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

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**Form 8-K**

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**CURRENT REPORT**

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

**Date of Report (Date of earliest event reported): May 2, 2007**

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**Hudson Highland Group, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction  
of incorporation)

**000-50129**  
(Commission File Number)

**59-3547281**  
(IRS Employer  
Identification No.)

**560 Lexington Avenue**  
**New York, NY 10022**  
(Address of Principal Executive Offices)

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

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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))
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ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On May 2, 2007, Hudson Highland Group, Inc. issued a press release announcing its financial results for the quarter ended March 31, 2007. A copy of such press release is furnished as Exhibit 99.1 to this Current Report.

Also on May 2, 2007, Hudson Highland Group, Inc. posted on its web site a Letter to Shareholders, Employees and Friends, which discusses results for the quarter ended March 31, 2007. A copy of such letter is furnished as Exhibit 99.2 to this Current Report.

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 May 2, 2007.

99.2 Letter to Shareholders, Employees and Friends issued on May 2, 2007 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: May 2, 2007

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

Exhibit Index

<b>Exhibit Number</b>	<b>Description</b>
99.1	Press Release of Hudson Highland Group, Inc. issued on May 2, 2007.
99.2	Letter to Shareholders, Employees and Friends issued on May 2, 2007 and posted to Company's web site.

**For Immediate Release**

Contact: David F. Kirby  
Hudson Highland Group  
212-351-7216  
[david.kirby@hhgroup.com](mailto:david.kirby@hhgroup.com)

**Hudson Highland Group Reports 2007 First Quarter Financial Results**

NEW YORK, NY – May 2, 2007 – Hudson Highland Group, Inc. (Nasdaq: HHGP), one of the world's leading providers of permanent recruitment, contract professionals and talent management solutions, today announced financial results for the first quarter ended March 31, 2007.

**2007 First Quarter Summary**

- Revenue of \$337.9 million, an increase of 3.2 percent from \$327.3 million for the first quarter of 2006
- Gross margin of \$125.9 million, or 37.3 percent of revenue, up 13.7 percent from \$110.7 million, or 33.8 percent of revenue, for the same year-ago period
- Adjusted EBITDA of \$6.8 million, or 2.0 percent of revenue, up from an adjusted EBITDA loss of \$3.6 million for the first quarter of 2006
- EBITDA of \$3.7 million, or 1.1 percent of revenue, up from an EBITDA loss of \$3.6 million for the same period last year
- Net income of \$0.4 million, or \$0.01 per basic and diluted share, compared with a net loss of \$8.1 million, or (\$0.33) per basic and diluted share, for the first quarter of 2006

“Considering the first quarter is historically weaker given our seasonality and business mix, we achieved solid results,” said Jon Chait, chairman and chief executive officer. “Hudson Asia Pacific and Hudson Europe continued to build upon their strengthening performance. Further, our Hudson Americas business is steadier than a year ago, though we still have work ahead to re-ignite the growth of our core markets within that region.”

“With the completion of our restructuring program this quarter, our financial strength continues to build and we believe we are well positioned for increased operating leverage,” said Mary Jane Raymond, executive vice president and chief financial officer.

## **Guidance**

The company currently expects second quarter 2007 revenue of \$355 - \$370 million at prevailing exchange rates and EBITDA of \$12.5 - \$13.5 million. This compares with revenue of \$352 million and EBITDA of \$8.5 million in the second quarter of 2006.

## **Conference Call/Webcast**

Hudson Highland Group will conduct a conference call Thursday, May 3, 2007 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 5699225 at 8:50 AM ET. For those outside the United States, please call in on 1-706-634-5594 followed by the participant passcode 5699225. Hudson Highland Group's quarterly conference call can also be accessed online through Yahoo! Finance at [www.yahoo.com](http://www.yahoo.com) and the investor information section of the company's website at [www.hhgroup.com](http://www.hhgroup.com).

## **About Hudson Highland Group**

Hudson Highland Group, Inc. is a leading provider of permanent recruitment, contract professionals and talent management services worldwide. From single placements to total outsourced solutions, Hudson helps clients achieve greater organizational performance by assessing, recruiting, developing and engaging the best and brightest people for their businesses. The company employs more than 3,600 professionals serving clients and candidates in more than 20 countries. More information is available at [www.hhgroup.com](http://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 company's history of negative cash flows and operating losses may continue, the ability of clients to terminate their relationship with the company at any time, the impact of global economic fluctuations on temporary contracting operations; risks and financial impact associated with acquisitions and dispositions 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; 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. 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 March 31,	
	2007	2006 (1)
Revenue	\$ 337,899	\$ 327,284
Direct costs	212,019	216,603
Gross margin	125,880	110,681
Operating expenses:		
Selling, general and administrative	119,066	114,296
Depreciation and amortization	3,809	4,185
Business reorganization expenses	3,116	—
Total operating expenses	125,991	118,481
Operating loss	(111)	(7,800)
Other income (expense):		
Interest, net	222	(392)
Other, net	2,600	931
Income (loss) from continuing operations before income taxes	2,711	(7,261)
Provision for income taxes	2,377	1,440
Income (loss) from continuing operations	334	(8,701)
Income from discontinued operations, net of income taxes	19	621
Net income (loss)	\$ 353	\$ (8,080)
<b>Basic income (loss) per share:</b>		
Income (loss) from continuing operations	\$ 0.01	\$ (0.36)
Income from discontinued operations	0.00	0.03
Net income (loss)	\$ 0.01	\$ (0.33)
<b>Diluted income (loss) per share:</b>		
Income (loss) from continuing operations	\$ 0.01	\$ (0.36)
Income from discontinued operations	0.00	0.03
Net income (loss)	\$ 0.01	\$ (0.33)
Weighted average shares outstanding		
Basic	24,919,000	24,224,000
Diluted	25,661,000	24,224,000

(1) 2006 financial statements have been adjusted to reflect the Highland Partners segment as a discontinued operation. The sale of Highland Partners was completed effective on October 1, 2006.

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

	March 31, 2007 (unaudited)	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 47,009	\$ 44,649
Accounts receivable, net	228,984	218,722
Prepaid and other	16,980	16,736
Total current assets	292,973	280,107
Intangibles, net	36,749	37,612
Property and equipment, net	27,985	28,105
Other assets	5,997	5,045
Total assets	\$ 363,704	\$ 350,869
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 31,875	\$ 24,075
Accrued expenses and other current liabilities	131,557	134,043
Short-term borrowings and current portion of long-term debt	5,129	238
Accrued business reorganization expenses	5,524	5,077
Accrued merger and integration expenses	634	837
Total current liabilities	174,719	164,270
Other non-current liabilities	7,650	8,204
Accrued business reorganization expenses, non-current	4,710	3,409
Accrued merger and integration expenses, non-current	1,418	1,721
Long-term debt, less current portion	170	235
Total liabilities	188,667	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: 25,221,955 and 24,957,732 shares, respectively	25	25
Additional paid-in capital	431,996	427,645
Accumulated deficit	(301,528)	(298,344)
Accumulated other comprehensive income—translation adjustments	44,774	43,934
Treasury stock, 15,798 shares	(230)	(230)
Total stockholders' equity	175,037	173,030
	<u>\$ 363,704</u>	<u>\$ 350,869</u>



HUDSON HIGHLAND GROUP, INC.

SEGMENT ANALYSIS

(in thousands)

(unaudited)

For the Three Months Ended March 31, 2007	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Corporate	Total
Revenue	\$ 112,804	\$ 122,008	\$ 103,087	\$ —	\$ 337,899
Gross margin	\$ 27,070	\$ 59,023	\$ 39,787	\$ —	\$ 125,880
Adjusted EBITDA (2)	\$ (131)	\$ 7,247	\$ 5,948	\$ (6,250)	\$ 6,814
Business reorganization expenses	729	2,447	14	(74)	3,116
EBITDA (2)	(860)	4,800	5,934	(6,176)	3,698
Depreciation and amortization	1,149	1,653	892	115	3,809
Operating income (loss)	\$ (2,009)	\$ 3,147	\$ 5,042	\$ (6,291)	\$ (111)
For the Three Months Ended March 31, 2006 (1)	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Corporate	Total
Revenue	\$ 110,605	\$ 116,141	\$ 100,538	\$ —	\$ 327,284
Gross margin	\$ 22,855	\$ 50,965	\$ 36,861	\$ —	\$ 110,681
Adjusted EBITDA (2)	\$ (5,975)	\$ 5,550	\$ 4,732	\$ (7,922)	\$ (3,615)
EBITDA (2)	(5,975)	\$ 5,550	\$ 4,732	\$ (7,922)	\$ (3,615)
Depreciation and amortization	1,506	1,739	775	165	4,185
Operating income (loss)	\$ (7,481)	\$ 3,811	\$ 3,957	\$ (8,087)	\$ (7,800)

(1) 2006 financial statements have been adjusted to reflect the Highland Partners segment as a discontinued operation. The sale of Highland Partners was completed effective on October 1, 2006.

(2) 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.



**To: Shareholders, Employees and Friends**

May 2, 2007

**Hudson Highland Group 2007 First Quarter Financial Results**

**Consolidated Results**

Historically, the first quarter of the year is the slowest period in the recruitment industry due to several seasonal factors, including the New Year's holiday, lower first quarter permanent hiring following a typical surge in the fourth quarter and, particular to our company, summer vacations in the southern hemisphere.

While the company's business did follow this seasonal pattern relative to recent quarters, first quarter 2007 results represented the highest first quarter adjusted EBITDA and EBITDA performance since the company's inception. Following strong results in the second half of 2006, the company continued to deliver on its recent solid momentum, while managing operational leadership changes in each of its three core regions during the quarter.

Hudson Europe and Hudson Asia Pacific achieved strong adjusted EBITDA growth against the prior year period. These results were driven by favorable economic conditions that fostered strong demand in Europe and a solid performance in Asia Pacific. Hudson Americas delivered a near-breakeven adjusted EBITDA quarter – a significant improvement from the prior year period – though further work is necessary to re-ignite growth in the core markets of that business unit.

First quarter 2007 revenue increased 3 percent while gross margin increased 14 percent compared with the first quarter of 2006. As a reminder, reported 2007 results exclude contributions from the Scottish Industrial and UK Office Support businesses, both which were divested but are included in our prior year results. In the first quarter of 2006, these businesses earned revenue of \$5.7 million and gross margin of \$1.3 million.

On a constant currency basis, revenue decreased 2 percent while gross margin increased 7 percent compared with the first quarter of 2006. Gross margin percentage was 37.3 percent, up from 33.8 percent a year ago. Temporary contracting gross margin was 18.3 percent, up from 17.1 percent a year ago. Adjusted EBITDA was \$6.8 million compared with a loss of (\$3.6) million in the first quarter of 2006. Adjusted EBITDA as a percent of revenue reached 2.0 percent in the quarter, up from negative (1.1) percent a year ago. Consolidated EBITDA was \$3.7 million compared with a loss of (\$3.6) million in the first quarter of 2006.

Consolidated net income was \$0.4 million in the quarter, compared with a loss of (\$8.1) million in the first quarter of 2006. Basic and diluted earnings per share in the quarter were \$0.01, compared with a loss of (\$0.33) per basic and diluted share in the year-ago period.

The company recorded \$0.9 million of stock option expense in the first quarter, down from \$1.3 million in the prior year. First quarter 2007 results included non-operating income of \$2.6 million, primarily due to the sale of the UK Office Support business in January 2007.

## **Recent Events**

### Strategic Update

For 2007, we are continuing to execute our strategy of repositioning the business to focus on specialized professional recruitment. We expect this will drive improved profitability toward our long-term goal of 7-10 percent EBITDA margins. Following our divestitures in the second half of 2006 of the Scottish Industrial business (2005 revenue of \$12 million) and Highland Partners (2005 revenue of \$63 million), we sold our UK Office Support business (2006 revenue of \$10 million) in January. We still have additional non-core businesses, totaling approximately 10 percent of our revenue, which we may divest over the next few quarters. We will continue to operate these businesses until this process is completed.

### Restructuring Charge

We completed our 2006 restructuring program in the first quarter of 2007, which helped reset our cost structure as a further step in improving profitability. The restructuring charge of \$3.1 million this quarter was primarily for real estate relocations. For the 2006 program in total, we spent \$9.5 million and expect to realize at least this amount in sustainable savings in our cost structure.

### Update on PeopleSoft

Our work to improve the PeopleSoft system in North America remains on schedule and on budget. During the first quarter, we benefited from some of the anticipated improvements, such as more timely management reporting and efficiencies in the back office. We believe that greater stability in the PeopleSoft application has allowed us to maintain a steadier performance in North America.

## **Regional Review**

### Hudson Americas

Revenue increased 2 percent and gross margin dollars increased 18 percent in the first quarter compared with prior year, due to growth in permanent recruitment and a better temporary contracting gross margin percentage. Overall gross margin percentage increased to 24.0 percent compared with 20.7 percent last year. Temporary gross margin advanced to 18.7 percent from 16.6 percent.

Turning to the practice groups, Legal delivered a strong quarter with revenue and gross margin increases of 10 percent and 11 percent, respectively, over first quarter 2006. In Energy, revenue was flat while gross margin increased 5 percent. Financial Solutions saw a decline in revenue and gross margin of 7 percent and 5 percent, respectively, although its temporary contracting margins remained strong at 29 percent and overall gross margin was 34 percent. Aerospace & Defense results were down 5 percent in revenue, but up 52 percent in gross margin on more normalized temporary contracting margins. In IT, revenue and gross margin were down 14 and 5 percent, respectively, compared with prior year.

Demand for permanent recruitment continued to be a bright spot in the first quarter. Permanent recruitment revenue was up 36 percent over prior year and represented approximately 25 percent of Hudson Americas' gross margin in the quarter. Significant gross margin growth compared with prior year occurred in the permanent recruitment practices of both Legal and Aerospace & Defense.

Hudson Americas reported an adjusted EBITDA loss of (\$0.1) million in the first quarter, an improvement from a loss of (\$6.0) million from prior year. On an EBITDA basis, the group reported a loss of (\$0.9) million, compared with a loss of (\$6.0) million in the first quarter of 2006.

#### Hudson Europe

Hudson Europe revenue increased 5 percent in the first quarter, gross margin increased 16 percent and adjusted EBITDA increased 31 percent. EBITDA declined by 14 percent, as restructuring costs were \$2.4 million higher than a year ago. The restructuring costs were incurred to downsize our London office, one of our most expensive locations. In constant currency, revenue declined 5 percent while gross margin rose 5 percent, adjusted EBITDA increased by 19 percent and EBITDA declined by 21 percent.

Continuing strength in permanent recruitment in the UK and continental Europe drove gross margin growth in the quarter. This gain was partially offset by lower temporary contracting volume in the UK, in line with our strategic realignment of that business. European temporary contracting margin improved to 19.7 percent from 18.6 percent due to higher UK temporary margins, which rose from 16.2 percent a year ago to 16.8 percent in the first quarter of 2007.

Hudson Europe achieved \$7.2 million in adjusted EBITDA in the first quarter, up from \$5.6 million in the same quarter last year, benefiting from continued robust economic conditions. Adjusted EBITDA reached 5.9 percent of revenue compared with 4.8 percent in the first quarter last year. EBITDA totaled \$4.8 million in the first quarter compared with \$5.6 million a year ago, as there were no restructuring costs incurred in the first quarter of 2006. Key adjusted EBITDA contributions in the quarter came from virtually all countries, including the UK, Belgium, Netherlands – including Balance and the existing recruitment and talent management businesses – France, Sweden, Spain, and the Central and Eastern European region.

#### Hudson Asia Pacific

Hudson Asia Pacific revenue increased 3 percent, gross margin increased 8 percent and EBITDA increased 25 percent in the first quarter of 2007. In constant currency, revenue decreased 3 percent, gross margin increased 2 percent and EBITDA increased 14 percent. In Australia, continued strength in permanent recruitment drove the gross margin growth in the quarter. In New Zealand, a stable top line and strong expense management led to improved EBITDA over prior year. In Asia, EBITDA results were weaker than prior year on softer results in Japan, Hong Kong and China.

Hudson Asia Pacific generated \$5.9 million in EBITDA, or 5.8 percent of revenue, compared with \$4.7 million a year ago, or 4.7 percent of revenue. Adjusted EBITDA equaled EBITDA in

both quarters with no material restructuring charges in the region in either period. Gross margin growth and continued strong expense control led the group to deliver operating leverage of 41 percent in the quarter.

#### Corporate

Corporate expenses were lower in the first quarter of 2007 compared with prior year due to lower professional fees and compensation costs.

#### Cash Management

Cash flow from operations in the first quarter of 2007 was a use of (\$3.0) million compared with a source of \$0.2 million in the first quarter of 2006 and a use of (\$24.6) million in the first quarter of 2005. Continued focus on cash and working capital has led to improved cash flow from operations in recent quarters, though the first quarter result was slightly lower than a year ago.

Over the next six months, the company expects to pay between \$30 - \$40 million in earn out payments related to prior acquisitions, with the largest payments scheduled for the third quarter of 2007. The earn out payments are commensurate with the performance of the acquired businesses and may be made in cash or stock at the option of the company.

#### **Guidance**

The company currently expects second quarter 2007 revenue of \$355 - \$370 million at prevailing exchange rates and EBITDA of \$12.5 - \$13.5 million. This compares with revenue of \$352 million and EBITDA of \$8.5 million in the second quarter of 2006.

#### **Safe Harbor Statement**

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*Financial Tables Follow*

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

For the Three Months Ended March 31, 2007	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Corporate	Total
Revenue	\$112,804	\$122,008	\$103,087	\$ —	\$337,899
Gross margin	\$ 27,070	\$ 59,023	\$ 39,787	\$ —	\$125,880
Adjusted EBITDA (2)	\$ (131)	\$ 7,247	\$ 5,948	\$ (6,250)	\$ 6,814
Business reorganization expenses	729	2,447	14	(74)	3,116
EBITDA (2)	(860)	4,800	5,934	(6,176)	3,698
Depreciation and amortization	1,149	1,653	892	115	3,809
Operating income (loss)	\$ (2,009)	\$ 3,147	\$ 5,042	\$ (6,291)	\$ (111)

  

For the Three Months Ended March 31, 2006 (1)	Hudson Americas	Hudson Europe	Hudson Asia Pacific	Corporate	Total
Revenue	\$110,605	\$116,141	\$100,538	\$ —	\$327,284
Gross margin	\$ 22,855	\$ 50,965	\$ 36,861	\$ —	\$110,681
Adjusted EBITDA (2)	\$ (5,975)	\$ 5,550	\$ 4,732	\$ (7,922)	\$ (3,615)
EBITDA (2)	(5,975)	\$ 5,550	\$ 4,732	\$ (7,922)	\$ (3,615)
Depreciation and amortization	1,506	1,739	775	165	4,185
Operating income (loss)	\$ (7,481)	\$ 3,811	\$ 3,957	\$ (8,087)	\$ (7,800)

- (1) 2006 financial statements have been adjusted to reflect the Highland Partners segment as a discontinued operation. The sale of Highland Partners was completed effective on October 1, 2006.
- (2) 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.

**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 March 31,			2006 (1)
	2007			
	As Reported	Currency Translation	Constant Currency	As Reported
<b>Revenue:</b>				
Hudson Americas	\$ 112,804	\$ 17	\$ 112,821	\$ 110,605
Hudson Europe	122,008	(11,807)	110,201	116,141
Hudson Asia Pacific	103,087	(5,794)	97,293	100,538
<b>Total</b>	<b>337,899</b>	<b>(17,584)</b>	<b>320,315</b>	<b>327,284</b>
<b>Direct costs:</b>				
Hudson Americas	85,734	1	85,735	87,750
Hudson Europe	62,985	(6,261)	56,724	65,176
Hudson Asia Pacific	63,300	(3,625)	59,675	63,677
<b>Total</b>	<b>212,019</b>	<b>(9,885)</b>	<b>202,134</b>	<b>216,603</b>
<b>Gross margin:</b>				
Hudson Americas	27,070	16	27,086	22,855
Hudson Europe	59,023	(5,546)	53,477	50,965
Hudson Asia Pacific	39,787	(2,169)	37,618	36,861
<b>Total</b>	<b>\$ 125,880</b>	<b>\$ (7,699)</b>	<b>\$ 118,181</b>	<b>\$ 110,681</b>
<b>Selling, general and administrative (2):</b>				
Hudson Americas	\$ 28,350	\$ 18	\$ 28,368	\$ 30,336
Hudson Europe	53,429	(5,020)	48,409	47,154
Hudson Asia Pacific	34,731	(1,696)	33,035	32,904
Corporate	6,365	—	6,365	8,087
<b>Total</b>	<b>\$ 122,875</b>	<b>\$ (6,698)</b>	<b>\$ 116,177</b>	<b>\$ 118,481</b>
<b>Operating income (loss):</b>				
Hudson Americas	\$ (2,009)	\$ (2)	\$ (2,011)	\$ (7,481)
Hudson Europe	3,147	(277)	2,870	3,811
Hudson Asia Pacific	5,042	(471)	4,571	3,957
Corporate	(6,291)	—	(6,291)	(8,087)
<b>Total</b>	<b>\$ (111)</b>	<b>\$ (750)</b>	<b>\$ (861)</b>	<b>\$ (7,800)</b>

- (1) 2006 financial statements have been adjusted to reflect the Highland Partners segment as a discontinued operation. The sale of Highland Partners was completed effective on October 1, 2006.
- (2) Selling, general and administrative expenses include depreciation and amortization.