HUDSON HIGHLAND GROUP INC
Form 10-K
March 15, 2006
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 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	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**

622 Third Avenue, New York, New York 10017

(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: None.

Securities Registered Pursuant to Section 12(g) of the Act: Common Stock, $.001 par value per share

Preferred Share Purchase Rights

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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $325,648,000 as of June 30, 2005.

The number of shares of Common Stock, $.001 par value, outstanding as of March 1, 2006 was 24,385,000.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2006 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, retained executive search and talent management solutions providers. The Company provides professional staffing services on a permanent, contract and temporary basis, as well as executive search and a range of talent management services to businesses operating in many industries. We help our clients in recruiting employees for positions ranging from mid-level or professional candidates to senior executives. The Company reassessed its reportable segments in the fourth quarter of 2005 and prior period results are presented in conformity with the 2005 presentation. The Company is organized into four reportable segments, the three Hudson regional businesses of Hudson Americas, Hudson Europe and Hudson Asia Pacific, and Highland Partners (Highland). These groups constituted approximately 21%, 38%, 30% and 11% of the Company s gross margin, respectively, for the year ended December 31, 2005.

Hudson Regional Businesses. Hudson s three regions provide temporary and contract personnel 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 temporary 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, health care, 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 help 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. Through the Hudson Center for High Performance (the Center for High Performance), the Company also offers leadership solutions designed to assist senior management in enhancing the operating performance of their organizations.

Hudson Americas operates from 48 offices in two countries, with 96% of its 2005 gross margin generated in the United States. Hudson Europe operates from 48 offices in 17 countries, with 58% of its 2005 gross margin coming from the United Kingdom operations. Hudson Asia Pacific operates from 25 offices in 6 countries, with 65% of its 2005 gross margin stemming from Australia.

Highland. Highland, an executive search boutique with global reach, offers a comprehensive range of executive search services on a retained basis aimed exclusively at recruiting senior level executives. Highland also has a specialized practice that assists clients desiring to enhance their boards of directors.

Highland approaches the market through industry sectors, such as financial services, life sciences, retail and consumer products and technology. This industry sector sales approach is designed to enable Highland to better understand the strategic management issues and market conditions faced by clients within their specific business segments. Highland also recruits candidates through functional specialist groups, including those focused on boards of directors and senior officers in the finance, information technology, human resources and legal professions.

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Highland operates in 14 practice offices in four countries. For the year ended December 31, 2005, approximately 75% of gross margin in the Highland business was derived in North America.

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

The Company was historically the combination of 67 acquisitions (the Constituent Companies) made between 1999 and 2002, which became the eResourcing and Executive Search divisions (HH Group) 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 (the Distribution Date), Monster distributed all of the outstanding shares of the newly named HH Group to its stockholders of record on March 14, 2003 on a basis of one share of HH Group common stock for each thirteen and one-third shares of Monster common stock so held (the Distribution). Since the Distribution, the Company has operated as an independent publicly held company, adding one mid-sized and three smaller acquisitions, and reorganizing a number of smaller business units after determining that those businesses were not viable profit centers.

SALES AND MARKETING

Each of Hudson s regional business units maintains a sales force that is aligned along functional practice areas or industry sector groups as appropriate for the market. At the same time, these business development specialists receive incentives for cross-selling services with other practices and business units as the client need arises. In addition, each region has a designated international sales liaison who coordinates new business efforts with other geographies as opportunities arise for global recruitment and/or talent management needs from a client or prospect. Responsibility for sales and business development within Highland Partners rests with the senior executives of the division who possess senior-level relationships with clients and can leverage those relationships into new executive search assignments.

The company s global marketing and communications function is responsible for brand and marketing strategy, channel programs, public relations and corporate/employee communications. This team closely coordinates with the operational leadership and regional/practice/business unit marketing teams to support sales and build a strong brand reputation both in the 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 advertising for vacant positions; (2) public relations to promote 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 2005. At December 31, 2005, there were approximately 1,200 Hudson Americas clients, 5,500 Hudson Europe clients, 4,900 Hudson Asia Pacific clients and over 500 Highland 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 a great deal of fragmentation. Companies in this industry compete on price, new capabilities and technologies, client attraction methods, and speed of completing assignments.

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EMPLOYEES

The Company employs approximately 3,800 people worldwide. In most jurisdictions our employees are not represented by a labor union or a collective bargaining agreement. The Company regards the 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 16 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.hhgroup.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.

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.

Since our spin-off in 2003, we have had a history of negative cash flows and operating losses that may continue for at least the next year.

We have experienced negative cash flows and we have shown operating and net losses in the past. In 2005, we became modestly profitable. For the year ended December 31, 2005, we used cash in operating activities of $26.3 million and we recorded net income attributable to common stockholders of $5.3 million. We expect to continue to experience negative cash flows from operating activities for at least the next year. If our revenue grows more slowly than we anticipate or if operating expenses exceed our expectations, we may not be profitable in the next year.

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

We provide executive 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 executive search and 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

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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 continue in 2006, 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 credit facility. As of December 31, 2005, we had outstanding borrowings of $30.1 million and letters of credit issued and outstanding of $15.5 million under the credit facility. Available credit for use under the credit facility as of December 31, 2005 was $29.4 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 adjusted EBITDA. As a result, we cannot assure you 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 and repurchases of stock;
- restrictions on our ability to make additional borrowings, or to consolidate, merge or otherwise fundamentally change the ownership of the Company; and
- limitations on investments, dispositions of assets and guarantees of indebtedness.

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, as well as 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 foreign operations.

We conduct operations in over 20 foreign countries. For the years ended December 31, 2005, 2004 and 2003, approximately 66%, 70% and 71%, respectively, of our revenue was earned outside of the United States. The financial results of our company 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 foreign 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 foreign 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

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currency exchange rates for inclusion in our financial statements. In addition, we generally pay operating expenses in the corresponding local currency. We had no hedging or similar foreign currency contracts outstanding at December 31, 2005. 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.

We face risks associated with acquisitions.

From time to time, we make acquisitions. The success of these acquisitions is dependent upon our ability to integrate acquired personnel, operations, products and technologies into our organization effectively; and our ability to retain and motivate key personnel and to retain the clients of acquired firms. If we are not successful upon making an acquisition in the aspects of its integration into our operations, our financial results may be materially adversely affected.

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, 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, as well as 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 and temporary contracting and executive search markets. We cannot assure you 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 executive search industry. We cannot assure you 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.

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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 in the past primarily due to the vacation periods of the first quarter in the Australasia region and the third quarter in the US and Europe regions. Demands for our services are typically lower during vacation periods.

Our employees may depart with existing executive search clients.

The success of our executive search business depends upon the ability of employees to develop and maintain strong, long-term relationships with clients. Usually, one or two employees have primary responsibility for a client relationship. When an employee leaves an executive search firm and joins another, clients that have established relationships with the departing employee may move their business to the employee s new employer. The loss of one or more clients is more likely to occur if the departing employee enjoys widespread name recognition or has developed a reputation as a specialist in executing searches in a specific industry or management function. Historically, we have not experienced a significant number of departures of executive search partners. However, a failure to retain our most effective executive search partners or maintain the quality of service to which our clients are accustomed could have a material adverse effect on our business, financial condition and operating results. Also, the ability of a departing executive search partner to move business to his or her new employer could have a material adverse effect on our business, financial condition and operating results.

Competition for highly skilled professionals is intense, and we compete with professional staffing and executive search agencies for qualified professionals. We and many of our competitors have experienced turnover of qualified professionals. We believe that we have been able to attract and retain highly qualified, effective professionals as a result of our reputation and our performance-based compensation system. These professionals have the potential to earn substantial bonuses based on the amount of revenue they generate by obtaining or executing executive search and permanent placement assignments or assisting other professionals to obtain or complete executive search and permanent placement assignments.

Bonuses and commissions represent a significant proportion of these professionals total compensation. Any diminution of our reputation could impair our ability to retain existing or attract additional highly skilled professionals. Any inability to attract and retain highly skilled professionals could have a material adverse effect on our executive search business, financial condition and operating results.

We face restrictions imposed by blocking arrangements in Highland Partners.

Either by agreement with clients or for marketing or client relationship purposes, executive search firms frequently refrain, for a specified period of time, from recruiting certain employees of a client, and possibly other entities affiliated with such client, when conducting executive searches on behalf of other clients. This is known as a blocking or off-limits arrangement. Blocking arrangements generally remain in effect for one or two years following completion of an assignment. The actual duration and scope of any blocking arrangement, including whether it covers all operations of a client and its affiliates or only certain divisions of a client, generally depends on such factors as:

- the length of the client relationship;
- the frequency with which the executive search firm has been engaged to perform executive searches for the client; and
- the number of assignments the executive search firm has generated or expects to generate from the client.

Some of our executive search clients are recognized as industry leaders and/or employ a significant number of qualified executives who are potential candidates for other companies in that client s industry. Blocking

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arrangements with a client of this nature, or the awareness by a client s competitors of such an arrangement, may make it difficult for us to obtain executive search assignments from, or to fulfill executive search assignments for, competitors while employees of that client may not be solicited. As our client base grows, particularly in our targeted business sectors, blocking arrangements increasingly may impede our growth or ability to attract and serve new clients. This could have an adverse effect on our business, results of operations and financial condition.

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 torts or other 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 CEO. The loss of the services of Mr. Chait or one or more key employees could have a

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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 temporary staffing industry is heavily regulated. For example, governmental regulations can restrict the length of contracts of temporary employees and the industries in which temporary employees may be used. In some countries, special taxes, fees or costs are imposed in connection with the use of temporary workers. For example, temporary workers 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; 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 or our certificate of incorporation or by-laws; and

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

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 common stock of the Company 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 the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $.001 par value (Preferred Shares), of the Company at a price of $60 per one one-hundredth of a Preferred Share, subject to adjustment. These Rights may make the cost of acquiring the Company 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 622 Third Avenue, New York, New York, where we occupy space under a lease with Monster expiring in July 2015.

In the United States, Hudson Americas operates from 39 leased locations with space of approximately 197,000 square feet, Highland operates from six leased locations with space of approximately 45,000 square feet and there are seven leased locations with space of approximately 93,000 square feet, which are shared between the Hudson North America, Highland and corporate functions.

Outside the U.S., in the 20 additional countries in which the Company is located, Hudson Europe is the lessee of 42 locations with approximately 381,000 square feet, Hudson Asia Pacific is the lessee of 25 locations with approximately 296,000 square feet, Hudson Americas is a lessee of one location with approximately 10,000 square feet, Highland leases two locations with approximately 19,000 square feet, and Hudson and Highland share approximately 7,000 square feet in one location. 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. The Company owns three vacant buildings in India, with approximately 6,700 square feet, which the Company is currently offering for sale.

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 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 in this report.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information, as of February 24, 2006, regarding the executive officers of Hudson Highland Group, Inc.:

Name	Age	Title
Jon F. Chait	55	Chairman and Chief Executive Officer
Mary Jane Raymond	45	Executive Vice President and Chief Financial Officer
Margaretta R. Noonan	48	Executive Vice President and Chief Administrative Officer
Donald E. Bielinski	56	Senior Vice President, Chairman Asia Pacific Region and Chairman Hudson Talent Management
Richard S. Gray	49	Senior Vice President, Marketing and Communications
Richard A. Harris	47	Senior Vice President and Chief Information Officer
Neil J. Funk	54	Vice President, Internal Audit
Elaine A. Kloss	48	Vice President Finance and Treasurer
Ralph L. O Hara	61	Vice President and Global Controller
Latham Williams	53	Vice President, Legal Affairs and Administration, Corporate Secretary

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 of Hudson Highland Group since December 1, 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 2, 2005. Prior to that Ms. Noonan served as Executive Vice President, Human Resources since she joined the Company in January 2003. Prior to joining HH Group, 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 31, 2005. Prior to that, Mr. Bielinski 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 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 2, 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.

Richard A. Harris has served as Senior Vice President and Chief Information Officer since joining the Company in January 2003. Prior to that, Mr. Harris served as the Chief Information Officer of Spring Group, PLC, a U.K. based human capital management company, from March 2001 to December 2002. Prior to joining Spring Group, PLC, Mr. Harris was the interim Chief Information Officer at TRS Staffing Services, a U.K. subsidiary of Fluor Corporation specializing in the technical staffing business, from 1999 to 2000. Mr. Harris also served as Chief Information Officer between 1994 and 1998 at TAC Worldwide, an information technologies staffing company.

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 Hudson Highland Group, 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.

Ralph L. O Hara has served as Vice President and Global Controller since joining the Company in June of 2003. Prior to joining the Company, Mr. O Hara was Chief Financial Officer and Treasurer for The Domestic and Foreign Missionary Society, a major not-for-profit organization also known as the Episcopal Church of the United States, from 2001 until June of 2003. Before joining The Domestic and Foreign Missionary Society, Mr. O Hara was Controller for GATX Corporation, a specialized finance and leasing company, from 1986 until 2000.

Latham Williams has served as Vice President, Legal Affairs and Administration, Corporate Secretary since joining the Company in January 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 Brown and Wood, 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.

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 National Market under the symbol HHGP . On December 31, 2005, there were approximately 1,295 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	
2005	**High**	**Low**
Fourth quarter	$ 28.32	$ 17.28
Third quarter	$ 25.80	$ 15.36
Second quarter	$ 17.35	$ 13.21
First quarter	$ 17.84	$ 13.10
2004		
Fourth quarter	$ 15.00	$ 13.065
Third quarter	$ 15.89	$ 12.535
Second quarter	$ 16.205	$ 12.945
First quarter	$ 14.13	$ 10.995

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, 2005, the Company made no repurchases of its equity securities.

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ITEM 6. SELECTED FINANCIAL DATA

The following table shows selected financial data of the Company and 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 Company s consolidated financial statements prior to the Distribution reflect the historical financial position, results of operations and cash flows of the HH Group businesses transferred to the Company from Monster as part of the Distribution. The selected financial information included herein for periods prior to the Distribution may not necessarily be indicative of the future performance of the Company as an independent company. The consolidated financial data as of and for the two years ended December 31, 2002 and 2001 are derived from HH Group audited financial statements.

	Year ended December 31,				
	2005	2004	2003	2002	2001
	(dollars in thousands, except per share data)				
STATEMENT OF OPERATIONS:					
Revenue	$ 1,428,276	$ 1,256,354	$ 1,085,299	$ 1,065,439	$ 1,287,798
Direct costs	891,345	786,134	682,270	653,569	716,262
Gross margin	536,931	470,220	403,029	411,870	571,536
Salaries and related, office and general, and marketing and promotion	507,184	469,214	463,108	431,615	523,273
Business reorganization expenses	233	3,361	26,823	73,543	
Merger and integration expenses (recoveries)	(70)	736	2,663	5,373	43,177
Goodwill impairment charge			202,785		

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