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

Form 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 7, 2006

Hudson Highland Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

000-50129	**59-3547281**
(Commission File Number)	**(IRS Employer Identification No.)**

622 Third Avenue
New York, NY 10016
(Address of Principal Executive Offices)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (16 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (16 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (16 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (16 CFR 240.13e-4(c)

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On August 7, 2006, Hudson Highland Group, Inc. issued a press release announcing its financial results for the quarter and six months ended June 30, 2006. A copy of such press release is furnished as Exhibit 99.1 to this Current Report.

Also on August 7, 2006, Hudson Highland Group, Inc. posted on its web site a Letter to Shareholders, Employees and Friends, which discusses results for the quarter and six months ended June 30, 2006. A copy of such letter is furnished as Exhibit 99.2 to this Current Report.

ITEM 2.05. COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES.

On August 7, 2006, the Board of Directors of Hudson Highland Group, Inc. (the “Company”) approved a plan to exit certain business activities. It is estimated that the pre-tax cost of the program will be between $4 million to $7 million for the year ended December 31, 2006. The plan includes costs for actions to consolidate support functions, particularly between North America and corporate, closing or reducing redundant sales functions and unprofitable offices ($2 million to $5 million) and moves to vacate certain leased facilities to more economical properties ($2 million). These actions are being undertaken to reduce costs and increase sustainable, long-term profitability of the Company. The future cash expenditures for the actions described above are anticipated to be paid out over the following six to twelve months and are equal to the estimated costs, as none of the actions anticipates asset disposals. During the three months ended June 30, 2006 the Company recognized expenses of $714,000 related to severance actions taken in conjunction with this program, which the Company considers to be immaterial.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

a. Financial Statements.

None.

b. Pro Forma Financial Information.

None.

c. Shell Company Transactions

None.

d. Exhibits

99.1 Press Release of Hudson Highland Group, Inc. issued on August 7, 2006.

99.2 Letter to Shareholders, Employees and Friends issued on August 7, 2006 and posted to Company’s web site.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

HUDSON HIGHLAND GROUP, INC.(Registrant)

By: /s/ Mary Jane Raymond

Mary Jane Raymond
Executive Vice President and Chief Financial Officer

Dated: August 8, 2006

Hudson Highland Group, Inc.
Current Report on Form 8-K

Exhibit Index

Exhibit Number	Description
99.1	Press Release of Hudson Highland Group, Inc. issued on August 7, 2006.
99.2	Letter to Shareholders, Employees and Friends issued on August 7, 2006 and posted to Company’s web site.

Exhibit 99.1

HUDSON HIGHLAND GROUP

For Immediate Release

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Hudson Highland Group Reports
2006 Second Quarter and Six Month Financial Results
Company Announces $4 - $7 million 2006 Restructuring Program

NEW YORK, NY – August 7, 2006 – Hudson Highland Group, Inc. (NASDAQ: HHGP), one of the world's leading providers of specialized professional staffing, retained executive search and talent management solutions, today announced financial results for the second quarter and six months ended June 30, 2006.

2006 Second Quarter Summary

- Revenue of $365.5 million, essentially flat with $364.8 million for the second quarter of 2005
- Gross margin of $141.0 million, or 38.6 percent of revenue, down slightly from $141.2 million, or 38.7 percent of revenue, for the same year-ago period
- Adjusted EBITDA of $9.3 million, or 2.6 percent of revenue, down slightly from $9.4 million, or 2.6 percent of revenue, for the second quarter of 2005
- EBITDA of $8.5 million, or 2.3 percent of revenue, down from $9.6 million, or 2.6 percent of revenue, for the second quarter of 2005
- Net income of $0.6 million, or $0.02 per basic and diluted share, compared with a net income of $3.0 million, or $0.15 per basic share and $0.14 per diluted share for the same period last year

"We achieved solid results in Europe, Asia Pacific, and the Highland Partners executive search business, and began seeing signs of stabilization in our North America staffing operation," said Jon Chait, chairman and chief executive officer of Hudson Highland Group.

2006 Six Month Results

For the first six months of 2006, Hudson Highland Group reported revenue of $708.5 million, down 1.3 percent from $717.7 million for the first half of last year. Net loss was $7.5 million, or $0.31 per basic and diluted share compared with a net loss of $2.1 million, or $0.10 per basic and diluted share, for the same six-month period last year.

2006 Restructuring Program

The company also announced today a restructuring program designed to reduce costs and increase the sustainable, long-term profitability of the company. The company expects to record a charge of between $4 million to $7 million in 2006, of which $0.7 million was incurred in the second quarter of 2006. The actions taken fall into several categories: (1) consolidation of support functions, particularly between North America and corporate; (2) closing or reducing redundant sales functions and unprofitable offices; and (3) moves to more economical properties.

"We expect our restructuring plan to help allow us to reduce expenses and tighten our focus," said Mary Jane Raymond, executive vice president and chief financial officer. "As North America recovers, we believe we are well positioned for strong operating leverage."

Restatement of First Quarter 2006 Financial Statements

As discussed in its first quarter earnings call, the company undertook a comprehensive review of the accounting processes supported by the new PeopleSoft accounting and management reporting system the company implemented last year in its Hudson North America business unit. The company believes this review has been comprehensive and that it has identified the full extent of the differences existing in the accounts as of the end of the second quarter of 2006 that may be material. As a result, the company identified accounting errors in Hudson North America and has restated results of the first quarter 2006 to reflect net charges of $2.2 million, and has included net charges of $1.6 million in its results for the second quarter of 2006. The second quarter charge includes a $0.7 million adjustment to revenue attributable to 2005 results, which is considered immaterial to that year, and a $0.9 million adjustment to receivables, for which the applicable period cannot practicably be determined. Earlier today, the company filed an amended Form 10-Q for the quarter ended March 31, 2006, reflecting the restatement.

Guidance

The company currently expects third quarter revenue of $355 - - $370 million at prevailing exchange rates, and EBITDA of $7.5 - $8.5 million, including $2 million of restructuring charges, compared to revenue of $357 million and EBITDA of $7.5 million in the third quarter of 2005.

The company has revised its guidance formulation to bring it in line with the quarterly industry standard.

Conference Call / Webcast

Hudson Highland Group will conduct a conference call Tuesday, August 8, 2006 at 9:00 AM ET to discuss this announcement. Investors wishing to participate can join the conference call by dialing 1-800-374-1532 followed by the participant passcode 3401282 at 8:50 AM ET. For those outside the United States, please call in on 1-706-634-5594 followed by the participant passcode 3401282. Hudson Highland Group's quarterly conference call can also be accessed online through Yahoo! Finance at www.yahoo.com and the investor information section of the company's website at www.hhgroup.com.

Additional Information

Please find additional information about the company's quarterly results in our shareholder letter in the investor information section of the company's website at www.hhgroup.com.

Hudson Highland Group

Hudson Highland Group is one of the world's leading professional staffing, retained executive search and talent management solution providers. We help our clients achieve greater organizational performance by attracting, selecting and developing the best and brightest people for their businesses. Our approximately 3,800 employees in more than 20 countries are dedicated to providing unparalleled service and value to our clients. More information about Hudson Highland Group is available at www.hhgroup.com.

Safe Harbor Statement

This press release 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 press release, including those under the caption "Guidance" and other 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 these words and expressions are intended to identify forward-looking statements. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to, the impact of global economic fluctuations on temporary contracting operations; the cyclical nature of the company's executive search and mid-market professional staffing businesses; the company's ability to manage its growth; risks associated with expansion; risks and financial impact associated with disposition of non-strategic assets; the company's reliance on information systems and technology; competition; fluctuations in operating results; risks relating to foreign operations, including foreign currency fluctuations; dependence on highly skilled professionals and key management personnel; the impact of employees departing with existing executive search clients; risks maintaining professional reputation and brand name; restrictions imposed by blocking arrangements; exposure to employment-related claims, and limits on insurance coverage related thereto; government regulations; restrictions on the company's operating flexibility due to the terms of its credit facility; and the company's ability to implement remedial actions with respect to internal control weaknesses. Additional information concerning these and other factors is contained in the company's filings with the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this press release. The company assumes no obligation, and expressly disclaims any obligation, to review or confirm analysts' expectations or estimates or to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Financial Tables Follow

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005 (1)	2006	2005 (1)
Revenue	$ 365,478	$ 364,835	$ 708,536	$ 717,704
Direct costs	224,443	223,668	441,878	448,330
Gross margin	141,035	141,167	266,658	269,374
Operating expenses:				
Selling, general and administrative	131,696	131,759	259,647	257,672
Depreciation and amortization	4,341	4,626	8,849	9,483
Business reorganization expenses (recoveries)	592	(238)	595	291
Merger and integration expenses (recoveries)	279	8	279	(35)
Total operating expenses	136,908	136,155	269,370	267,411
Operating income (loss)	4,127	5,012	(2,712)	1,963
Other income (expense):				
Interest, net	(794)	(495)	(1,208)	(921)
Other, net	(240)	271	539	(5)
Income (loss) before provision for income taxes	3,093	4,788	(3,381)	1,037
Provision for income taxes	2,493	1,766	4,099	3,166
Net income (loss)	$ 600	$ 3,022	$ (7,480)	$ (2,129)
Income (loss) per share:				
Basic	$ 0.02	$ 0.15	$ (0.31)	$ (0.10)
Diluted	$ 0.02	$ 0.14	$ (0.31)	$ (0.10)
Weighted average shares outstanding				
Basic	24,414,000	20,642,000	24,318,000	20,574,000
Diluted	25,172,000	21,635,000	24,318,000	20,574,000

(1) Note- 2005 financial statements have been adjusted for the Company’s adoption of SFAS 123R using the modified retrospective method. (The comparable expenses for the three months ended June 30, 2006 and 2005 were $1,434 and $1,343, respectively, and for the six months ended June 30, 2006 and 2005 were $2,854 and $2,357, respectively.)

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

	June 30, 2006 (unaudited)	December 31, 2005 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,310	$ 34,108
Accounts receivable, net	241,125	232,081
Prepaid and other	11,104	14,330
Total current assets	284,539	280,519
Intangibles, net	37,208	31,100
Property and equipment, net	28,541	31,438
Other assets	4,767	5,359
Total assets	$ 355,055	$ 348,416
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 30,911	$ 24,718
Accrued expenses and other current liabilities	136,355	140,036
Credit facility and current portion of long-term debt	36,575	32,544
Accrued business reorganization expenses	3,844	4,223
Accrued merger and integration expenses	930	1,239
Total current liabilities	208,615	202,760
Other non-current liabilities	5,999	5,948
Accrued business reorganization expenses, non-current	3,262	4,095
Accrued merger and integration expenses, non-current	1,663	2,038
Long-term debt, less current portion	351	478
Total liabilities	219,890	215,319
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: 24,539,889 and 24,340,462 shares, respectively	24	24
Additional paid-in capital	423,851	416,448
Accumulated deficit	(325,436)	(317,956)
Accumulated other comprehensive income—translation adjustments	36,956	34,811
Treasury stock, 15,798 shares	(230)	(230)
Total stockholders' equity	135,165	133,097
	$ 355,055	$ 348,416

(1) Note- 2005 financial statements have been adjusted for the Company's adoption of SFAS 123R using the modified retrospective method.

HUDSON HIGHLAND GROUP, INC.
SEGMENT ANALYSIS
(in thousands)
(unaudited)

For the Three Months Ended June 30, 2006	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$117,580	$122,061	$110,877	$14,960	$ —	$365,478
Gross margin	$ 27,405	$ 56,225	$ 43,430	$13,975	$ —	$141,035
Adjusted EBITDA (1)	$ (2,982)	$ 7,972	$ 9,541	$ 1,653	$ (6,845)	$ 9,339
Business reorganization expenses (recoveries)	249	(57)	152	(65)	313	592
Merger and integration expenses	72	—	—	207	—	279
EBITDA (1)	(3,303)	8,029	9,389	1,511	(7,158)	8,468
Depreciation and amortization	1,314	1,776	770	313	168	4,341
Operating income (loss)	$ (4,617)	$ 6,253	$ 8,619	$ 1,198	$ (7,326)	$ 4,127

For the Three Months Ended June 30, 2005 (2)	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$107,813	$124,657	$116,325	$16,040	$ —	$364,835
Gross margin	$ 27,575	$ 54,510	$ 43,848	$15,234	$ —	$141,167
Adjusted EBITDA (1)	$ 2,785	$ 5,615	$ 9,871	$ 494	$ (9,357)	$ 9,408
Business reorganization (recoveries)	(99)	—	—	(139)	—	(238)
Merger and integration expenses	8	—	—	—	—	8
EBITDA (1)	2,876	5,615	9,871	633	(9,357)	9,638
Depreciation and amortization	1,072	920	2,156	342	136	4,626
Operating income (loss)	$ 1,804	$ 4,695	$ 7,715	$ 291	$ (9,493)	$ 5,012

(1) Non-GAAP earnings before interest, income taxes, special charges, other non-operating expense, and depreciation and amortization ("Adjusted EBITDA") and non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization ("EBITDA") are presented to provide additional information 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 these measurements to evaluate capital needs and working capital requirements. Adjusted EBITDA and 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, adjusted EBITDA and EBITDA as presented above may not be comparable with similarly titled measures reported by other companies.

(2) Note- 2005 financial statements have been adjusted for the Company's adoption of SFAS 123R using the modified retrospective method.

HUDSON HIGHLAND GROUP, INC.
SEGMENT ANALYSIS
(in thousands)
(unaudited)

For the Six Months Ended June 30, 2006	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$228,184	$238,203	$211,415	$30,734	$ —	$708,536
Gross margin	$ 50,302	$107,190	$ 80,291	$28,875	$ —	$266,658
Adjusted EBITDA (1)	$ (8,958)	$ 13,522	$ 14,273	$ 2,941	$(14,767)	$ 7,011
Business reorganization expenses (recoveries)	249	(57)	152	(62)	313	595
Merger and integration expenses	72	—	—	207	—	279
EBITDA (1)	(9,279)	13,579	14,121	2,796	(15,080)	6,137
Depreciation and amortization	2,819	3,515	1,546	636	333	8,849
Operating income (loss)	$ (12,098)	$ 10,064	$ 12,575	$ 2,160	$(15,413)	$ (2,712)

For the Six Months Ended June 30, 2005 (2)	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$219,918	$247,056	$219,826	$30,904	$ —	$717,704
Gross margin	$ 55,149	$104,961	$ 79,964	$29,300	$ —	$269,374
Adjusted EBITDA (1)	$ 5,057	$ 8,716	$ 16,567	$ 869	$(19,507)	$ 11,702
Business reorganization expenses (recoveries)	510	(79)	—	(140)	—	291
Merger and integration (recoveries)	(35)	—	—	—	—	(35)
EBITDA (1)	4,582	8,795	16,567	1,009	(19,507)	11,446
Depreciation and amortization	2,048	1,898	4,573	696	268	9,483
Operating income (loss)	$ 2,534	$ 6,897	$ 11,994	$ 313	$(19,775)	$ 1,963

(1) Non-GAAP earnings before interest, income taxes, special charges, other non-operating expense, and depreciation and amortization ("Adjusted EBITDA") and non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization ("EBITDA") are presented to provide additional information 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 these measurements to evaluate capital needs and working capital requirements. Adjusted EBITDA and 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, adjusted EBITDA and EBITDA as presented above may not be comparable with similarly titled measures reported by other companies.

(2) Note- 2005 financial statements have been adjusted for the Company's adoption of SFAS 123R using the modified retrospective method.

HUDSON HIGHLAND GROUP

To: Shareholders, Employees and Friends
August 7, 2006

Hudson Highland Group 2006 Second Quarter Financial Results

Today we announced our results for the second quarter: Revenue of $365 million, gross margin of $141 million and adjusted EBITDA of $9.3 million, essentially even with prior year. EBITDA of $8.5 million, including $0.9 million of restructuring charges to be described below, was down from prior year EBITDA of $9.6 million. To provide some context for understanding our second quarter results and the outlook for our business, let us comment briefly on some recent events.

Recent Events

Restatement of Q1 2006

Last week, we announced the restatement of results for the first quarter of 2006 to correct accounting errors in Hudson North America. The restatement is the subject of a detailed press release and Form 8-K issued on August 3, 2006. In that release we announced that we would restate our financial statements for the period ended March 31, 2006. We filed the restated Form 10-Q earlier today. We will file our Form 10-Q for the quarter ended June 30, 2006 on August 9, 2006.

As previously discussed, we have had difficulties in using our new PeopleSoft financial reporting system in Hudson North America. The company has completed a comprehensive process to ensure all facets of the Hudson North America financial statements have been reviewed. In completing this process, we engaged a number of outside advisors, and had the benefit of cooperation from our independent auditors, BDO Seidman LLP, and counsel from our audit committee. Our staff has exerted extraordinary efforts to remedy this situation. As I mentioned previously, there has been no evidence of fraud or misconduct on the part of any employee. As also disclosed last week, a total of $1.6 million related to 2005 and undetermined periods was charged to the second quarter of 2006. These charges are included in the consolidated financial statements contained within this report.

Restructuring Charge

We are announcing today a restructuring program designed to reduce costs and increase sustainable, long-term profitability of the company. The company expects to record a charge of between $4 million to $7 million in 2006, of which $0.7 million was incurred in the second quarter of 2006. The actions taken fall into several categories: (1) consolidation of support functions, particularly between North America and corporate; (2) closing or reducing redundant sales functions and unprofitable offices; and (3) moves to more economical properties.

Changes in the North America Market

While the business stabilized in the second quarter, it remains below our expectations and aspirations. Tom Moran, president of North America, implemented a number of changes addressing leadership and cost management. In the last several weeks, key leadership changes have been announced, most recently at the practice group head level in both IT and Financial Solutions. Earlier today, we announced a new North America CIO. A new finance director had been previously appointed in Hudson North America, and a number of additional changes have been made in the accounting and finance function. These include the positions of controller and the manager of general ledger, as well as appointments to the newly-created leadership roles for customer operations (billing and collections) and audit. This set of changes is an important step in providing the right direction to improve the operations of North America. To address the expenses, actions have been taken to close unprofitable offices, eliminate a number of non-revenue producing positions and terminate underperforming personnel. We are confident that North America can be a very profitable market. We will monitor the results of the action plans and take further action should that be necessary.

Update on PeopleSoft

Regarding our work on the PeopleSoft system in Hudson North America, we have engaged Oracle, the parent of PeopleSoft, to perform this review. The work will be done in two phases. The first is a four-week assessment phase to determine the right steps to take to improve the effectiveness of the system. This will be accomplished at modest cost. Oracle has established a good process for this first phase, and it includes both our key operating personnel and Oracle's technical experts. They are about half way through this assessment. The second phase will implement the recommendations of the first phase. We believe this work will be beneficial to our operating efficiencies. We will continue to provide updates on this progress.

Consolidated Results

The company's reported results included essentially flat revenue, gross margin dollars, and adjusted EBITDA for the quarter against prior year. From an adjusted EBITDA standpoint, Hudson Europe and Highland Partners each reported improved results over prior year, Hudson Asia Pacific reported solid but essentially unchanged results compared to prior year, offset by a significant decline in Hudson Americas.

On a constant currency basis, revenue increased 2 percent while gross margin increased 1 percent. Gross margin percentage was 38.6 percent, about even with the second quarter of 2005. Temporary contracting gross margin was 17.4 percent compared to 17.8 percent in the year ago period. Adjusted EBITDA was $9.3 million compared with $9.4 million in 2005. Consolidated EBITDA was $8.5 million compared with $9.6 million in the second quarter of 2005. Consolidated net income in the quarter was $0.6 million, compared to $3.0 million in the second quarter of 2005. Basic and diluted earnings per share in the quarter were both $0.02, compared to $0.15 per basic share and $0.14 per diluted share in the year-ago period. As previously disclosed, these results include charges of $1.6 million related to 2005 and undetermined periods.

In 2006, the company adopted SFAS 123R, the expensing of stock options, using the modified retrospective method, and has adjusted its 2005 financial statements accordingly. Related expenses in the second quarter were $1.3 million, unchanged from the prior year period.

Regional Review

Hudson Americas

Revenue increased 9 percent, while gross margin dollars were flat compared to prior year. Permanent recruitment revenue and gross margin increased more than 60 percent or $3.4 million in the quarter. However, despite temporary contracting revenue growth of 7 percent, temporary contracting gross margin dollars were down 14 percent or $3.0 million compared to prior year. Sequentially from the first quarter of 2006, revenue was up 6 percent and gross margin was up 20 percent.

Turning to the practice groups, results in Legal were again strong this quarter, as revenue increased 38 percent. However, gross margin dollars increased 26 percent, as Legal margins remained under increased competitive pressure. In Engineering, revenue in the Energy unit increased 8 percent, but gross margin dollars declined 13 percent due to changes in the customer mix. In Financial Solutions, revenue increased 6 percent, with gross margin dollars increasing nearly the same at 5 percent. Temporary contracting margins in Financial Solutions remained strong at 31 percent, and overall margin was 38 percent. Revenue in the Aerospace & Defense unit was flat as was gross margin. The IT practice group remains our biggest challenge. Revenue declined 15 percent compared to prior year and gross margin declined 25 percent. These results were driven by declines in contractors on billing, 5 percent sequentially from the first quarter of 2006, and 15 percent to prior year. Notwithstanding the sequential decline in contractors on billing, we believe that the business bottomed out during the second quarter and stabilized at the end of the second quarter.

Demand for permanent recruitment remained strong in the second quarter. Permanent recruitment revenue was up more than 60 percent over prior year and represented approximately 30 percent of gross margin in Hudson Americas in the quarter. Legal and Management Search, our middle management permanent recruitment group, had the largest increases over prior year, with smaller growth in Financial Solutions, IT, Engineering, Aerospace and Defense, and Energy.

SG&A costs increased $6.0 million in the second quarter compared to prior year. The principle factors were $2.5 million in compensation and market-related costs due to higher revenue, $1.7 million associated with Peoplesoft stabilization and back-office process reengineering, and $1 million in client and product development in the Financial Solutions practice.

Hudson Americas EBITDA also included costs of about $3 million, including the $1.6 million of charges discussed in our recent Form 8-K and other estimate revisions, which we do not expect to repeat quarterly. As a result, Hudson Americas reported a loss of $3.3 million in EBITDA in the quarter, versus a profit of $2.9 million in the second quarter of 2005.

Hudson Europe

Hudson Europe revenue decreased 2 percent in the second quarter, gross margin increased 3 percent and EBITDA increased 43 percent. In constant currency, revenue declined 1 percent while gross margin rose 4 percent.

Gross margin growth was driven by continuing strong trends in permanent recruitment in continental Europe, and the contribution of the Balance acquisition. Temporary contracting margin improved to 19.2 percent from 14.7 percent due to higher gross margins from the Balance acquisition, completed in August of last year, and an improvement in the UK temporary margin to 16.7 percent from 14.5 percent as our operation continues to focus on expanding in high margin practices. On a year-over-year basis, results in the region were again impacted by a significant gross margin decline in the Dutch reintegration business due to a change in the relevant laws governing this business since last year, although results stabilized compared to the first quarter of 2006.

Hudson Europe achieved $8.0 million in EBITDA in the second quarter compared to $5.6 million in the same quarter last year, continuing the trends from first quarter and prior year. The group achieved an EBITDA of 6.6 percent of revenue compared to 4.5 percent in the second quarter last year. Key EBITDA contributors included the UK, the Netherlands-based Balance, Belgium, France, and Spain.

Hudson Asia Pacific

Hudson Asia Pacific revenue declined 5 percent while gross margin declined by 1 percent in the second quarter of 2006. In constant currency, revenue decreased by less than 1 percent and gross margin increased 3 percent. Revenue in Australia in the second quarter was essentially flat compared to prior year, though gross margin dollars increased principally due to an increase in permanent recruitment fees. Revenue, particularly permanent recruitment fees and gross margins, declined in New Zealand as economic conditions softened. Revenue and gross margin dollars increased modestly in Asia. The temporary contracting gross margin in the region was down slightly against the second quarter of 2005, to 16.0 percent from 16.2 percent.

Hudson Asia Pacific earned $9.4 million in EBITDA, or 8.5 percent of revenue, compared to $9.9 million a year ago, also 8.5 percent of revenue. On lower gross margin, the region returned the same EBITDA margin as in the year ago period, which represents significant progress after some mixed economic conditions in recent quarters, and in the face of continuing economic challenges in New Zealand.

While softer business conditions in New Zealand are expected to remain, the company is encouraged by the progress in the region after difficult conditions in recent quarters, and remains cautiously optimistic regarding its outlook for the rest of the year.

Highland Partners

At Highland Partners, revenue was down 6 percent in the second quarter, while EBITDA reached $1.5 million or 10.0 percent of revenue, up from $0.6 million or 3.9 percent of revenue in the year ago period, primarily due to better results in Asia Pacific. Costs were unusually high a year ago when the company split off part of its Australian operation as an independent brand licensee, which has since been terminated by mutual consent.

Corporate

Corporate expenses were lower in the second quarter of 2006 when compared to prior year, on improved expense management and lower project costs.

Guidance

The company currently expects third quarter revenue of $355 - $370 million at prevailing exchange rates, and EBITDA of $7.5 - $8.5 million, including $2 million of restructuring charges, compared to revenue of $357 million and EBITDA of $7.5 million in the third quarter of 2005.

The company has revised its guidance formulation to bring it in line with the quarterly industry standard.

Safe Harbor Statement

This press release 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 press release, including those under the caption “Guidance” and other 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 these words and expressions are intended to identify forward-looking statements. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to, the impact of global economic fluctuations on temporary contracting operations; the cyclical nature of the company’s executive search and mid-market professional staffing businesses; the company’s ability to manage its growth; risks associated with expansion; risks and financial impact associated with disposition of non-strategic assets; the company’s reliance on information systems and technology; competition; fluctuations in operating results; risks relating to foreign operations, including foreign currency fluctuations; dependence on highly skilled professionals and key management personnel; the impact of employees departing with existing executive search clients; risks maintaining professional reputation and brand name; restrictions imposed by blocking arrangements; exposure to employment-related claims, and limits on insurance coverage related thereto; government regulations; restrictions on the company’s operating flexibility due to the terms of its credit facility; and the company’s ability to implement remedial actions with respect to internal control weaknesses. Additional information concerning these and other factors is contained in the company’s filings with the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this press release. The company assumes no obligation, and expressly disclaims any obligation, to review or confirm analysts’ expectations or estimates or to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Financial Tables Follow

HUDSON HIGHLAND GROUP, INC.
SEGMENT ANALYSIS
(in thousands)
(unaudited)

For the Three Months Ended June 30, 2006	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$117,580	$122,061	$110,877	$14,960	$ —	$365,478
Gross margin	$ 27,405	$ 56,225	$ 43,430	$13,975	$ —	$141,035
Adjusted EBITDA (1)	$ (2,982)	$ 7,972	$ 9,541	$ 1,653	$ (6,845)	$ 9,339
Business reorganization expenses (recoveries)	249	(57)	152	(65)	313	592
Merger and integration expenses	72	—	—	207	—	279
EBITDA (1)	(3,303)	8,029	9,389	1,511	(7,158)	8,468
Depreciation and amortization	1,314	1,776	770	313	168	4,341
Operating income (loss)	$ (4,617)	$ 6,253	$ 8,619	$ 1,198	$ (7,326)	$ 4,127

For the Three Months Ended June 30, 2005 (2)	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$107,813	$124,657	$116,325	$16,040	$ —	$364,835
Gross margin	$ 27,575	$ 54,510	$ 43,848	$15,234	$ —	$141,167
Adjusted EBITDA (1)	$ 2,785	$ 5,615	$ 9,871	$ 494	$ (9,357)	$ 9,408
Business reorganization (recoveries)	(99)	—	—	(139)	—	(238)
Merger and integration expenses	8	—	—	—	—	8
EBITDA (1)	2,876	5,615	9,871	633	(9,357)	9,638
Depreciation and amortization	1,072	920	2,156	342	136	4,626
Operating income (loss)	$ 1,804	$ 4,695	$ 7,715	$ 291	$ (9,493)	$ 5,012

(1) Non-GAAP earnings before interest, income taxes, special charges, other non-operating expense, and depreciation and amortization ("Adjusted EBITDA") and non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization ("EBITDA") are presented to provide additional information 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 these measurements to evaluate capital needs and working capital requirements. Adjusted EBITDA and 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, adjusted EBITDA and EBITDA as presented above may not be comparable with similarly titled measures reported by other companies.

(2) Note 2005 financial statements have been adjusted for the Company's adoption of SFAS 123R using the modified retrospective method.

HUDSON HIGHLAND GROUP, INC.
RECONCILIATION FOR CONSTANT CURRENCY
(in thousands)
(unaudited)

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 revenues, 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.

The company believes that these calculations are a useful measure, indicating the actual change in operations. Earnings from subsidiaries are rarely repatriated to the United States, and 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.

	Quarter Ended June 30,			
	2006			2005
	As Reported	Currency Translation	Constant Currency	As Reported
Revenue:				
Hudson Americas	$ 117,580	$ (114)	$117,466	$ 107,813
Hudson Europe	122,061	1,361	123,422	124,657
Hudson Asia Pacific	110,877	4,946	115,823	116,325
Highland	14,960	(35)	14,925	16,040
Total	365,478	6,158	371,636	364,835
Direct costs:				
Hudson Americas	90,175	190	90,365	80,238
Hudson Europe	65,836	830	66,666	70,147
Hudson Asia Pacific	67,447	3,294	70,741	72,477
Highland	985	(5)	980	806
Total	224,443	4,309	228,752	223,668
Gross margin:				
Hudson Americas	27,405	(304)	27,101	27,575
Hudson Europe	56,225	531	56,756	54,510
Hudson Asia Pacific	43,430	1,652	45,082	43,848
Highland	13,975	(30)	13,945	15,234
Total	$ 141,035	$ 1,849	$142,884	$ 141,167
Selling, general and administrative (a):				
Hudson Americas	$ 31,686	$ (249)	$ 31,437	$ 25,841
Hudson Europe	50,030	616	50,646	49,800
Hudson Asia Pacific	34,660	1,408	36,068	36,203
Highland	12,648	105	12,753	15,048
Corporate	7,013	—	7,013	9,493
Total	$ 136,037	$ 1,880	$137,917	$ 136,385

(a) Selling, general and administrative expenses include depreciation and amortization.