

HUDSON HIGHLAND GROUP INC
Form 10-Q/A
November 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q/A
(AMENDMENT NO.1)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED **June 30, 2007**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _____ to _____

COMMISSION FILE NUMBER: 000-50129

HUDSON HIGHLAND GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

incorporation or organization)

560 Lexington Avenue, New York, New York 10022

59-3547281
(IRS Employer

Identification No.)

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(Address of principal executive offices) (Zip code)

(212) 351-7300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Class	Outstanding on
Common Stock	July 31, 2007 25,527,262

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EXPLANATORY NOTE

This amendment to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (Second Quarter Form 10-Q/A) reflects a restatement of the Consolidated Condensed Financial Statements of Hudson Highland Group, Inc. (the Company) as of and for the three and six month periods ended June 30, 2007. The Company has determined that, as a result of an agreement solely among the former shareholders of JMT Financial Partners, LLC (JMT), a portion of the earn out payments for the acquisition of JMT that three of the former JMT shareholders reallocated to the fourth former JMT shareholder is required to be accounted for as compensation expense by the Company. Accordingly, the Company is now recording approximately \$3.6 million as non cash compensation expense in the second quarter of 2007 with a corresponding increase in additional paid in capital. This restatement of the second quarter of 2007 will result in an increase of \$3.6 million in the Company s and the Hudson Americas segment s reported expenses and an equivalent reduction in EBITDA, operating income, income from continuing operations and net income (\$0.14 per basic and diluted share) for the three and six months ended June 30, 2007. The restatement does not affect the Company s cash flows for the period. There are no further earn-out payments for JMT. Further information on the effect of the restatement on the Company s Consolidated Condensed Financial Statements is discussed in Note 2 to the Consolidated Condensed Financial Statements included in Item 1 of Part I of this Second Quarter Form 10-Q/A.

This Second Quarter Form 10-Q/A is being filed for purposes of amending the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (Second Quarter Form 10-Q) of the Company, which was originally filed on August 2, 2007, and provides information about the financial results for the three and six month periods ended June 30, 2007 (as restated as described above) and 2006. The following items have been amended as a result of the restatement:

Part I - Item 1 - Consolidated Financial Statements (unaudited)

Part I - Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations

Part I - Item 4 - Controls and Procedures

The Company has supplemented Item 6 of Part II to include current certifications of the Company s chief executive officer and chief financial officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, filed as Exhibits 31.1, 31.2, 32.1 and 32.2 to this Second Quarter Form 10-Q/A.

The financial information that is included in this Second Quarter Form 10-Q/A has been corrected as part of the restatement described above. This restatement is only related to the three and six month periods ended June 30, 2007. All amounts included in this report as of and for the three and six month periods ended June 30, 2006 and as of December 31, 2006 are not affected by the restatement. No attempt has been made in this Form 10-Q/A to modify or update other disclosures presented in the original report on Form 10-Q except as required to reflect the effects of the restatement. Information in this Second Quarter Form 10-Q/A is generally stated as of June 30, 2007 and generally does not reflect any subsequent information or events other than the restatement.

As previously disclosed in the Company s Current Report on Form 8-K filed on November 9, 2007, the Company s Consolidated Condensed Financial Statements for the three and six month periods ended June 30, 2007 should no longer be relied upon.

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(in thousands, except share and per share amounts)

(unaudited)

	Three Months Ended		Six Months Ended	
	2007 (Restated)	June 30, 2006	2007 (Restated)	June 30, 2006
Revenue	\$ 348,861	\$ 352,084	\$ 686,760	\$ 679,368
Direct costs (Note 7)	211,258	223,458	423,277	440,061
Gross margin	137,603	128,626	263,483	239,307
Selling, general and administrative expenses	124,399	119,374	243,465	233,670
Compensation on JMT acquisition	3,551		3,551	
Depreciation and amortization	3,952	4,028	7,761	8,213
Business reorganization expenses	1,578	658	4,694	658
Merger and integration expenses (recoveries)	(42)	72	(42)	72
Operating income (loss)	4,165	4,494	4,054	(3,306)
Other income (expense):				
Other, net	(21)	128	2,579	1,059
Interest, net	435	(760)	657	(1,152)
Income (loss) before provision for income taxes	4,579	3,862	7,290	(3,399)
Provision for income taxes	4,637	2,586	7,014	4,026
Net income (loss) from continuing operations	(58)	1,276	276	(7,425)
Net income (loss) from discontinued operations	(258)	890	(239)	1,511
Net income (loss)	\$ (316)	\$ 2,166	\$ 37	\$ (5,914)
Earnings (loss) per share:				
Basic from continuing operations	\$	\$ 0.05	\$ 0.01	\$ (0.31)
Basic from discontinued operations	(0.01)	0.04	(0.01)	0.07
Basic	\$ (0.01)	\$ 0.09	\$ 0.00	\$ (0.24)
Diluted from continuing operations	\$	\$ 0.05	\$ 0.01	\$ (0.31)
Diluted from discontinued operations	(0.01)	0.04	(0.01)	0.07
Diluted	\$ (0.01)	\$ 0.09	\$ 0.00	\$ (0.24)

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Weighted average shares outstanding:				
Basic	25,247,000	24,414,000	25,084,000	24,318,000
Diluted	25,247,000	25,172,000	25,907,000	24,318,000

See accompanying notes to consolidated condensed financial statements.

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HUDSON HIGHLAND GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	June 30, 2007 (Restated)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,727	\$ 44,649
Accounts receivable, net	225,593	218,722
Prepaid and other	16,428	16,736
Total current assets	298,748	280,107
Intangibles, net	75,726	37,612
Property and equipment, net	28,730	28,105
Other assets	5,774	5,045
Total assets	\$ 408,978	\$ 350,869
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 31,981	\$ 24,075
Accrued expenses and other current liabilities	163,088	134,043
Short-term borrowings and current portion of long-term debt	321	238
Accrued business reorganization expenses	3,805	5,077
Accrued merger and integration expenses	384	837
Total current liabilities	199,579	164,270
Other non-current liabilities	17,643	8,204
Accrued business reorganization expenses, non-current	4,305	3,409
Accrued merger and integration expenses, non-current	1,380	1,721
Long-term debt, less current portion	100	235
Total liabilities	223,007	177,839
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 25,540,213 and 24,957,732 shares, respectively	26	25
Additional paid-in capital	440,386	427,645
Accumulated deficit	(301,844)	(298,344)
Accumulated other comprehensive income translation adjustments	47,684	43,934
Treasury stock, 18,431 and 15,798 shares, respectively	(281)	(230)
Total stockholders' equity	185,971	173,030

See accompanying notes to consolidated condensed financial statements.

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	Six Months Ended June 30,	
	2007	2006
	(Restated)	
Cash flows from operating activities:		
Net income (loss)	\$ 37	\$ (5,914)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,761	8,849
Stock-based compensation	2,808	3,442
Gain on sale of assets	(3,241)	
(Recovery of) provision for doubtful accounts	(292)	1,939
Deferred income taxes	(559)	(887)
Compensation on JMT acquisition	3,551	
Changes in assets and liabilities:		
Increase in accounts receivable	(1,068)	(8,413)
Decrease in prepaid and other assets	616	3,330
Increase in accounts payable, accrued expenses and other liabilities	9,011	2,347
Decrease in accrued business reorganization expenses	(762)	(1,565)
Decrease in accrued merger and integration expenses	(816)	(772)
Total adjustments	17,009	8,270
Net cash provided by operating activities	17,046	2,356
Cash flows from investing activities:		
Capital expenditures	(6,360)	(3,099)
Proceeds from sale of assets	3,393	
Acquisition and investment in businesses, net of cash acquired	(7,569)	(7,231)
Net cash used in investing activities	(10,536)	(10,330)
Cash flows from financing activities:		
Borrowings under credit facility	233,832	279,373
Repayments under credit facility	(233,832)	(274,292)
Issuance of common stock Employee Stock Purchase Plan	1,132	1,318
Issuance of common stock Long Term Incentive Plan option exercises	3,143	570
Purchase of restricted stock from employees	(51)	
Payments on short and long-term debt	(73)	(1,186)
Net cash provided by financing activities	4,151	5,783