions:

- dividing our Board of Directors into three classes to be elected on a staggered basis, one class each year;
- authorizing our Board of Directors to issue shares of our preferred stock in one or more series without further authorization of our stockholders;
- requiring that stockholders provide advance notice of any stockholder nomination of directors or any proposal of new business to be considered at any meeting of stockholders;
- permitting removal of directors only for cause by a super-majority vote;

providing that vacancies on our Board of Directors will be filled by the remaining directors then in office;

requiring that a super-majority vote be obtained to amend or repeal specified provisions of our certificate of incorporation or by-laws; and

eliminating the right of stockholders to call a special meeting of stockholders or take action by written consent without a meeting of stockholders.

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In addition, Section 203 of the Delaware General Corporation Law generally provides that a corporation may not engage in any business combination with any interested stockholder during the three-year period following the time that the stockholder becomes an interested stockholder, unless a majority of the directors then in office approve either the business combination or the transaction that results in the stockholder becoming an interested stockholder or specified stockholder approval requirements are met.

In addition, our Board of Directors declared a dividend of one preferred share purchase right (a Right ) for each outstanding share of our common stock payable upon the close of business on February 28, 2005 to the stockholders of record on that date. Each Right entitles the registered holder to purchase from us one one-hundredth of a share of our Series A Junior Participating Preferred Stock, ( Preferred Shares ) at a price of $60 per one one-hundredth of a Preferred Share, subject to adjustment. These Rights may make the cost of acquiring us more expensive and, therefore, make an acquisition more difficult.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

All of the Company s operating offices are located in leased premises. Our principal office is currently located at 560 Lexington Avenue, New York, New York, where we occupy space under a lease expiring in March 2017.

In the United States, Hudson Americas operates from 34 leased locations with space of approximately 305,000 square feet, which includes four leased locations with space of approximately 72,000 square feet, which are shared between the Hudson Americas and corporate functions.

Outside the United States, in the 24 countries in which the Company is located, Hudson Europe is the lessee of 46 locations with approximately 340,000 square feet, Hudson Asia Pacific is the lessee of 21 locations with approximately 330,000 square feet, and Hudson Americas is a lessee of one location with approximately 10,000 square feet. All leased space is considered to be adequate for the operation of its business, and no difficulties are foreseen in meeting any future space requirements.

**ITEM 3. LEGAL PROCEEDINGS**

The Company is involved in various legal proceedings that are incidental to the conduct of its business. The Company is not involved in any pending or threatened legal proceedings that it believes could reasonably be expected to have a material adverse effect on its financial condition, cash flows or results of operations.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matter was submitted to a vote of the Company s security holders during the fourth quarter of the fiscal year covered by this report.

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**EXECUTIVE OFFICERS OF THE REGISTRANT**

The following table sets forth certain information, as of February 18, 2008, regarding the executive officers of Hudson Highland Group, Inc.:

| Name | Age | Title |
|---|---|---|
| Jon F. Chait | 57 | Chairman and Chief Executive Officer |
| Mary Jane Raymond | 47 | Executive Vice President and Chief Financial Officer |
| Margaretta R. Noonan | 50 | Executive Vice President and Chief Administrative Officer |
| Donald E. Bielinski | 58 | Senior Vice President, Chairman - Asia Pacific Region and Chairman Hudson Talent Management |
| Richard S. Gray | 51 | Senior Vice President, Marketing and Communications |
| Latham Williams | 55 | Senior Vice President, Legal Affairs and Administration, Corporate Secretary |
| Neil J. Funk | 56 | Vice President, Internal Audit |
| Elaine A. Kloss | 50 | Vice President, Finance and Treasurer |
| David S. Reynolds | 54 | Vice President and Corporate Controller |

The following biographies describe the business experience of our executive officers:

Jon F. Chait has served as Chairman and Chief Executive Officer since the Company was spun off from Monster in March 2003. He joined Monster in October 2002 expressly in contemplation of the spin-off. Prior to joining the Company, Mr. Chait was the Chairman of Spring Group, PLC, a provider of workforce management solutions, from May 2000 through June 2002 and Chief Executive Officer from May 2000 to March 2002. From 1998 through 2000, Mr. Chait founded and acted as Chairman and Chief Executive Officer of Magenta Limited, a developer of web-enabled human resource solutions, which was subsequently sold to Spring Group, PLC. Mr. Chait served as the Managing Director International Operations of Manpower Inc. from 1995 to July 1998, Chief Financial Officer from August 1993 to 1998 and Executive Vice President, Secretary and Director from 1991 to 1998, and Executive Vice President from September 1989 to July 1998 of Manpower International Inc., a provider of temporary employment services. Mr. Chait is also a director of the Marshall and Ilsley Corporation, a bank holding company, and Krueger International Inc., a manufacturer of office furniture.

Mary Jane Raymond has served as the Executive Vice President and Chief Financial Officer since December 2005. Prior to that, Ms. Raymond was the Chief Risk Officer of The Dun & Bradstreet Corporation during 2005. From 2002 to 2005, Ms. Raymond served as the Vice President and Corporate Controller of the Dun & Bradstreet Corporation. Ms. Raymond served as the Merger Integration Vice President of Lucent Technologies, Inc. from 1998 to 2002 and as Financial Vice President in International from 1997 to 1998. From 1992 to 1997, Ms. Raymond served in various positions with Cummins, Inc.

Margaretta R. Noonan has served as Executive Vice President and Chief Administrative Officer since February 2005. Prior to that Ms. Noonan served as Executive Vice President, Human Resources since she joined the Company on April 1, 2003. Prior to joining the Company, Ms. Noonan served as Senior Vice President, Global Human Resources and corporate officer of Monster Worldwide, Inc. Prior to joining Monster in 1998, Ms. Noonan was Vice President, Human Resources Stores, for the Lord & Taylor division of May Department Stores Company, a large retail department store, from February 1997 to May 1998 and was Vice President, Human Resources, of Kohl s Corporation, a large retail department store, from November 1992 to February 1997.

Donald E. Bielinski has served as Senior Vice President, Chairman Asia Pacific Region and Chairman Hudson Talent Management since December 2005. Mr. Bielinski had served as President, Strategic Business Services Group, since joining the Company in July 2004. Prior to joining the Company, Mr. Bielinski was President and Chief Executive Officer of Exostar, a Washington, D.C. based technology services firm from

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January 2002 to June 2004. Prior to that, Mr. Bielinski served at W.W. Grainger, Inc., a provider of maintenance, repair, and operating supplies, services, and related information, as Group President, from 1997 until June of 2001, after serving as Senior Vice President, Marketing and Sales and as Senior Vice President, Organization and Planning.

Richard S. Gray has served as Senior Vice President, Marketing and Communications since February 2005. Prior to that, Mr. Gray served as Vice President, Marketing and Communications since joining the Company in May 2003. Prior to joining the Company, Mr. Gray was Senior Vice President for Ogilvy Public Relations Worldwide, a large public relations firm, in Chicago, Illinois from September 2002 until May 2003. Before joining Ogilvy Public Relations Worldwide, Mr. Gray was a Vice President, Marketing and Communications for Lante Corporation, an internet consulting boutique, in Chicago, Illinois from November 1998 until November 2001.

Latham Williams has served as Senior Vice President, Legal Affairs and Administration, Corporate Secretary since February 2007. Prior to that, Mr. Williams served as Vice President, Legal Affairs and Administration, Corporate Secretary since joining the Company in April 2003. Prior to joining the Company, Mr. Williams was a Partner, Leader Diversity Practice Group and Co-Leader Global Legal Practice in Monster s executive search division. Prior to joining Monster in 2001, Mr. Williams was an equity partner with the international law firm of Sidley Austin LLP from 1993 to 2000, specializing in health care joint ventures, mergers and acquisitions. Before joining Sidley Austin, Mr. Williams was an equity partner in the Chicago-based law firm of Gardner, Carton & Douglas and was with the firm from 1981 to 1993.

Neil J. Funk has served as Vice President, Internal Audit since joining the Company in August 2003. Prior to joining the Company, Mr. Funk was a Senior Manager at Deloitte & Touche LLP, a multi-national auditing and consulting firm, from September 2000 until July 2003. Before joining Deloitte & Touche, Mr. Funk was with Prudential Financial, Inc., a large insurance company, specializing in personal financial planning from March 2000 until August 2000. Before joining Prudential Financial, Inc., Mr. Funk was District Audit Manager for PRG-Schultz, Inc., a recovery audit company, based in Atlanta, Georgia from September 1997 until February 2000.

Elaine A. Kloss has served as Vice President, Finance and Treasurer since June 2005. Prior to joining the Company, Ms. Kloss was Vice President and Treasurer of NUI Utilities, Inc., a public company with natural gas distribution operations from January 2004 to January 2005. Prior to that, she served as Treasury Associate for Resources Global Professionals, Inc., an international professional services firm, from 2002 to 2004. Ms. Kloss served as Vice President and Treasurer with Ventiv Health, Inc., a diversified contract pharmaceutical sales company, from 1999 to 2001. Ms. Kloss also has held various treasury and financial positions at New York Life Insurance Company, Joseph E. Seagram & Sons, Inc., AT&T and the Board of Governors of the Federal Reserve System.

David S. Reynolds has served as Vice President, Corporate Controller since 2007 and served as Vice President, Financial Operations of the Company during February 2007. Prior to joining the Company, Mr. Reynolds was Vice President and Controller of Bally Total Fitness Corporation from February 2005 to February 2007. Prior to that, Mr. Reynolds served in various positions for Comdisco, Inc. from 1981 to 2005, including Senior Vice President and Controller from 2002 to 2005 and Corporate Controller from 2001 to 2002. Mr. Reynolds started his career at Ernst & Young from 1976 to 1981.

Executive officers are elected by, and serve at the discretion of, the Board of Directors. There are no family relationships between any of our directors or executive officers.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### MARKET FOR COMMON STOCK

The Company s common stock is listed for trading on the NASDAQ Global Market under the symbol HHGP. On December 31, 2007, there were approximately 1,060 holders of record of the Company s common stock.

The following is a list by fiscal quarter of the market prices of the stock.

| | Market Price | |
|---|---|---|
| **2007** | **High** | **Low** |
| Fourth quarter | $ 15.17 | $ 7.81 |
| Third quarter | $ 22.77 | $ 12.04 |
| Second quarter | $ 22.20 | $ 14.46 |
| First quarter | $ 17.99 | $ 15.12 |
| **2006** | | |
| Fourth quarter | $ 18.11 | $ 9.10 |
| Third quarter | $ 11.51 | $ 8.23 |
| Second quarter | $ 20.75 | $ 10.49 |
| First quarter | $ 19.29 | $ 14.52 |

We have never declared or paid cash dividends on our common stock, and we currently do not intend to declare and pay cash dividends on our common stock. Any payment of cash dividends will depend upon our financial condition, capital requirements, earnings and other factors deemed relevant by our Board of Directors. In addition, the terms of our credit facility prohibit us from paying dividends and making other distributions.

### ISSUER PURCHASES OF EQUITY SECURITIES

During the quarter ended December 31, 2007, the Company made no repurchases of its common stock.

On February 4, 2008, the Company announced that its Board of Directors authorized the repurchase of up to $15 million of the Company s common stock. The authorization does not expire. The Company intends to make purchases from time to time as market conditions warrant. Through February 29, 2008, the Company had repurchased 701,173 shares for a total cost of approximately $5.3 million.

The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A of 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

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**PERFORMANCE INFORMATION**

The Company was spun off from Monster on March 31, 2003. Shares of Common Stock began trading on an actual basis on the NASDAQ Global Market on April 1, 2003. The following graph compares on a cumulative basis changes since April 2, 2003 in (a) the total stockholder return on the Common Stock with (b) the total return on the Russell 2000 Index and (c) the total return on the companies in a peer group selected in good faith by the Company, in each case assuming reinvestment of dividends. Such changes have been measured by dividing (a) the difference between the price per share at the end of and the beginning of the measurement period by (b) the price per share at the beginning of the measurement period. The graph assumes $100 was invested on April 1, 2003 in Common Stock, the Russell 2000 Index and the peer group consisting of Kforce Inc., MPS Group, Inc., Manpower, Inc., Spherion Corporation, CDI Corp. and Robert Half International Inc. The returns of each component company in the peer group have been weighted based on each company s relative market capitalization.

| | April 1, 2003 | December 31, 2003 | December 31, 2004 | December 31, 2005 | December 31, 2006 | December 31, 2007 |
|---|---|---|---|---|---|---|
| HHGP | $ 100.00 | $ 181.61 | $ 220.69 | $ 266.05 | $ 255.63 | $ 128.89 |
| PEER GROUP | $ 100.00 | $ 172.08 | $ 196.50 | $ 223.93 | $ 260.16 | $ 196.85 |
| RUSSELL 2000 INDEX | $ 100.00 | $ 151.05 | $ 176.73 | $ 182.60 | $ 213.64 | $ 207.77 |

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**ITEM 6. SELECTED FINANCIAL DATA**

The following table shows selected financial data of the Company that has been adjusted to reflect the classification of certain businesses as discontinued operations. The data has been derived from, and should be read together with, the consolidated financial statements and corresponding notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included in Items 7 and 8 of this Form 10-K.

The following selected financial data for 2006 has been restated to reflect adjustments resulting from matters discussed in Note 2 Restatement of Results and Adoption of SAB 108 to the Consolidated Financial Statements included elsewhere in this Form 10-K.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 (Restated) | 2005 | 2004 | 2003 (d) |
| | (dollars in thousands, except per share data) | | | | |
| **SUMMARY OF OPERATIONS:** | | | | | |
| Revenue | $ 1,179,075 | $ 1,157,874 | $ 1,128,454 | $ 989,289 | $ 824,368 |
| Gross margin | $ 507,913 | $ 459,255 | $ 432,443 | $ 378,395 | $ 309,804 |
| EBITDA (loss) (a) | $ 32,626 | $ 15,437 | $ 7,124 | $ (14,318) | $ (271,573) |
| Depreciation and amortization (b) | 14,624 | 19,803 | 16,503 | 17,708 | 16,235 |
| Operating income (loss) | $ 18,002 | $ (4,366) | $ (9,379) | $ (32,026) | $ (287,808) |
| Income (loss) from continuing operations before accounting change | $ 4,907 | $ (8,187) | $ (16,226) | $ (34,923) | $ (289,146) |
| Net income (loss) | $ 14,981 | $ 20,428 | $ 201 | $ (30,285) | $ (332,526) |
| Basic income (loss) per share from continuing operations before accounting change (c) | $ 0.19 | $ (0.34) | $ (0.73) | $ (1.79) | $ (17.21) |
| Basic net income (loss) per share (c) | $ 0.59 | $ 0.83 | $ 0.01 | $ (1.56) | $ (19.80) |
| Diluted income (loss) per share from continuing operations before accounting change (c) | $ 0.19 | $ (0.34) | $ (0.73) | $ (1.79) | $ (17.21) |
| Diluted net income (loss) per share (c) | $ 0.58 | $ 0.83 | $ 0.01 | $ (1.56) | $ (19.80) |
| **OTHER FINANCIAL DATA:** | | | | | |
| Net cash provided by (used in) operating activities | $ 37,741 | $ 35,867 | $ (26,298) | $ (30,895) | $ (42,629) |
| Net cash provided by (used in) investing activities | $ (50,837) | $ 1,881 | $ (35,715) | $ (10,128) | $ (11,390) |
| Net cash provided by (used in) financing activities | $ 4,864 | $ (28,803) | $ 75,857 | $ 35,278 | $ 49,465 |
| **BALANCE SHEET DATA:** | | | | | |
| Current assets | $ 259,075 | $ 280,107 | $ 279,877 | $ 232,833 | $ 198,416 |
| Total assets | $ 374,206 | $ 352,182 | $ 347,773 | $ 281,378 | $ 250,924 |
| Current liabilities | $ 152,426 | $ 167,289 | $ 202,761 | $ 182,794 | $ 158,821 |
| Long-term debt, less current portion | $ | $ 235 | $ 478 | $ 2,041 | $ 302 |
| Total stockholders equity | $ 200,115 | $ 171,324 | $ 132,454 | $ 83,734 | $ 69,361 |

(a) Non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization ( EBITDA ) are presented to provide additional information to investors about the Company s operations on a basis consistent with the measures which the Company uses to manage its operations and evaluate its performance. Management also uses this measurement to evaluate capital needs and working

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capital requirements. EBITDA should not be considered in isolation or as a substitute for operating income, cash flows from operating activities, and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as a measure of the Company s profitability or liquidity. Furthermore, EBITDA as presented above may not be comparable with similarly titled measures reported by other companies. See Note 19 to the Consolidated Financial Statements for further EBITDA segment and reconciliation information.

(b) Depreciation and amortization expense in 2006 included an impairment charge of $1,300 related to the Alder Novo acquisition.

(c) For basic and diluted loss per share amounts for the three months ended March 31, 2003, prior to the Company s spin-off from Monster, Monster s weighted average number of shares was multiplied by the distribution ratio of one share of the Company s common stock for every thirteen and one-third shares of Monster common stock. Basic loss per share is computed by dividing the Company s losses by the weighted average number of shares outstanding during the period. When the effects are not anti-dilutive, diluted earnings per share is computed by dividing the Company s income from continuing operations by the weighted average number of shares outstanding and the impact of all dilutive potential common shares, primarily stock options. The dilutive impact of stock options is determined by applying the treasury stock method.

(d) The results for the year ended December 31, 2003 included a goodwill impairment charge of $195,404 in EBITDA.

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**ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**Executive Overview**

***Background***

We have operated as an independent publicly traded company since April 1, 2003, when we were spun-off from Monster. Our businesses are specialized professional staffing services for permanent and contract and talent management services to businesses operating in many industries and operating in over 20 countries around the world. Our largest operations are in the U.S., the U.K. and Australia. We are organized into three reportable segments of Hudson Americas, Hudson Europe and Hudson Asia Pacific. These contribute approximately 17%, 47% and 36% of the Company s gross margin, respectively, for the year ended December 31, 2007. Our management s primary focus since the spin-off has been to move the Company to profitability and then increase profitability through the execution of our strategy. We achieved EBITDA profitability in 2005, which has continued into 2007.

**Strategic Actions**

Our strategy, since our inception, has been focused on building our specialized professional recruitment through our staffing, project solutions and talent management businesses. We believe that this core mix has growth potential for the next decade. We have focused our strategy on higher-margin specialized professional recruitment with a long-term financial goal of 7-10% EBITDA margins. We have executed this strategy through a combination of investments, divestitures and cost restructuring.

In the second quarter of 2007, we acquired the business assets of Tong Zhi (Beijing) Consulting Service Ltd. and Guangzhou Dong Li Consulting Service Ltd. (collectively, TKA ), an information technology recruiting business, which has operations located in three major cities in China.

We expect to continue to identify opportunities to acquire businesses to expand our operations in specialized professional recruitment. In February 2008, we completed the acquisition of a small talent management and recruitment business in France.

In the last eighteen months, we completed the sale of seven non-core businesses to sharpen our strategic focus:

- Scottish industrial trade business (2005 revenue of $12 million) in September 2006.
- Highland Partners, our former executive search segment, (2005 revenue of $63 million). The sale of Highland allowed the Company to focus on its core permanent placement service offerings in mid to senior level recruitment, professional staffing, and talent management solutions.
- U.K. office support business (2006 revenue of $10 million) in January 2007.
- Australia s trade and industrial business (2006 revenue of $44 million) in October 2007.
- The Netherlands reintegration business (2006 revenue of $19 million) in December 2007.
- Alder Novo in 2007, a company that we acquired in 2006 and subsequently determined was not performing at the level originally expected.
- Hudson Americas energy, engineering and technical staffing division in February 2008 (2007 revenue of $146 million).

In addition, our U.K., and to a lesser extent Australian, teams have consistently exited or declined to renew lower margin contracts and clients.

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We have had a continuous program of improving our cost structure. We completed our 2006 reorganization program during the second quarter of 2007. During 2008, the Company intends to streamline its support operations in each of the Hudson regional businesses to match its narrowed focus on specialization. Although the Company has not committed to a specific action plan, the Company expects to have between $5 to $7 million of restructuring actions through this year, including between $1 and $3 million in the first quarter of 2008.

**Restatement of 2007 and 2006 Results**

The Company has restated its Consolidated Financial Statements as of and for the year ended December 31, 2006 and its quarterly results of operations for the three months ended September 30, 2006 and December 31, 2006. In addition, the Company has restated its quarterly results of operations for the three months ended March 31, 2007, June 30, 2007 and September 30, 2007. The restatement involved the timing of recording contingent payments related to the acquisition of Balance Ervaring Op Projectbasis B.V. ( Balance ) and to expense a portion of the contingent payments, including approximately $1.7 million ( 1.3 million) that was previously recorded as goodwill when the amount was paid in the second quarter of 2007.

The following is a description of the accounting adjustments included in the restatement of the Company s Consolidated Financial Statements and the effect of such adjustments at December 31, 2006 on the Consolidated Balance Sheet and on the Consolidated Statement of Operations and Change in Stockholders Equity for the year then ended and on the unaudited selected quarterly financial data for the three months ended September 30, 2006, December 31, 2006, March 31, 2007, June 30, 2007 and September 30, 2007. Amounts included in this report as of and for the years ended December 31, 2005, 2004 and 2003 and for the three months ended March 31, 2006 and June 30, 2006 were not affected by the restatement.

This restatement resulted in an increase in the Company s and the Hudson Europe segment s reported operating expenses and related impact on EBITDA (see Note 19 to the Consolidated Financial Statements), operating income (loss), income (loss) from continuing operations and net income (loss) for each of the periods as follows:

| | |
|---|---|
| Three months ended September 30, 2006 | $0.8 million ($0.03 per basic and diluted share) |
| Three months ended December 31, 2006 | $0.9 million ($0.03 per basic and diluted share) |
| Year ended December 31, 2006 | $1.7 million ($0.07 per basic and diluted share) |
| Three months ended March 31, 2007 | $0.3 million ($0.01 per basic and diluted share) |
| Three months ended June 30, 2007 | $0.3 million ($0.01 per basic and diluted share) |
| Three months ended September 30, 2007 | $0.3 million ($0.01 per basic and diluted share) |

The restatement also resulted in an increase in goodwill and accrued expenses as of December 31, 2006 of $1,313 and $3,019, respectively.

The restatement did not affect the Company s cash flows for any of the periods.

The Company entered into a share purchase agreement dated July 19, 2005 for the acquisition of Balance. The purchase price for Balance was 20.75 million plus a series of contingent payments to be made annually based upon future minimum annual earnings thresholds during the first three years subsequent to the purchase. On July 12, 2006, the Company entered into an amendment to the share purchase agreement, which changed the earn-out formula to increase the potential future maximum contingent payments related to calendar 2006 from 1.0 million to 2.3 million and in calendar 2007 from 2.25 million to 3.5 million. The Company recorded the contingent payment for calendar 2006, including the increased maximum earn-out, when paid in April 2007 as an adjustment of the purchase price and added the amount to the recorded value of goodwill. The Company has evaluated the amendment and has determined that this amendment would be considered a new agreement, separate from the original share purchase agreement, outside of the guidance of Statement of Financial Accounting Standards ( SFAS ) 141, *Business Combinations.* Accordingly, the amount paid in

excess of the original maximum contingent payment would not be considered additional purchase price under the contingent consideration provisions of SFAS 141. Instead it should be recorded as expense in the period in which the amount is estimable and becomes probable of being paid under the guidance of SFAS 5, *Accounting for Contingencies,* also considering the interim guidance provided under Accounting Principles Board Opinion No. 28, *Interim Financial Reporting.* Accordingly, the Company accrued $1.7 million ( 1.3 million) that it previously recorded as goodwill when paid in April 2007 as an expense in the third and fourth quarters of 2006 and accrued the remaining contingent payment related to calendar 2006 of $1.3 million ( 1.0 million) as goodwill as of December 31, 2006. In addition, the Company recorded a total of approximately $0.9 million ( 0.7 million) as a period expense over the first, second and third quarters of 2007 related to the increased maximum contingent payment amount for calendar 2007 to be paid in April 2008.

**Discontinued Operations**

In December 2007, the Company committed to a plan to sell the assets of its energy, engineering and technical staffing division ( ETS ), which was part of the Hudson Americas regional business, to make such assets available for sale and to actively seek a buyer for such assets as further described in Note 21 to the Consolidated Financial Statements. In the fourth quarter of 2007, the Company sold its Netherlands reintegration subsidiary, Hudson Human Capital Solutions B.V. ( HHCS ), which was part of the Hudson Europe regional business, and its Australian blue-collar market s Trade & Industrial subsidiary ( T&I ), which was part of the Hudson Asia Pacific regional business. In the fourth quarter of 2006, the Company sold its Highland Partners executive search business ( Highland ), which was a separate reportable segment of the Company.

As the result of these actions, ETS, HHCS, T&I and Highland operations have been accounted for as discontinued operations and accordingly, amounts in the financial statements and related notes for all historical periods have been restated to reflect these operations as discontinued operations. Unless otherwise noted, this management discussion and analysis relates only to financial results from continuing operations.

**Critical Accounting Policies and Items Affecting Comparability**

Financial reporting relies on consistent application of Company accounting policies that are based on generally accepted accounting principles. Management considers the accounting policies discussed below to be critical to understand the Company s financial statements and often require management judgment and estimates regarding matters that are inherently uncertain.

***Revenue Recognition***

Although the Company s revenue recognition policy involves a relatively low level of uncertainty, it does require judgment on complex matters that is subject to multiple sources of authoritative guidance.

The Company recognizes revenue for temporary services at the time services are provided and revenue is recorded on a time and materials basis. Temporary contracting revenue is reported gross when the Company acts as principal in the transaction and is at risk for collection. Revenue that does not meet the criteria for gross revenue reporting is reported on a net basis. Revenue generated when the Company permanently places an individual with a client on a contingent basis is recorded at the time of acceptance of employment, net of an allowance for estimated fee reversals. Revenue generated when the Company permanently places an individual with a client on a retained basis is recorded ratably over the period services are rendered, net of an allowance for estimated fee reversals.

***Accounts Receivable***

The Company s accounts receivable balances are composed of trade and unbilled receivables. The Company maintains an allowance for doubtful accounts and makes ongoing estimates as to the collectability of the various receivables. If the Company determines that the allowance for doubtful accounts is not adequate to cover estimated losses, an expense to provide for doubtful accounts is recorded in selling, general and administrative expenses. If an

account is determined to be uncollectible, it is written off against the allowance for doubtful accounts. Management s assessment and judgment are vital requirements in assessing the ultimate realization of these receivables, including the current credit-worthiness, financial stability and effect of market conditions on each customer.

***Income Taxes***

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss and tax credit carry-forwards, and tax contingencies. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The 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.

We are subject to audit by various taxing authorities, and these audits may result in proposed assessments where the ultimate resolution results in us owing additional taxes. We establish reserves under SFAS Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ) when, despite our belief that our tax return positions are appropriate and supportable under local tax law, we believe there is uncertainty with respect to certain positions and we may not succeed in realizing the tax benefit. We evaluate these unrecognized tax benefits and related reserves each quarter and adjust the reserves and the related interest and penalties in light of changing facts and circumstances regarding the probability of realizing tax benefits, such as the settlement of a tax audit or the expiration of a statute of limitations. We believe the estimates and assumptions used to support our evaluation of tax benefit realization are reasonable. However, final determinations of prior-year tax liabilities, either by settlement with tax authorities or expiration of statutes of limitations, could be materially different than estimates reflected in assets and liabilities and historical income tax provisions. The outcome of these final determinations could have a material effect on our income tax provision, net income, or cash flows in the period in which that determination is made. We believe our tax positions comply with applicable tax law and that we have adequately provided for any known tax contingencies under FIN 48.

***Contingencies***

The Company is subject to proceedings, lawsuits and other claims related to labor, service and other matters. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters and potential ranges of probable losses. The Company makes a determination of the amount of reserves required, if any, for these contingencies after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

***Intangibles***

Intangibles represent acquisition costs in excess of the fair value of net tangible assets of businesses purchased and consist primarily of client lists, trademarks and goodwill. With the exception of goodwill, these costs are being amortized over periods ranging from three to five years on a straight-line basis or on an accelerated basis where appropriate. The Company evaluates its goodwill annually for impairment, or earlier if indicators of potential impairment exist.

***Business Reorganization and Merger and Integration Plans***

The Company has recorded significant charges and accruals in connection with its business reorganization, merger and integration plans. These reserves include estimates pertaining to employee separation costs and the settlement of contractual obligations resulting from its actions. Although the Company does not anticipate significant changes, the actual costs may differ from these estimates.

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***Foreign Currency Translation***

The financial position and results of operations of the Company s international subsidiaries are determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Statements of Operations accounts are translated at the average rate of exchange prevailing during each period. Translation adjustments arising from the use of differing exchange rates from period to period are included in the other comprehensive income (loss) account in stockholders equity, other than translation adjustments on short-term intercompany balances, which are included in other income (expense). Gains and losses resulting from other foreign currency transactions are included in other income (expense). Intercompany receivable balances of a long-term investment nature are considered part of the Company s permanent investment in a foreign jurisdiction and the gains or losses on these balances are reported in other comprehensive income.

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**Results of Operations**

The following table sets forth the Company s revenue, gross margin, operating income (loss), income (loss) from continuing operations, net income, temporary contracting revenue, direct costs of temporary contracting and temporary contracting gross margin for the years ended December 31, 2007, 2006 and 2005 (dollars in thousands). See Note 19 to the Consolidated Financial Statements for EBITDA segment and reconciliation information.

| | For the Year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 (Restated) | 2005 |
| Revenue: | | | |
| Hudson Americas | $ 291,525 | $ 306,732 | $ 291,209 |
| Hudson Europe | 472,407 | 458,815 | 450,727 |
| Hudson Asia Pacific | 415,143 | 392,327 | 386,518 |
| Total | $ 1,179,075 | $ 1,157,874 | $ 1,128,454 |
| Gross margin: | | | |
| Hudson Americas | $ 87,494 | $ 91,461 | $ 91,487 |
| Hudson Europe | 239,559 | 208,966 | 189,443 |
| Hudson Asia Pacific | 180,860 | 158,828 | 151,513 |
| Total | $ 507,913 | $ 459,255 | $ 432,443 |
| Operating income (loss): | | | |
| Hudson Americas | $ (8,510) | $ (13,902) | $ (553) |
| Hudson Europe | 24,471 | 14,554 | 8,438 |
| Hudson Asia Pacific | 29,506 | 26,794 | 20,725 |
| Corporate expenses | (27,465) | (31,812) | (37,989) |
| Total | $ 18,002 | $ (4,366) | $ (9,379) |
| Income (loss) from continuing operations | $ 4,907 | $ (8,187) | $ (16,226) |
| Net income | $ 14,981 | $ 20,428 | $ 201 |
| **TEMPORARY CONTRACTING DATA (a):** | | | |
| Temporary contracting revenue: | | | |
| Hudson Americas | $ 267,464 | $ 277,807 | $ 267,577 |
| Hudson Europe | 267,424 | 292,728 | 293,614 |
| Hudson Asia Pacific | 273,197 | 267,657 | 270,162 |
| Total | $ 808,085 | $ 838,192 | $ 831,353 |
| Direct costs of temporary contracting: | | | |
| Hudson Americas | $ 202,211 | $ 213,776 | $ 198,968 |
| Hudson Europe | 213,824 | 237,024 | 247,239 |
| Hudson Asia Pacific | 224,499 | 223,054 | 224,030 |
| Total | $ 640,534 | $ 673,854 | $ 670,237 |
| Temporary contracting gross margin: | | | |
| Hudson Americas | $ 65,253 | $ 64,031 | $ 68,609 |

| | | | |
|---|---|---|---|
| Hudson Europe | 53,600 | 55,704 | 46,375 |
| Hudson Asia Pacific | 48,698 | 44,603 | 46,132 |
| Total | $ 167,551 | $ 164,338 | $ 161,116 |
| Gross margin as a percent of revenue: | | | |
| Hudson Americas | 24.4% | 23.0% | 25.6% |
| Hudson Europe | 20.0% | 19.0% | 15.8% |
| Hudson Asia Pacific | 17.8% | 16.7% | 17.1% |

(a) Temporary contracting gross margin and gross margin as a percent of revenue are shown to provide additional information on the Company s ability to manage its cost structure and provide further comparability relative to the Company s peers. Temporary contracting gross margin is derived by deducting the direct costs of temporary contracting from temporary contracting revenue. The Company s calculation of gross margin may differ from those of other companies.

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**Constant Currency**

The Company defines the term constant currency to mean that financial data for a period are translated into U.S. Dollars using the same foreign currency exchange rates that were used to translate financial data for the previously reported period. Changes in revenue, direct costs, gross margin and selling, general and administrative expenses include the effect of changes in foreign currency exchange rates. Variance analysis usually describes period-to-period variances that are calculated using constant currency as a percentage. The Company s management reviews and analyzes business results in constant currency and believes these results better represent the Company s underlying business trends without distortion due to currency fluctuations.

The Company believes that these calculations are a useful measure, indicating the actual change in operations. Earnings from subsidiaries have not historically been repatriated to the United States, although the Company paid dividends substantially from current year earnings of foreign subsidiaries to the United States in 2007. There are no significant gains or losses on foreign currency transactions between subsidiaries. Therefore, changes in foreign currency exchange rates generally impact only reported earnings and not the Company s economic condition (dollars in thousands).

**The Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006**

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | 2007 | | | 2006 |
| | As reported | Currency translation | Constant currency | As restated |
| Revenue: | | | | |
| Hudson Americas | $ 291,525 | $ (239) | $ 291,286 | $ 306,732 |
| Hudson Europe | 472,407 | (38,382) | 434,025 | 458,815 |
| Hudson Asia Pacific | 415,143 | (40,251) | 374,892 | 392,327 |
| Total | 1,179,075 | (78,872) | 1,100,203 | 1,157,874 |
| Direct costs: | | | | |
| Hudson Americas | 204,031 | (61) | 203,970 | 215,271 |
| Hudson Europe | 232,848 | (18,871) | 213,977 | 249,849 |
| Hudson Asia Pacific | 234,283 | (24,405) | 209,878 | 233,499 |
| Total | 671,162 | (43,337) | 627,825 | 698,619 |
| Gross margin: | | | | |
| Hudson Americas | 87,494 | (178) | 87,316 | 91,461 |
| Hudson Europe | 239,559 | (19,511) | 220,048 | 208,966 |
| Hudson Asia Pacific | 180,860 | (15,846) | 165,014 | 158,828 |
| Total | $ 507,913 | $ (35,535) | $ 472,378 | $ 459,255 |
| Selling, general and administrative (a): | | | | |
| Hudson Americas | $ 95,513 | $ (198) | $ 95,315 | $ 103,200 |
| Hudson Europe | 212,650 | (17,386) | 195,264 | 191,727 |
| Hudson Asia Pacific | 151,369 | (13,018) | 138,351 | 131,198 |
| Corporate | 26,804 | | 26,804 | 31,119 |
| Total | $ 486,336 | $ (30,602) | $ 455,734 | $ 457,244 |

(a)

Selling, general and administrative expenses include the Consolidated Statements of Operations captions: salaries and related, office and general, acquisition-related expenses, marketing and promotion, and depreciation and amortization.

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*Hudson Americas*

Hudson Americas revenue was $291.5 million for the year ended December 31, 2007, down 5.0% from $306.7 million for 2006. Revenues decreased against the prior year in both contract staffing services (68% of the total decline) and permanent placement (32% of the total decline). On a line of business basis, contracting was down 4% to prior year and permanent placement was down 15%. Fewer contractors on billing resulted in a decline of contracting revenue in Information Technology (-9%) and Financial Solutions (-12%), partially offset by an increase in Legal (+1%). The largest decreases in permanent placement revenue were in Management Search (-19%) and Financial Solutions (-23%) as a result of lower billings.

Hudson Americas direct costs for the year ended December 31, 2007 were $204.0 million compared to $215.3 million for 2006, a decrease of 5.2%. The decrease in direct costs was consistent with the decrease in Hudson Americas temporary contracting revenue in 2007 compared to 2006.

Hudson Americas gross margin for the year ended December 31, 2007 was $87.5 million, lower by $3.9 million, or 4.3%, from $91.5 million for the year ended December 31, 2006. The $87.5 million gross margin included temporary contracting gross margin of $65.3 million and permanent placement gross margin of $21.5 million. The decrease in gross margin of $3.9 million was primarily from a decrease of $4.8 million in permanent placement partially offset by an increase in temporary contracting margin of $1.2 million. The decrease in permanent placement was primarily Management Search (-24%), Financial Solutions (-24%) and Legal Services (-16%). The increase in the temporary contracting gross margin was within Information Technology (+5%) and Legal Services (+2%), partially offset by a decrease in Financial Solutions (-7%). Total gross margin as a percentage of revenue was 30.0% for the year-ended December 31, 2007 versus 29.8% for the same period in 2006. The increase in gross margin as a percentage of revenue was attributable to the increase in temporary contracting gross margin as a percentage of revenue (24.4% in 2007 compared to 23.0% in 2006) substantially offset by a decrease in permanent placement gross margin as a percentage of revenue (24.6% in 2007 compared to 28.7% in 2006).

Hudson Americas selling, general and administrative costs were $95.5 million for the year ended December 31, 2007, lower by 7.4% from $103.2 million for 2006. Selling, general and administrative expenses were 32.8% and 33.6% as a percentage of revenue for 2007 and 2006, respectively. The decrease in selling, general and administrative costs was primarily due to decreases in compensation from lower headcount and lower commission expenses ($4.2 million) associated with the decreases in permanent placement revenue, decreases in administrative expenses ($2.7 million) and depreciation and amortization ($2.0 million), partially offset by non-cash compensation related to the JMT acquisition ($3.6 million). For the year ended December 31, 2007, selling, general and administrative expenses included $1.8 million resulting from the completion of the prior period sales tax review compared to $1.1 million for the same period in 2006. Based on current available information, the Company does not believe that there will be any material expense in future periods related to prior period sales tax matters. In 2007, the Company paid approximately $0.6 million of payroll taxes related to new IRS guidance on employee expense reimbursements.

Hudson Americas had reorganization expenses of $0.5 million for the year ended December 31, 2007, compared to $1.3 million in 2006. The 2007 charge related to costs for exiting three leases in the U.S. and final adjustments for employee severance on the Company s 2006 program. The Company completed its 2006 reorganization program and expects no further expenses related to this program. Although the Company has not committed to a specific action plan, during 2008 the Company intends to streamline its support operations to match its narrowed focus on specialization.

Hudson Americas EBITDA was a loss of $4.2 million for the year ended December 31, 2007, an improvement of $3.4 million compared to a loss of $7.6 million for the comparable period of 2006. The increase in EBITDA was primarily attributable to lower headcount and lower commission expenses of $4.2 million and lower administrative costs of $2.7 million, offset by acquisition-related expense related to the JMT acquisition of $3.6 million.

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Hudson Americas operating loss was $8.5 million for the year ended December 31, 2007, an improvement of $5.4 million, compared to an operating loss of $13.9 million for 2006. The improvement was due to the same factors as described above in EBITDA and decreased depreciation and amortization expenses on furniture and fixtures and client lists.

***Hudson Europe***

Hudson Europe s revenue was $472.4 million for the year ended December 31, 2007, up 3.0% from $458.8 million for 2006. On a constant currency basis, Hudson Europe s revenue decreased approximately 5.4% in 2007 compared to 2006. The largest decrease in constant currency revenue was from lower temporary contracting revenue in the U.K. (-19%), including the impact of exiting the U.K. office support and the Scottish industrial businesses ( U.K. Divestitures ) which had revenue of $20.1 million in 2006. The constant currency decrease was partially offset by increases of permanent placement and talent management consulting services in both Belgium (+20%) and the U.K. (+9%), strong demand for permanent placements in France (+17%) and Central and Eastern Europe (+19%) and increased temporary contracting billings for Balance (+4%).

Hudson Europe s direct costs for the year ended December 31, 2007 were $232.8 million, a reduction of $17.0 million, or 6.8%, compared to $249.8 million for 2006. On a constant currency basis, direct costs decreased 14.4% for 2007 in comparison to 2006. The decrease was primarily the result of lower temporary contracting costs in the U.K. (-20%), which included the U.K. Divestitures.

Hudson Europe s gross margin for the year ended December 31, 2007 was $239.6 million, higher by $30.6 million, or 14.6%, compared to 2006. Gross margin as a percentage of revenue was 50.7% for 2007, an increase from 45.5% for 2006, primarily due to a reduction in lower margin business in the U.K., together with the growth in permanent placement and talent management consulting services. On a constant currency basis, gross margin increased by 5.3% for the year ended December 31, 2007 when compared to 2006. Hudson Europe s largest constant currency increases were in U.K. permanent placement (+9%), Belgium (+19%), France (+17%) and Central and Eastern Europe (+21%), partially offset by lower gross margin from temporary contracting (-17%) primarily due to the U.K. Divestitures. Hudson Europe s temporary gross margin as a percentage of temporary contracting revenue increased to 20.0% in 2007 from 19.0% in 2006.

Hudson Europe s selling, general and administrative costs were $212.7 million for the year ended December 31, 2007, higher by 10.9% from $191.7 million for 2006. Selling, general and administrative expenses for 2007 and 2006 were 45.0% and 41.8% as a percentage of revenue, respectively. On a constant currency basis, the 2007 selling, general and administrative expenses increased by 1.8% compared to 2006. The largest increases in selling, general and administrative costs for 2007 came from sales and delivery costs (+4%) and support salaries of (+10%), partially offset by lower depreciation and amortization expense (-19%), occupancy costs (-8%) and bad debt expense (-115%). Acquisition-related expense on the Balance acquisition was $1.7 million in both 2007 and 2006.

Hudson Europe had reorganization expenses of $2.4 million for the year ended December 31, 2007, compared to $2.7 million in 2006. These expenses related to the costs of exiting leases in the U.K. and in the Netherlands, where the leased space exceeded the current requirements of the business, partially offset by recoveries on older reorganization programs. The Company completed its 2006 reorganization program and expects no further expenses related to this program. Although the Company has not committed to a specific action plan, during 2008 the Company intends to continue to streamline its support operations.

Hudson Europe s EBITDA was $30.5 million for the year ended December 31, 2007, an increase of $9.1 million compared to $21.4 million for 2006. Hudson Europe achieved an EBITDA of 6.5% of revenue in 2007 compared to 4.7% in 2006. Key EBITDA contributors included France (+143%), Belgium (+71%) and Nordics (+367%). EBITDA in the U.K. (9%) includes the impact of the U.K. Divestitures which had $1.6 million

of EBITDA in 2006. These EBITDA contributions were partially offset by a net loss in Italy, primarily related to severance for a change in leadership ($1.0 million).

Hudson Europe s operating income was $24.5 million for the year ended December 31, 2007, compared to $14.6 million for 2006. Hudson Europe s 2007 improvement in operating results was essentially due to the same factors as discussed above with respect to EBITDA.

***Hudson Asia Pacific***

Hudson Asia Pacific s revenue was $415.1 million for year ended December 31, 2007, up 5.8% from $392.3 million for 2006. On a constant currency basis, Hudson Asia Pacific s revenue decreased approximately 4.4% comparing 2007 to 2006. The largest constant currency revenue decrease came from temporary contracting in Australia (-11%) largely due to the continued strategic exit from low margin business. The region also experienced a decline in permanent placement revenue in Japan (-40%) due to its transition to a business model less focused on retained search. These decreases were offset in part by the growth in permanent placement in China (+70%), Australia (+8%) and Hong Kong (+39%). During 2007, the Company acquired TKA which contributed $2.6 million to China s $4.4 million constant currency revenue increase for 2007 over 2006.

Hudson Asia Pacific s direct costs for the year ended December 31, 2007 were $234.3 million, an increase of $0.8 million, or 0.3%, compared to $233.5 million for 2006. On a constant currency basis, direct costs decreased by $23.6 million, or 10.1% compared to 2006. The decrease in direct costs is consistent with the withdrawal from lower margin contracts.

Hudson Asia Pacific s gross margin for the year ended December 31, 2007 was $180.9 million, an increase of $22.0 million, or 13.9% from $158.8 million for 2006. Gross margin, as a percentage of revenue, was 43.6% for 2007, an increase from 40.5% for 2006, primarily due to an increased percentage of total gross margin coming from permanent placement services combined with increased temporary contracting margins. On a constant currency basis, gross margin increased by 3.9% for the year ended December 31, 2007 when compared to the year ended December 31, 2006. The gross margin increase was from increases in permanent placement in Australia (+7%), China (+75%), Hong Kong (+38%) and Singapore (+15%) markets, partially offset by a decrease in Japan (-40%).

Hudson Asia Pacific s selling general and administrative costs were $151.4 million for the year ended December 31, 2007, higher by 15.4% from $131.2 million for 2006. Selling, general and administrative expenses as a percent of revenue were 36.5% and 33.4% for 2007 and 2006, respectively. On a constant currency basis, the 2007 selling, general and administrative expenses increased by 5.5% compared to 2006. The increased expenses in 2007 were the result of increases in China (+93%), mainly from the TKA acquisition (+41%) and related increased occupancy costs resulting from a relocation to larger office space during 2007, and Hong Kong (+54%) for sales and delivery compensation costs.

Hudson Asia Pacific had nominal reorganization expenses for the year ended December 31, 2007, compared to $0.8 million in 2006. The Company completed its 2006 reorganization program and expects no further expenses related to this plan. Although the Company has not committed to a specific action plan, during 2008 the Company intends to streamline its support operations to match its narrowed focus on specialization.

Hudson Asia Pacific s EBITDA was $33.4 million for the year ended December 31, 2007, an increase of 11.6%, or $3.5 million, from $30.0 million for 2006. EBITDA as a percentage of revenue increased to 8.1% for 2007 compared to 7.6% in 2006, with the increase in Australia being mostly offset by a decrease in Japan. Australia s EBITDA as a percentage of revenue increased to 7.7% in 2007 from 6.3% in 2006, primarily due to the continued focus on moving to higher margin business. Japan reported EBITDA losses in the current year compared to income in the prior year due to its business model transition.

Hudson Asia Pacific s operating income was $29.5 million for the year ended December 31, 2007, an increase of 10.1%, or $2.7 million, from $26.8 million for 2006. Hudson Asia Pacific s 2007 improvement in operating results was primarily due to the same factors discussed above, partially offset by higher depreciation and amortization expenses in the region, primarily on amortization of leasehold improvements.

***Corporate and Other***

Corporate expenses for the year ended December 31, 2007 were $26.8 million compared to $31.1 million for 2006. The corporate expenses in 2007 decreased primarily as a result of lower depreciation and amortization expense ($3.1 million), professional fees ($1.4 million) and marketing expenses ($1.2 million), partially offset by higher travel costs ($1.1 million) and other administrative costs ($1.0 million).

Other non-operating income (expenses), including interest, was $4.1 million for the year ended December 31, 2007, higher by $4.2 million when compared to ($0.05) million for 2006. Interest income for 2007 was $0.7 million compared to an expense of $1.6 million in 2006. Non-operating expense for 2007 included the gain on the sale of the U.K. office and support services.

***Provision for income taxes***

The provision for income taxes for the year ended December 31, 2007 was $17.2 million on income from continuing operations of $22.1 million, compared with a provision of $3.8 million on a loss from continuing operations of $4.4 million for 2006. The change in the Company s tax provision for the year ended December 31, 2007 compared to 2006 was primarily related to increased profits in countries where there are no tax loss carry forwards to offset taxable income. Included in the 2006 tax provision is a release of valuation allowances on tax loss carry-forwards against $48.1 million of foreign pretax income. The effective tax rate differs from the U.S. Federal statutory rate of 35% due to the inability to recognize tax benefits on net U.S. losses, state taxes, non-deductible expenses such as certain acquisition related payments, variations from the U.S. tax rate in foreign jurisdictions, and taxes on repatriation of foreign profits.

***Income from Continuing Operations***

Income from continuing operations was $4.9 million for the year ended December 31, 2007, compared to a loss of $8.2 million for 2006. Basic and diluted earnings from continuing operations per share were $0.19 for the year ended December 31, 2007, compared to basic and diluted loss of $0.34 per share in the year ended December 31, 2006. Basic average shares outstanding increased in 2007 as a result of various employee stock compensation awards that vested or were issued or granted at various times during 2007. For 2006, dilutive earnings per share calculations do not differ from basic earnings 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.

***Discontinued Operations***

ETS, HHCS, T&I and the former Highland segment comprise the Company s discontinued operations. Income from discontinued operations was $10.1 million for year ended December 31, 2007 compared to income of $28.6 million for 2006. The 2007 results include a gain of $6.8 million related to the Australian and Netherlands discontinued operations compared to the 2006 gain from the sale of Highland of $20.4 million. Basic and diluted earnings from discontinued operations per share were $0.40 and $0.39, respectively, for the year ended December 31, 2007, compared to basic and diluted earnings per share of $1.17 in 2006.

***Net Income***

Net income was $15.0 million for the year ended December 31, 2007, compared to $20.4 million for 2006. Basic and diluted earnings per share were $0.59 and $0.58, respectively, for the year ended December 31, 2007

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compared to basic and diluted earnings of $0.83 per share in the year ended December 31, 2006. Basic average shares outstanding increased in 2007 as a result of various employee stock compensation awards that vested or were issued or granted at various times during 2007. For 2006, dilutive earnings per share calculations do not differ from basic earnings 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 2006, the Company used loss from continuing operations as its control number in determining earnings per share.

**The Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005**

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | 2006 | | | 2005 |
| | As Restated | Currency translation | Constant currency | As reported |
| Revenue: | | | | |
| Hudson Americas | $ 306,732 | $ (274) | $ 306,458 | $ 291,209 |
| Hudson Europe | 458,815 | (4,101) | 454,714 | 450,727 |
| Hudson Asia Pacific | 392,327 | 9,480 | 401,807 | 386,518 |
| Total | 1,157,874 | 5,105 | 1,162,979 | 1,128,454 |
| Direct costs: | | | | |
| Hudson Americas | 215,271 | (44) | 215,227 | 199,722 |
| Hudson Europe | 249,849 | (2,123) | 247,726 | 261,284 |
| Hudson Asia Pacific | 233,499 | 6,341 | 239,840 | 235,005 |
| Total | 698,619 | 4,174 | 702,793 | 696,011 |
| Gross margin: | | | | |
| Hudson Americas | 91,461 | (230) | 91,231 | 91,487 |
| Hudson Europe | 208,966 | (1,978) | 206,988 | 189,443 |
| Hudson Asia Pacific | 158,828 | 3,139 | 161,967 | 151,513 |
| Total | $ 459,255 | $ 931 | $ 460,186 | $ 432,443 |
| Selling, general and administrative (a): | | | | |
| Hudson Americas | $ 103,200 | $ (200) | $ 103,000 | $ 91,565 |
| Hudson Europe | 191,727 | (1,872) | 189,855 | 181,047 |
| Hudson Asia Pacific | 131,198 | 2,641 | 133,839 | 130,780 |
| Corporate | 31,119 | | 31,119 | 37,989 |
| Total | $ 457,244 | $ 569 | $ 457,813 | $ 441,381 |

(a) Selling, general and administrative expenses include the Consolidated Statements of Operations captions: salaries and related, acquisition-related expenses, office and general, marketing and promotion, and depreciation and amortization.

***Hudson Americas***

Hudson Americas revenue was $306.7 million for the year ended December 31, 2006, up 5.3% from $291.2 million for 2005. Revenues increased in both temporary contracting services (+3.8%) and permanent placement services (+32%). The largest contributors to the revenue growth were the practice groups of Legal (+29%), and Management Search (+51%). Accounting & Finance experienced a decline in work related to Sarbanes-Oxley from 2005, but these reductions were offset by increases in the risk management, internal audit and general financial solutions practices.

Hudson Americas direct costs for the year ended December 31, 2006 were $215.3 million compared to $199.7 million for 2005, an increase of 7.8%. The increase in the direct costs relates to the 3.8% increase in Hudson Americas contract revenue compared to 2005. On a constant currency basis, direct costs increased 7.8% for 2006 in comparison to 2005.

Hudson Americas gross margin for the year ended December 31, 2006 was $91.5 million, unchanged from the year ended December 31, 2005. On a constant currency basis, gross margin decreased by 0.3% for the year ended December 31, 2006 when compared to the year ended December 31, 2005. Hudson Americas reported no change in gross margin due to declines in its Information Technology ( IT ) (-27%), and Financial Solutions (-4%) practice groups, partially offset by increases in the Legal (+17%), despite a lower temporary contracting margin contribution) and Management Search (+46%) practices groups. Gross margin, as a percentage of revenue, was 29.8% for 2006, a decrease from 31.4% for 2005, primarily as a result of a decrease in the temporary contracting gross margin as a percentage of temporary contracting revenue (23.0% in 2006 compared to 25.6% in 2005) from the Legal and IT practice groups as a result of increased competition. Permanent recruitment as a percentage of gross margin increased to approximately 29% in 2006, compared to 23% in 2005.

Hudson Americas selling, general and administrative costs were $103.2 million for the year ended December 31, 2006, higher by 12.7% from $91.6 million for 2005. Selling, general and administrative expenses were 33.6% and 31.4% as a percentage of revenue for 2006 and 2005, respectively. The increase in selling, general and administrative costs was primarily due to increases in sales and delivery compensation and commission expenses ($7.3 million) from compensation associated with the increases in permanent and contract placement revenue, and professional fees ($2.2 million) primarily from the comprehensive second quarter review of the accounting processes supported by the new PeopleSoft accounting and management reporting system, and depreciation and amortization ($1.2 million), which included $1.3 million of accelerated amortization expense related to the impairment of intangibles of the Hudson Americas talent management business Alder Novo acquisition.

Hudson Americas EBITDA was a loss of $7.6 million for the year ended December 31, 2006, a decrease of $12.1 million compared to income of $4.5 million for 2005. The decrease in EBITDA was primarily attributable to higher sales and delivery compensation expenses of $7.3 million, higher professional fees and contract staffing costs of $2.2 million, as described above and higher reorganization expenses of $1.3 million primarily from workforce reductions and closing the Center for High Performance. Hudson Americas talent management business reduced its EBITDA loss to $1.8 million in 2006 compared to $3.6 million for the comparable period in 2005.

Hudson Americas operating loss was $13.9 million for the year ended December 31, 2006, compared to a loss of $0.6 million for 2005. The decrease was essentially due to the same factors as discussed with respect to EBITDA.

***Hudson Europe***

Hudson Europe s revenue was $458.8 million for the year ended December 31, 2006, up 1.8% from $450.7 million for 2005. On a constant currency basis, Hudson Europe s revenue increased approximately 0.9% comparing 2006 to 2005. The largest decreases were principally from lower temporary contracting revenue in the U.K. (-11%), primarily in lower margin industrial contracting services, offset by increases achieved in the Netherlands professional staffing revenue (+197%), which was driven by the results of Balance Ervaring op Projectbasis B.V. ( Balance ) (acquired August 2005), increased talent management and recruitment revenue in Belgium (+15%), and increased recruitment revenue in France (+12%) and Central and Eastern Europe (+26%).

Hudson Europe s direct costs for the year ended December 31, 2006 were $249.8 million, a decrease of $11.4 million, or 4.4%, compared to $261.3 million for 2005. On a constant currency basis, direct costs decreased 5.2% for 2006 in comparison to 2005. The decrease primarily reflects the lower temporary contracting revenue in the U.K., partially offset by the inclusion of Balance for the entire year of 2006.

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Hudson Europe s gross margin for the year ended December 31, 2006 was $209.0 million, an increase of $19.5 million, or 10.3%, from 2005. Gross margin, as a percentage of revenue, was 45.5% for 2006, an increase from 42.0% for 2005, primarily due to the reduction in lower margin business. On a constant currency basis, gross margin increased by 9.3% for the year ended December 31, 2006 when compared to 2005. Hudson Europe s largest constant currency increases were in Balance (+192%), Belgium (+13%), France (+12%), and Central and Eastern Europe (+37%). Hudson Europe s temporary gross margin as a percentage of temporary contracting revenue increased to 19.0% in 2006 from 15.8% in 2005. The increases in temporary contracting margins were a product of the addition of Balance and a strategic U.K. focus on higher margin contracts and exiting lower margin contracts, such as the sale of the Scottish industrial trade business.

Hudson Europe s selling, general and administrative costs were $191.7 million for the year ended December 31, 2006, higher by 5.9% from $181.0 million for 2005. Selling, general and administrative expenses were 41.8% and 40.2% as a percentage of revenue for 2006 and 2005, respectively. On a constant currency basis, the 2005 selling, general and administrative expenses increased by 4.9% compared to 2005. Increases in selling, general and administrative costs for 2006 primarily came from higher amortization expense from the Balance acquisition s intangible assets ($2.7 million), and expanded marketing expenses (+44%), partially offset by lower administrative fees (-81%), lower occupancy cost (-5%) and lower travel expenses (-8%). Acquisition-related expense for the Balance acquisition was $1.7 million in 2006.

Hudson Europe s EBITDA was $21.4 million for the year ended December 31, 2006, an increase of $8.6 million compared to $12.8 million for 2005. Hudson Europe achieved an EBITDA of 4.7% of revenue in 2006 compared to 2.8% in 2005. Key EBITDA contributors included the United Kingdom (+44%), Netherlands (+214%), despite acquisition-related expenses of $1.7 million and France (+384%).

Hudson Europe s operating income was $14.6 million for the year ended December 31, 2006, compared to $8.4 million for 2005. Hudson Europe s 2006 improvement in operating results was essentially due to the same factors as discussed above with respect to EBITDA.

***Hudson Asia Pacific***

Hudson Asia Pacific s revenue was $392.3 million for year ended December 31, 2006, an increase of 1.5% from $386.5 million for 2005. On a constant currency basis, Hudson Asia Pacific s revenue increased approximately 4.0% comparing 2006 to 2005. The largest constant currency revenue increases were achieved in Australian permanent placements (+14%) and talent management services (+14%), the Asian region s permanent placement services (+13%), primarily in China (+43%), Singapore (+9%) and Hong Kong (+13%), and New Zealand s temporary contracting business (+4%). The increases were partially offset by lower permanent placement revenue in New Zealand (-13%).

Hudson Asia Pacific s direct costs for the year ended December 31, 2006 were $233.5 million, a decrease of $1.5 million, or 0.6%, compared to $235.0 million for 2005. On a constant currency basis, direct costs increased 2.1% for 2006 in comparison to 2005. The increase in direct costs in 2006 directly related to a 1% increase in temporary contracting cost in Australia and a 6% increase in temporary contracting costs in New Zealand that corresponded to the increase in the temporary contracting revenue.

Hudson Asia Pacific s gross margin for the year ended December 31, 2006 was $158.8 million, higher by $7.3 million, or 4.8%, from $151.5 million reported for 2005. Gross margin, as a percentage of revenue, was 40.5% for 2006, an increase from 39.2% for 2005, primarily due to higher gross margin from permanent placement and talent management businesses. On a constant currency basis, gross margin increased by 6.9% for the year ended December 31, 2006 when compared to the year ended December 31, 2005. The gross margin increase was primarily growth in permanent placements in Australia (+15%) and Asia (+13%), partially offset by a decrease in New Zealand (-9%) from lower permanent placement services.

Hudson Asia Pacific s selling general and administrative costs were $131.2 million for the year ended December 31, 2006, higher by $0.4 million, or 0.3%, from $130.8 million for 2005. Selling, general and administrative expenses were 33.4% and 33.8% as a percentage of revenue for 2006 and 2005. On a constant currency basis, the 2006 selling, general and administrative expenses increased by 2.3% compared to 2005. The increased expenses in 2006 were the result of increases in Australia and Asian markets for sales and delivery compensation expenses and occupancy expense, offset by lower depreciation and amortization expense in Australia and New Zealand.

Hudson Asia Pacific s EBITDA was $30.0 million for the year ended December 31, 2006, an increase of 10.1%, or $2.8 million, from $27.2 million for 2005. The increase was from Australia (+13%) and Hong Kong (+69%).

Hudson Asia Pacific s operating income was $26.8 million for the year ended December 31, 2006, an increase of 29.3%, or $6.1 million, from $20.7 million for 2005. Hudson Asia Pacific s 2006 improvement in operating results was primarily due to the same EBITDA factors as discussed above and lower depreciation and amortization in Australia and New Zealand.

***Corporate and Other***

Corporate expenses for the year ended December 31, 2006 were $31.1 million compared to $38.0 million for 2005. The corporate expenses in 2006 decreased primarily as a result of lower compensation ($3.9 million), and marketing and advertising ($3.3 million) expenses, partially offset by higher depreciation and amortization expense primarily related to the accelerated amortization of the leasehold improvements at the former corporate offices ($2.8 million) vacated in early 2007.

Other non-operating expense, including net interest expense, was $0.05 million for the year ended December 31, 2006, lower by $2.2 million when compared to $2.3 million for 2005. Non-operating expense for 2006 included the gain on the sale of the Scottish industrial trade business ($0.6 million).

***Provision for income taxes***

The provision for income taxes for the year ended December 31, 2006 was $3.8 million on a loss from continuing operations of $4.4 million, compared with a provision of $4.5 million on a loss from continuing operations of $11.7 million for 2005. The change in the Company s tax provision for the year ended December 31, 2006, compared to 2005, was primarily due to deferred income tax benefits in foreign jurisdictions ($6.6 million), primarily from the release of valuation allowances on tax loss carry-forwards, offset by increased current provisions for foreign ($5.6 million) and state and local ($2.0 million) income taxes. The increase in current foreign tax provisions resulted from increased profits in international countries where there are no tax loss carry forwards to offset taxable income. The effective tax rate differs from the U.S. Federal statutory rate of 35% due to the inability to recognize tax benefits on net U.S. losses, which include corporate expenses, partially offset by the release of the valuation allowance on deferred tax assets related to net operating loss carry-forwards in tax jurisdictions where profits are now being generated. Other factors include state taxes, non-deductible expenses such as amortization and variations from the U.S. tax rate in foreign jurisdictions.

***Loss from Continuing Operations***

Loss from continuing operations was $8.2 million for the year ended December 31, 2006, compared to a net loss of $16.2 million for 2005. Basic and diluted loss per share from continuing operations were $0.34 and $0.73, for the years ended December 31, 2006 and 2005, respectively. Basic average shares outstanding increased in 2006 as a result of the issuance of shares of our common stock in June 2005 and from various employee stock compensation awards that vested or were issued or granted at various times during 2006. For 2006 and 2005, dilutive earnings per share calculations do not differ from basic earnings 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.

***Discontinued Operations***

Income from discontinued operations was $28.6 million for the year ended December 31, 2006, compared to income of $16.4 million for 2005. The 2006 results included a gain from the sale of Highland of $20.4 million, pre-tax income from the discontinued operations of $9.7 million, and related tax expenses of $1.5. The income from the operations of Highland decreased in 2006 when compared to 2005 as a result of a shortened 2006 period of operations, additional costs to close operations, and lower non-operating income.

***Net Income***

Net income was $20.4 million for the year ended December 31, 2006, compared to $0.2 million for 2005. Basic and diluted earnings per share were $0.83 and $0.01 for the years ended December 31, 2006 and 2005, respectively. For 2006 and 2005, dilutive earnings per share calculations do not differ from basic earnings 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. The Company used loss from continuing operations as its control number in determining earnings per share.

**Liquidity and Capital Resources**

The Company s liquidity needs arise primarily from funding working capital requirements and capital investment in information technology and facilities.

On July 31, 2007, the Company entered into an amended and restated senior secured credit facility with Wells Fargo Foothill with the ability to borrow up to $75.0 million (the Credit Facility ). The Company may, subject to certain conditions, increase the maximum Credit Facility limit up to an additional $50.0 million. The maturity date of the Credit Facility is July 31, 2012. Borrowings may be made with a base rate loan having an interest rate based on the prime rate and the Leverage Ratio (as defined in the Credit Facility) or a LIBOR rate loan with an interest rate based on the LIBOR rate and the Leverage Ratio. The Credit Facility is secured by substantially all of the assets of the Company and extensions of credit are based on a percentage of the accounts receivable of the Company.

As of December 31, 2007 there were no outstanding borrowings under the Credit Facility and there were a total of $7.9 million of outstanding letters of credit issued under the Credit Facility. Available credit for use under the Credit Facility as of December 31, 2007 was $67.1 million.

The Credit Facility contains various restrictions and covenants, including (1) prohibitions on payments of dividends; (2) requirements that the Company maintain its minimum EBITDA (as defined in the Credit Facility) and capital expenditures within prescribed levels; (3) restrictions on the ability of the Company to make additional borrowings, or to consolidate, merge or otherwise fundamentally change the ownership of the Company; and (4) limitations on investments, dispositions of assets and guarantees of indebtedness and repurchases of the Company s stock. The Credit Facility allows certain permitted investments in the aggregate amount not to exceed $25 million per year and certain permitted dispositions in the aggregate amount not to exceed $15 million per year.

The financial covenants of the Credit Facility include a minimum quarterly EBITDA for a twelve-month period and maximum capital expenditures for each fiscal year. The minimum EBITDA covenant provides that the Company s quarterly EBITDA for a trailing twelve-month period may not be less than $25 million. The maximum capital expenditure covenant provides that the Company s capital expenditures in each fiscal year may not exceed $18 million. The borrowing base is determined under the Credit Facility as an agreed percentage of eligible accounts receivable, less reserves. These restrictions and covenants could limit the Company s ability to respond to market conditions, to provide for unanticipated capital investments, to raise additional debt or equity capital, to pay dividends or to take advantage of business opportunities, including future acquisitions.

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The Company filed a shelf registration with the Securities and Exchange Commission in 2004 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.

The Company generated cash from operating activities of $37.7 million and $35.9 million for the years ended December 31, 2007 and 2006, respectively. Increased cash provided by operating activities in 2007 compared to 2006 was primarily from an increase of $1.9 million due to lower gains on asset dispositions, lower net earnings and decreases in accounts payable which were offset by collections on accounts receivable and non-cash acquisition-related expenses. Cash flows provided from discontinued operations included in operating activities for the years ended December 31, 2007, 2006 and 2005 were $3.3 million, $8.5 million and $12.5 million, respectively.

During the year ended December 31, 2007, the Company used $50.8 million in investing activities compared to cash provided by investing activities of $1.9 for the year ended December 31, 2006. This increase in cash used in investing activities was the result of increases in acquisition payments of $27.3 million, decreased proceeds from the sale of assets of $10.4, an increased balance in restricted cash of $2.9 million and increased capital expenditures of $2.0 million. Cash flows used in discontinued operations included in investing activities for the years ended December 31, 2007, 2006 and 2005 were $0, $0.1 million and $0.3 million, respectively.

During the year ended December 31, 2007, the Company provided cash from financing activities of $4.9 million compared to $28.8 million used during the year ended December 31, 2006. The increase in cash generated from financing activities was due to a net decrease in payments on borrowings under the Credit Facility of $30.0 million, decreased payments on long term debt of $2.5 million and an increase in cash from stock issuance proceeds of $1.2 million. There were no financing cash flows from discontinued operations for the years ended December 31, 2007, 2006 and 2005.

The Company believes that its cash and cash equivalents on hand at December 31, 2007, supplemented by availability under the Credit Facility, will provide it with sufficient liquidity to satisfy its working capital needs, capital expenditures, investment requirements and commitments through at least the next twelve months.

The Company s near-term cash requirements are primarily related to funding operations, a portion of prior year restructuring actions, contingent payments related to prior acquisition earn-out liabilities and capital expenditures. However, the Company cannot provide assurance that actual cash requirements will not be greater in the future from those currently expected. If sources of liquidity are not available or if the Company cannot generate sufficient cash flow from operations, the Company might be required to obtain additional sources of funds through additional operating improvements, capital market transactions, asset sales or financing from third parties, or a combination thereof. The Company cannot provide assurance that these additional sources of funds will be available or, if available, would have reasonable terms. The Company estimates that earn-out payments related to prior period acquisitions could be between $1 million and $3 million during 2008.

*Off-Balance Sheet Arrangements.*

As of December 31, 2007, the Company had no off-balance sheet arrangements.

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*Contractual Obligations.*

The Company has entered into various commitments that will affect its cash generation capabilities going forward. Particularly, it has entered into several non-cancelable operating leases for facilities and equipment worldwide. Future contractual obligations as of December 31, 2007 are as follows (dollars in thousands) (commitments based in currencies other than U.S. dollars were translated using exchange rates as of December 31, 2007):

| Contractual Obligation (a) | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Operating lease obligations | $ 40,340 | $ 56,989 | $ 29,405 | $ 49,969 | $ 176,703 |
| Capital lease obligations (b) | 243 | | | | 243 |
| Other long term liabilities: | | | | | |
| Reorganization expenses | 3,490 | 2,626 | 63 | | 6,179 |
| Merger and integration expenses | 314 | 327 | | | 641 |
| Total | $ 44,387 | $ 59,942 | $ 29,468 | $ 49,969 | $ 183,766 |

(a) Other non-current liabilities of $18,649, primarily related to mandated employee benefit obligations, do not have readily determinable payment periods and are therefore not included in the schedule.

(b) Capital lease obligations presented here exclude the interest portion of the obligation, which is considered immaterial.

**REGARDING FORWARD-LOOKING STATEMENTS**

This Form 10-K contains statements that the Company believes to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Form 10-K, including statements regarding the Company s future financial condition, results of operations, business operations and business prospects, are forward-looking statements. Words such as anticipate, estimate, expect, project, intend, plan, predict, believe and similar words, expressions and variations of th and expressions are intended to identify forward-looking statements. All forward-looking statements are subject to important factors, risks, uncertainties and assumptions, including industry and economic conditions that could cause actual results to differ materially from those described in the forward-looking statements. Such factors, risks, uncertainties and assumptions include, but are not limited to, (1) the Company s history of negative cash flows and operating losses may continue, (2) the ability of clients to terminate their relationship with the Company at any time, (3) the impact of global economic fluctuations on the Company s temporary contracting operations, (4) restrictions on the Company s operating flexibility due to the terms of its credit facility, (5) risks relating to the Company s international operations, including foreign currency fluctuations, (6) risks and financial impact associated with acquisitions and dispositions of non-core businesses; (7) the Company s heavy reliance on information systems and the impact of potentially losing or failing to develop technology, (8) competition in the Company s markets and the Company s dependence on highly skilled professionals, (9) fluctuations in the Company s operating results from quarter to quarter, (10) restrictions imposed by blocking arrangements, (11) the Company s exposure to employment-related claims from both clients and employers and limits on related insurance coverage, (12) the Company s dependence on key management personnel, (13) the impact of government regulations and (14) the Company s ability to maintain effective internal control over financial reporting. These forward-looking statements speak only as of the date of this Form 10-K. The Company assumes no obligation, and expressly disclaims any obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The majority of the Company s long-term borrowings are in fixed rate capital leases for leasehold improvements. The carrying amounts of long-term debt approximate fair value, generally due to the short-term nature of the underlying instruments. We do not trade derivative financial instruments for speculative purposes.

The Company conducts operations in various other countries, including Australia, Belgium, Canada, France, the Netherlands, New Zealand and the United Kingdom. For the year ended December 31, 2007, the Company earned approximately 83% of its gross margin outside the United States, and it collected payments in local currency and related operating expenses were paid in such corresponding local currency. Accordingly, the Company is subject to increased risk for exchange rate fluctuations between such local currencies and the U.S. dollar.

The financial statements of the non-U.S. subsidiaries are translated into U.S. dollars using current rates of exchange, with translation gains or losses included in the cumulative translation adjustment account, a component of stockholders equity. During the year ended December 31, 2007, the Company had translation gains of $8.4 million, primarily attributable to the weakening of the U.S. dollar against the British pound, the Euro and the Australian dollar offset by approximately $7.4 million of accumulated foreign currency translation gains previously included in other comprehensive income and now reclassified in accordance with SFAS No. 52, Foreign Currency Translation to gain on sale of discontinued operations as a result of the complete sale of the Netherlands reintegration business.

The Company s objective is to reduce earnings and cash flow volatility associated with currency exchange rate changes. Accordingly, the Company from time to time enters into foreign currency forward contracts where it has determined that the exposure to currency exchange rate risk related to specific transactions is significant enough to justify the related costs. At December 31, 2007, there was one outstanding foreign currency forward contract, which matured in early January 2008.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**
**Management s Annual Report on Internal Control Over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a 15(f) and 15(d) 15 (f) of the Securities Exchange Act of 1934. The Company s internal control over financial reporting is designed 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007 using the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company s management believes that, as of December 31, 2007, the Company s internal control over financial reporting was effective based on those criteria.

The Company s independent registered public accounting firm, BDO Seidman, LLP, has issued an attestation report on the effectiveness of the Company s internal control over financial reporting. That attestation report is set forth immediately following the report of BDO Seidman, LLP on the financial statements included herein.

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**Report of Independent Registered Public Accounting Firm**

Board of Directors

Hudson Highland Group, Inc.

New York, New York

We have audited the accompanying consolidated balance sheets of Hudson Highland Group, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, cash flows and changes in stockholders equity for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hudson Highland Group, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the consolidated financial statements, effective January 1, 2007, the company adopted FASB Interpretation No. 48, Accounting for Income Taxes. As discussed in Note 5 to the consolidated financial statements, effective January 1, 2006 the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its consolidated financial statements as of and for the year ended December 31, 2006, for the accrual of acquisition related payments, a portion of which is goodwill and a portion of which is expense.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hudson Highland Group, Inc. s internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2008 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
BDO Seidman, LLP
New York, New York
March 6, 2008

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Board of Directors and Shareholders

Hudson Highland Group, Inc.

New York, New York

We have audited Hudson Highland Group, Inc. s (the Company ) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria ). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hudson Highland Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hudson Highland Group, Inc. as of December 31, 2007 and 2006 and the related consolidated statements of operations, cash flows and changes in stockholders equity for each of the three years in the period ended December 31, 2007 and our report dated March 6, 2008 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
BDO Seidman, LLP
New York, New York
March 6, 2008

**HUDSON HIGHLAND GROUP, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except share and per share amounts)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2007** | **2006 (Restated)** | **2005** |
| Revenue | $ 1,179,075 | $ 1,157,874 | $ 1,128,454 |
| Direct costs (Note 3) | 671,162 | 698,619 | 696,011 |
| Gross margin | 507,913 | 459,255 | 432,443 |
| Operating expenses: | | | |
| Salaries and related | 349,944 | 323,755 | 311,998 |
| Office and general | 97,347 | 94,407 | 95,463 |
| Marketing and promotion | 19,122 | 17,592 | 17,417 |
| Acquisition-related expenses | 5,299 | 1,687 | |
| Depreciation and amortization | 14,624 | 19,803 | 16,503 |
| Business reorganization expenses | 4,362 | 6,015 | 511 |
| Merger and integration expenses (recoveries) | (787) | 362 | (70) |
| Total operating expenses | 489,911 | 463,621 | 441,822 |
| Operating income (loss) | 18,002 | (4,366) | (9,379) |
| Other income (expense): | | | |
| Interest, net | 700 | (1,634) | (1,802) |
| Other, net | 3,445 | 1,584 | (513) |
| Income (loss) from continuing operations before provision for income taxes | 22,147 | (4,416) | (11,694) |
| Provision for income taxes | 17,240 | 3,771 | 4,532 |
| Income (loss) from continuing operations | 4,907 | (8,187) | (16,226) |
| Income from discontinued operations, net of income taxes | 10,074 | 28,615 | 16,427 |
| Net income | $ 14,981 | $ 20,428 | $ 201 |
| **Earnings per share:** | | | |
| Basic | | | |
| Income (loss) from continuing operations | $ 0.19 | $ (0.34) | $ (0.73) |
| Income from discontinued operations | 0.40 | 1.17 | 0.74 |
| Net income | $ 0.59 | $ 0.83 | $ 0.01 |
| Diluted | | | |
| Income (loss) from continuing operations | $ 0.19 | $ (0.34) | $ (0.73) |
| Income from discontinued operations | 0.39 | 1.17 | 0.74 |
| Net income | $ 0.58 | $ 0.83 | $ 0.01 |
| Basic weighted average shares outstanding: | 25,274,000 | 24,471,000 | 22,295,000 |
| Diluted weighted average shares outstanding: | 25,914,000 | 24,471,000 | 22,295,000 |

See accompanying notes to consolidated financial statements.

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**HUDSON HIGHLAND GROUP, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except share and per share amounts)**

.

| | December 31, 2007 | December 31, 2006 (Restated) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 39,245 | $ 44,649 |
| Accounts receivable, less allowance for doubtful accounts of $4,838 and $6,162 respectively | 189,072 | 204,746 |
| Prepaid and other | 18,493 | 16,609 |
| Current assets of discontinued operations | 12,265 | 14,103 |
| Total current assets | 259,075 | 280,107 |
| Intangibles, net | 78,235 | 38,916 |
| Property and equipment, net | 29,470 | 27,276 |
| Other assets | 7,214 | 4,560 |
| Non-current assets of discontinued operations | 212 | 1,323 |
| Total assets | $ 374,206 | $ 352,182 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 21,237 | $ 21,274 |
| Accrued expenses and other current liabilities | 120,842 | 125,561 |
| Short-term borrowings and current portion of long-term debt | 243 | 238 |
| Accrued business reorganization expenses | 3,490 | 5,077 |
| Accrued merger and integration expenses | 314 | 837 |
| Current liabilities of discontinued operations | 6,300 | 14,302 |
| Total current liabilities | 152,426 | 167,289 |
| Other non-current liabilities | 18,649 | 8,204 |
| Accrued business reorganization expenses, non-current | 2,689 | 3,409 |
| Accrued merger and integration expenses, non-current | 327 | 1,721 |
| Long-term debt, less current portion | | 235 |
| Total liabilities | 174,091 | 180,858 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock, $0.001 par value, 10,000,000 shares authorized; none issued or outstanding | | |
| Common stock, $0.001 par value, 100,000,000 shares authorized; issued 25,690,631 and 24,957,732 shares, respectively | 26 | 25 |
| Additional paid-in capital | 444,075 | 427,645 |
| Accumulated deficit | (288,587) | (300,031) |
| Accumulated other comprehensive income translation adjustments | 44,946 | 43,915 |
| Treasury stock, 24,680 and 15,798 shares, respectively, at cost | (345) | (230) |
| Total stockholders equity | 200,115 | 171,324 |

| | | |
|---|---|---|
| | $ 374,206 | $ 352,182 |

See accompanying notes to consolidated financial statements.

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**HUDSON HIGHLAND GROUP, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2007** | **2006 (Restated)** | **2005** |
| Cash flows from operating activities: | | | |
| Net income (loss) | $ 14,981 | $ 20,428 | $ 201 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 14,989 | 21,292 | 18,412 |
| Provision for (recovery of) doubtful accounts | (88) | 2,993 | 2,233 |
| (Benefit from) provision for deferred income taxes | (563) | (7,576) | 1,021 |
| Stock based compensation | 5,514 | 5,956 | 5,264 |
| Net (gain) loss on disposal of assets | (10,174) | (20,681) | (559) |
| Non-cash acquisition-related expenses | 3,551 | | |
| Changes in assets and liabilities, net of effects of business acquisitions: | | | |
| Decrease (increase) in accounts receivable, net | 26,190 | 12,895 | (51,331) |
| Decrease (increase) in other assets | 1,002 | 4,263 | (2,313) |
| (Decrease) increase in accounts payable, accrued expenses and other current liabilities | (12,748) | (2,806) | 9,113 |
| Decrease in accrued business reorganization expenses | (2,965) | (107) | (6,688) |
| Decrease in accrued merger and integration expenses | (1,948) | (790) | (1,651) |
| Total adjustments | 22,760 | 15,439 | (26,499) |
| Net cash provided by (used in) operating activities | 37,741 | 35,867 | (26,298) |
| Cash flows from investing activities: | | | |
| Capital expenditures | (13,250) | (11,210) | (9,933) |
| Proceeds from the sale of assets | 2,859 | 23,323 | |
| Payments for acquisitions, net of cash acquired | (37,546) | (10,232) | (25,782) |
| Increase in restricted cash | (2,900) | | |
| Net cash provided by (used in) investing activities | (50,837) | 1,881 | (35,715) |
| Cash flows from financing activities: | | | |
| Borrowings under credit facility | 485,423 | 540,869 | 355,644 |
| Repayments under credit facility | (485,423) | (570,941) | (325,571) |
| Net payments on long-term debt | (279) | (2,807) | (2,791) |
| Issuance of common stock Long Term Incentive Plan option exercises | 3,606 | 1,961 | 1,472 |
| Issuance of common stock employee stock purchase plans | 1,652 | 2,115 | 2,142 |
| Proceeds from issuance of common stock | | | 44,961 |
| Purchase of restricted stock from employees | (115) | | |
| Net cash (used in) provided by financing activities | 4,864 | (28,803) | 75,857 |
| Effect of exchange rates on cash and cash equivalents | 2,828 | 1,596 | (800) |
| Net increase (decrease) in cash and cash equivalents | (5,404) | 10,541 | 13,044 |
| Cash and cash equivalents, beginning of year | 44,649 | 34,108 | 21,064 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents, end of year | $ 39,245 | $ 44,649 | $ 34,108 |

See accompanying notes to consolidated financial statements.

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**HUDSON HIGHLAND GROUP, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

**(in thousands, except share amounts)**

| | Common stock | | Additional paid-in capital | Accumulated (deficit) earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total | Total comprehensive income (loss) |
|---|---|---|---|---|---|---|---|---|
| | Shares | Value | | | | | | |
| Balance January 1, 2005 | 20,597,168 | $ 21 | $ 361,049 | $ (318,800) | $ 41,694 | $ (230) | $ 83,734 | $ (27,614) |
| Net income | | | | 201 | | | 201 | 201 |
| Other comprehensive loss, translation adjustments | | | | | (6,883) | | (6,883) | (6,883) |
| Issuance of shares for 401(k) plan contribution | 94,960 | | 1,563 | | | | 1,563 | |
| Issuance of shares from exercise of stock options | 187,038 | | 1,472 | | | | 1,472 | |
| Issuance of shares for employee stock purchase plans | 167,583 | | 2,142 | | | | 2,142 | |
| Issuance of shares | 3,223,640 | 3 | 44,958 | | | | 44,961 | |
| Stock-based compensation | 54,275 | | 5,264 | | | | 5,264 | |
| Balance December 31, 2005 | 24,324,664 | 24 | 416,448 | (318,599) | 34,811 | (230) | 132,454 | $ (6,682) |
| Cumulative effect of the adoption of SAB 108 (Note 2) | | | (907) | (1,860) | | | (2,767) | |
| Net income (Restated, Note 2) | | | | 20,428 | | | 20,428 | $ 20,428 |
| Other comprehensive loss, translation adjustments | | | | | 9,104 | | 9,104 | 9,104 |
| Issuance of shares for 401(k) plan contribution | 126,950 | | 2,073 | | | | 2,073 | |
| Issuance of shares from exercise of stock options | 243,105 | | 1,961 | | | | 1,961 | |
| Issuance of shares for employee stock purchase plans | 229,380 | 1 | 2,114 | | | | 2,115 | |
| Stock-based compensation | 17,835 | | 5,956 | | | | 5,956 | |
| Balance December 31, 2006 (Restated, Note 2) | 24,941,934 | 25 | 427,645 | (300,031) | 43,915 | (230) | 171,324 | $ 29,532 |
| Cumulative effect of adoption of FIN 48 | | | | (3,537) | | | (3,537) | |
| Net income | | | | 14,981 | | | 14,981 | $ 14,981 |
| Other comprehensive income, translation adjustments | | | | | 1,031 | | 1,031 | 1,031 |
| Purchase of treasury stock | (8,882) | | | | | (115) | (115) | |
| Compensation on JMT acquisition | | | 3,551 | | | | 3,551 | |
| Issuance of shares for 401(k) plan contribution | 134,331 | | 2,108 | | | | 2,108 | |
| Issuance of shares from exercise of stock options | 397,960 | 1 | 3,605 | | | | 3,606 | |
| Issuance of shares for employee stock purchase plans | 151,108 | | 1,652 | | | | 1,652 | |
| Stock-based compensation | 49,500 | | 5,514 | | | | 5,514 | |
| Balance December 31, 2007 | 25,665,951 | $ 26 | $ 444,075 | $ (288,587) | $ 44,946 | $ (345) | $ 200,115 | $ 16,012 |

See accompanying notes to consolidated financial statements.

**HUDSON HIGHLAND GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except share and per share amounts)**

## 1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

**Basis of Presentation**

Hudson Highland Group, Inc. and its subsidiaries (the Company ) are comprised of the operations, assets and liabilities of the three Hudson regional businesses of Hudson Americas, Hudson Europe and Hudson Asia Pacific ( Hudson regional businesses or Hudson ). The Company has operated as an independent publicly held company since its spin-off (the Distribution ) from Monster Worldwide, Inc. ( Monster ), formerly TMP Worldwide, Inc., on March 31, 2003 (the Distribution Date ).

**Reporting Segments**

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 is organized into three reportable segments: Hudson Americas, Hudson Europe, and Hudson Asia Pacific, which constituted approximately 17%, 47% and 36% of the Company s gross margin, respectively, for the year ended December 31, 2007.

Corporate expenses are reported separately from the three reportable segments and consist primarily of expenses for compensation, marketing programs, rent and professional consulting.

Hudson Americas operates from 35 offices in two countries, with 95% of its 2007 gross margin generated in the United States. Hudson Europe operates from 46 offices in 17 countries, with 54% of its 2007 gross margin coming from the United Kingdom operations. Hudson Asia Pacific operates from 21 offices in 6 countries, with 65% of its 2007 gross margin stemming from Australia.

Hudson s three regional businesses provide contract personnel and permanent recruitment services to a wide range of clients. With respect to contract personnel, Hudson focuses on providing candidates with specialized functional skills and competencies, such as accounting and finance, legal and information technology. The Company is one of the world s largest specialized professional staffing and talent management solutions firms. The assignment can vary, but engagements at the professional level tend to be longer than those in the general clerical or industrial sectors. With respect to permanent recruitment, Hudson focuses on mid-level professionals typically earning between $50,000 and $150,000 annually and possessing the professional skills and/or profile required by clients. Hudson provides permanent recruitment services on both a retained and contingent basis. In larger markets, Hudson s sales strategy focuses on both clients operating in particular industry sectors, such as financial services, or technology, and candidates possessing particular professional skills, such as accounting and finance, information technology, legal and human resources. Hudson uses both traditional and interactive methods to select potential candidates for its clients, employing a suite of products that assesses talent and helps predict whether a candidate will be successful in a given role.

All of the Hudson regional businesses also provide organizational effectiveness and development services through their Talent Management Solutions units. These services encompass candidate assessment, competency modeling, leadership development, performance management, and career transition. These services enable Hudson to offer clients a comprehensive set of management services, across the entire employment life cycle, from attracting, assessing and selecting best-fit employees to engaging and developing those individuals to help build a high-performance organization.

**Discontinued Operations**

The Company has designated certain of its operations as discontinued operations in the accompanying financial statements, as further discussed in Note 4.

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**2. RESTATEMENT OF RESULTS AND ADOPTION OF SAB 108**

**Restatement for Balance Consideration Paid to Shareholders of Balance Ervaring Op Projectbasis B.V.**

The Company has restated its Consolidated Financial Statements as of and for the year ended December 31, 2006 and its quarterly results of operations for the three months ended September 30, 2006 and December 31, 2006. In addition, the Company has restated its quarterly results of operations for the three months ended March 31, 2007, June 30, 2007 and September 30, 2007. The restatement involved the timing of recording contingent payments related to the acquisition of Balance Ervaring Op Projectbasis B.V. ( Balance ) and to expense a portion of the contingent payments, including $1,687 ( 1,300) that was previously recorded as goodwill when the amount was paid in the second quarter of 2007.

The following is a description of the accounting adjustments included in the restatement of the Company s Consolidated Financial Statements and the effect of such adjustments at December 31, 2006 on the Consolidated Balance Sheet and on the Consolidated Statement of Operations and Change in Stockholders Equity for the year then ended and on the unaudited selected quarterly financial data for the three months ended September 30, 2006, December 31, 2006, March 31, 2007, June 30, 2007 and September 30, 2007. All amounts included in this report as of and for the years ended December 31, 2005 and for the three months ended March 31, 2006 and June 30, 2006 were not affected by the restatement.

This restatement resulted in an increase in the Company s and the Hudson Europe segment s reported operating expenses and related impact on EBITDA (see Note 19), operating income (loss), income (loss) from continuing operations and net income (loss) for each of the periods as follows:

| | |
|---|---|
| Three months ended September 30, 2006 | $829 ($0.03 per basic and diluted share) |
| Three months ended December 31, 2006 | $858 ($0.03 per basic and diluted share) |
| Year ended December 31, 2006 | $1,687 ($0.07 per basic and diluted share) |
| Three months ended March 31, 2007 | $298 ($0.01 per basic and diluted share) |
| Three months ended June 30, 2007 | $302 ($0.01 per basic and diluted share) |
| Three months ended September 30, 2007 | $311 ($0.01 per basic and diluted share) |

The restatement also resulted in an increase in goodwill and accrued expenses as of December 31, 2006 of $1,313 and $3,019, respectively.

The restatement did not affect the Company s cash flows for any of the periods.

The Company entered into a share purchase agreement dated July 19, 2005 for the acquisition of Balance. The purchase price for Balance was 20,750 plus a series of contingent payments to be made annually based upon future minimum annual earnings thresholds during the first three years subsequent to the purchase. On July 12, 2006, the Company entered into an amendment to the share purchase agreement, which changed the earn-out formula to increase the potential future maximum contingent payments related to calendar 2006 from 1,000 to 2,300 and in calendar 2007 from 2,250 to 3,500. The Company recorded the contingent payment for calendar 2006, including the increased maximum earn-out, when paid in April 2007 as an adjustment of the purchase price and added the amount to the recorded value of goodwill. The Company has evaluated the amendment and has determined that this amendment would be considered a new agreement, separate from the original share purchase agreement, outside of the guidance of Statement of Financial Accounting Standards ( SFAS ) 141, Business Combinations. Accordingly, the amount paid in excess of the original maximum contingent payment would not be considered additional purchase price under the contingent consideration provisions of SFAS 141. Instead it should be recorded as expense in the period in which the amount is estimable and becomes probable of being paid under the guidance of SFAS 5, Accounting for Contingencies, also considering the interim accounting guidance provided under Accounting Principles Board Opinion No. 28, Interim Financial Reporting. Accordingly, the Company accrued $1,687 ( 1,300) that it previously recorded as goodwill when paid in April 2007 as an expense in the third and fourth quarters of 2006 and accrued the

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remaining contingent payment related to calendar 2006 of approximately $1,313 (   1,000) as goodwill as of December 31, 2006. In addition, the Company recorded a total of approximately $911 as a period expense over the first, second and third quarters of 2007 related to the increased maximum contingent payment amount for calendar 2007 to be paid in April 2008.

The following table presents the effect of the restatement on the previously reported Consolidated Condensed Statement of Operations for the three months ended September 30, 2006 (dollars in thousands)   (unaudited):

| | Three months ended September 30, 2006 | | |
|---|---|---|---|
| | **As reported (a)** | **Adjustment** | **Restated** |
| Revenue | $ 299,517 | $ | $ 299,517 |
| Direct costs | 181,190 | | 181,190 |
| Gross margin | 118,327 | | 118,327 |
| Selling, general and administrative expenses | 109,364 | | 109,364 |
| Acquisition-related expenses | | 829 | 829 |
| Depreciation and amortization | 3,732 | | 3,732 |
| Business reorganization expenses | 2,062 | | 2,062 |
| Merger and integration expenses | 14 | | 14 |
| Operating income | 3,155 | (829) | 2,326 |
| Other income (expense) | | | |
| Other, net | 727 | | 727 |
| Interest, net | (662) | | (662) |
| Income from continuing operations before income taxes | 3,220 | (829) | 2,391 |
| Income taxes | 1,994 | | 1,994 |
| Income from continuing operations | 1,226 | (829) | 397 |
| Income from discontinued operations | 3,100 | | 3,100 |
| Net income | $ 4,326 | $ (829) | $ 3,497 |
| Basic income per share: | | | |
| Income from continuing operations | $ 0.05 | | $ 0.02 |
| Income from discontinued operations | 0.13 | | 0.13 |
| Net income | $ 0.18 | | $ 0.15 |
| Diluted income per share: | | | |
| Income from continuing operations | $ 0.05 | | $ 0.02 |
| Income from discontinued operations | 0.12 | | 0.12 |
| Net income | $ 0.17 | | $ 0.14 |

(a) The   As Reported   column reflects amounts previously reported adjusted for discontinued operations (see Note 4).

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The following table presents the effect of the restatement on the previously reported Consolidated Condensed Statement of Operations for the three months ended December 31, 2006 (dollars in thousands) (unaudited):

| | **Three months ended December 31, 2006** | | |
|---|---|---|---|
| | **As reported (a)** | **Adjustment** | **Restated** |
| Revenue | $ 286,421 | $ | $ 286,421 |
| Direct costs | 168,355 | | 168,355 |
| Gross margin | 118,066 | | 118,066 |
| Selling, general and administrative expenses | 106,289 | | 106,289 |
| Acquisition-related expenses | | 858 | 858 |
| Depreciation and amortization | 8,117 | | 8,117 |
| Business reorganization expenses | 3,297 | | 3,297 |
| Merger and integration expenses | 287 | | 287 |
| Operating income (loss) | 76 | (858) | (782) |
| Other income (expense): | | | |
| Interest, net | 173 | | 173 |
| Other, net | (223) | | (223) |
| Income (loss) from continuing operations before income taxes | 26 | (858) | (832) |
| Income taxes (benefit) | (2,011) | | (2,011) |
| Income from continuing operations | 2,037 | (858) | 1,179 |
| Income from discontinued operations | 21,666 | | 21,666 |
| Net income | $ 23,703 | $ (858) | $ 22,845 |
| Basic income per share: | | | |
| Income from continuing operations | $ 0.08 | | $ 0.05 |
| Income from discontinued operations | 0.88 | | 0.88 |
| Net income | $ 0.96 | | $ 0.93 |