
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

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)

59-3547281
(IRS Employer Identification No.)

622 Third Avenue, New York, New York 10017
(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 an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes No

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

<u>Class</u>	<u>Outstanding on October 1, 2004</u>
Common Stock	10,238,299

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PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenue	\$315,029	\$ 272,181	\$912,264	\$ 800,653
Direct costs (Note 4)	198,615	173,959	570,970	501,181
Gross margin	116,414	98,222	341,294	299,472
Selling, general and administrative expenses	120,165	119,082	360,573	364,420
Goodwill impairment charge	—	202,785	—	202,785
Business reorganization expenses	3,314	2,082	3,450	9,543
Merger and integration expenses (recoveries)	(317)	(102)	(354)	876
Operating loss	(6,748)	(225,625)	(22,375)	(278,152)
Other income (expense):				
Other, net	128	(749)	(1,759)	(930)
Interest income (expense), net	203	(121)	(53)	(376)
Loss before provision for (benefit of) income taxes	(6,417)	(226,495)	(24,187)	(279,458)
Provision for (benefit of) income taxes	530	(221)	1,251	5,917
Net loss	\$ (6,947)	\$(226,274)	\$ (25,438)	\$(285,375)
Basic and diluted loss per share:				
Net loss	\$ (.68)	\$ (26.92)	\$ (2.66)	\$ (34.05)
Weighted average shares outstanding	10,154	8,405	9,575	8,382

See accompanying notes to consolidated condensed financial statements.

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

	September 30, 2004	December 31, 2003
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,528	\$ 26,137
Accounts receivable, net	181,852	149,042
Other current assets	11,633	17,719
Due from Monster	—	5,518
	<hr/>	<hr/>
Total current assets	220,013	198,416
Property and equipment, net	36,652	38,625
Other assets	8,801	11,703
Intangibles, net	6,288	2,180
	<hr/>	<hr/>
	\$ 271,754	\$ 250,924
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 29,407	\$ 26,495
Accrued expenses and other current liabilities	134,196	118,548
Accrued business reorganization expenses	10,158	11,543
Accrued merger and integration expenses	2,021	2,960
	<hr/>	<hr/>
Total current liabilities	175,782	159,546
Accrued business reorganization expenses, non-current	7,367	14,840
Accrued merger and integration expenses, non-current	2,176	3,484
Other non-current liabilities	5,856	3,693
	<hr/>	<hr/>
Total liabilities	191,181	181,563
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value, 10,000 shares authorized; none issued or outstanding	—	—
Common stock, \$.001 par value, 100,000 shares authorized; issued 10,238 and 8,573 shares, respectively	10	9
Additional paid-in capital	352,465	315,130
Retained deficit	(310,239)	(284,801)
Accumulated other comprehensive income - translation adjustments	38,567	39,023
Treasury stock, 8 shares	(230)	—
	<hr/>	<hr/>
Total stockholders' equity	80,573	69,361
	<hr/>	<hr/>
	\$ 271,754	\$ 250,924
	<hr/>	<hr/>

See accompanying notes to consolidated condensed financial statements.

HUDSON HIGHLAND GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net loss	\$(25,438)	\$(285,375)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14,362	15,556
(Recovery of) provision for doubtful accounts	(950)	14,923
Net loss on disposal of assets	1,182	2,063
Deferred income taxes	(20)	5,603
Restricted stock amortization	670	632
Goodwill impairment charge	—	202,785
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(33,730)	14,005
Decrease in other assets	6,584	2,694
Increase in accounts payable, accrued expenses and other liabilities	21,077	16,519
Decrease in accrued business reorganization expenses	(8,839)	(14,267)
Decrease in accrued merger and integration expenses	(2,318)	(3,530)
Total adjustments	(1,982)	256,983
Net cash used in operating activities	(27,420)	(28,392)
Cash flows from investing activities:		
Capital expenditures	(6,245)	(7,824)
Payments related to prior years' purchased businesses	(43)	(330)
Net cash used in investing activities	(6,288)	(8,154)
Cash flows from financing activities:		
Proceeds from issuance of common stock	27,919	—
Borrowings under credit facility	13,550	—
Repayments under credit facility	(13,550)	—
Net payments on short and long-term debt	(1,200)	(1,373)
Issuance of common stock – Long Term Incentive Plan option exercises	1,364	—
Issuance of common stock – Employee Stock Purchase Plan	1,078	737
Payments received from Monster	5,518	6,017
Purchase of restricted stock from employees	(230)	—
Net cash transfers received from Monster, prior to the Distribution	—	41,317
Net cash provided by financing activities	34,449	46,698
Effect of exchange rate changes on cash and cash equivalents	(350)	3,252
Net increase in cash and cash equivalents	391	13,404
Cash and cash equivalents, beginning of period	26,137	25,908
Cash and cash equivalents, end of period	\$ 26,528	\$ 39,312
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 1,540	\$ 2,268
Taxes	\$ 1,140	\$ —

See accompanying notes to consolidated condensed financial statements.

HUDSON HIGHLAND GROUP, INC.
CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share amounts)
(unaudited)

	Common stock	Additional paid-in capital	Retained deficit	Treasury stock	Accumulated other comprehensive income (loss)	Total
Balance January 1, 2004	\$ 9	\$315,130	\$(284,801)	\$ —	\$ 39,023	\$ 69,361
Net loss			(25,438)	—		(25,438)
Other comprehensive loss, translation adjustments	—	—	—	—	(456)	(456)
Issuance of shares for 401(k) plan	—	1,058	—	—	—	1,058
Exercise of stock options	—	1,364	—	—	—	1,364
Issuance of shares for employee stock purchase plan	—	1,078	—	—	—	1,078
Issuance of shares for acquisition	—	5,248	—	—	—	5,248
Purchase of restricted stock from employees	—	—	—	(230)	—	(230)
Issuance of shares	1	27,918	—	—	—	27,919
Compensation charge on restricted stock issuance	—	669	—	—	—	669
Balance September 30, 2004	\$ 10	\$352,465	\$(310,239)	\$ (230)	\$ 38,567	\$ 80,573

See accompanying notes to consolidated condensed financial statements.

HUDSON HIGHLAND GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(unaudited)

NOTE 1 - INTERIM CONSOLIDATED CONDENSED QUARTERLY FINANCIAL STATEMENTS

These interim consolidated condensed quarterly financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the consolidated audited financial statements and related notes of Hudson Highland Group, Inc. (the "Company") in its Annual Report on Form 10-K filed with the SEC on March 10, 2004 (the "Form 10-K"). The consolidated results for interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included.

NOTE 2 - BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

Basis of Presentation

The Company was historically the combination of 67 acquisitions 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, has added two small acquisitions, and reorganized a number of smaller business units after determining that those businesses were not viable profit centers.

For all periods through the Distribution Date, the consolidated financial statements have been derived from the financial statements and accounting records of Monster, using the historical results of operations and historical basis of the assets and liabilities of the Company's business. In connection with the Distribution, the inter-company balances due to Monster were contributed by Monster to equity; accordingly, such balances are reflected as divisional equity for periods prior to the Distribution Date, at which time the amount was reclassified to common stock and additional paid-in capital. Earnings and losses are accumulated in retained earnings (deficit) starting April 1, 2003. The terms of the distribution agreement with Monster did not require repayment or distribution of any portion of the divisional equity back to Monster. HH Group's costs and expenses in the accompanying consolidated condensed financial statements for periods prior to the Distribution Date include allocations from Monster for executive, legal, accounting, treasury, real estate, information technology and other Monster corporate services and infrastructure costs because specific identification of the expenses is not practicable. The total corporate services allocation to HH Group from Monster was \$5,123 for the period ending the Distribution Date. The expense allocations were determined on the basis that Monster and HH Group considered to be reasonable reflections of the utilization of services provided or the benefit received by HH Group using ratios that are primarily based on the Company's revenue, net of direct costs of temporary contractors, compared to Monster as a whole. Monster also allocated to HH Group's corporate expense certain business reorganization expenses of \$137 for the period ending March 31, 2003. The financial information included herein prior to the Distribution Date may not necessarily reflect the financial position and results of operations of the Company in the future or what these amounts would have been had the Company been a separate, stand-alone entity during the periods presented prior to the Distribution.

Loss Per Share

To determine the shares outstanding for the Company for the period prior to the Distribution, Monster's weighted average number of shares is multiplied by the distribution ratio of one share of HH Group common stock for every thirteen and one-third shares of Monster common stock. Basic loss per share is computed by dividing the Company's loss by the weighted average number of shares outstanding during the period. Diluted loss per share reflect the potential dilution from the assumed exercise of all dilutive potential common shares, primarily stock options. The dilutive impact of stock options is determined by applying the "treasury stock" method. For the three- and nine-month periods ended September 30, 2004, the effect of approximately 459,000 and 476,000, respectively, of outstanding stock options and other common stock equivalents were excluded from the calculation of diluted loss per share because the effect was anti-dilutive. For the three- and nine-month periods ended September 30, 2003, the effect of approximately 333,000 and 310,000, respectively, of outstanding stock options and other common stock equivalents were excluded from the calculation of diluted loss per share because the effect was anti-dilutive.

NOTE 2 - REORGANIZATION, BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS (Continued)

Description of Business Segments

The Company is one of the world's largest specialized professional staffing, retained executive search and human capital solutions firms. The Company provides professional staffing services on a permanent, contract and temporary basis, as well as executive search and a range of human capital services to businesses operating in a wide variety of industries. The Company is organized into two business segments, the Hudson businesses ("Hudson") and Highland Partners ("Highland"), which constituted approximately 87% and 13% of the Company's gross margin, respectively, for the nine months ended September 30, 2004.

Hudson. Hudson provides temporary and contract personnel and permanent recruitment services to a wide range of clients through its Hudson Global Resources unit. With respect to temporary and contract personnel, Hudson focuses on providing candidates with professional qualifications, including accounting and finance, legal and technology. The length of temporary assignment can vary widely, but assignments in the professional sectors 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 business sectors, such as financial services, healthcare, or technology, and candidates possessing particular professional qualifications, such as accounting and finance, information technology and communications, legal and healthcare. Hudson uses both traditional and interactive methods to select potential candidates for its clients, employing a suite of products that assesses talent and helps predict whether a candidate will be successful in a given role.

Hudson also provides a variety of other services through its Human Capital Solutions and Hudson Inclusion Solutions units that encompass services including, among others, customized interactive recruiting and human resource solutions, executive assessment and coaching, diversity assessment and consulting, organizational effectiveness, and career transition. Through the Hudson Highland Center for High Performance, Hudson also offers leadership solutions designed to assist senior management in enhancing the operating performance of large organizations. These services enable Hudson to offer clients a comprehensive set of human capital management services, across the entire life cycle of employment, ranging from providing temporary workers, to assessment or coaching of permanent staff, to recruitment or search for permanent executives and professionals, to outplacement.

Hudson operates on a global basis in 21 countries and over 100 offices with its revenue generated approximately evenly among North America, Europe (including the United Kingdom), and the Asia Pacific region (primarily Australia and New Zealand).

Highland. Highland offers a comprehensive range of executive search services on a retained basis aimed at recruiting senior level executives or professionals. Highland also has an active practice in assisting clients desiring to augment their boards of directors.

Highland approaches the market through industry sectors, such as financial services, life sciences, retail and consumer products, industrial and technology. This industry sector sales approach is designed to enable Highland to better understand the market conditions and strategic management issues faced by clients within their specific business sectors. Highland also recruits candidates through functional specialist groups, including board of directors, chief financial officer, chief information officer, human resources and legal. These functional expertise groups are comprised of consultants who have extensive backgrounds in placing executives in certain specialist positions within a business.

Highland, an executive search boutique with global capabilities, operates in 15 practice offices in four countries. For the nine months ended September 30, 2004, approximately 72% of revenue in the Highland business was derived in North America.

Corporate expenses are reported separately from the two operating segments and consist primarily of compensation, marketing and lease expense, and professional fees.

In the third quarter of 2003, the Company determined that goodwill should be tested for impairment due to business conditions and changes in circumstances resulting from the Distribution, which established the Company as an independent entity with a separate market capitalization. As a result of this test and the related fair value examination, the Company recorded a non-cash goodwill impairment charge of \$202,785. The impairment valuation was based upon a discounted cash flow approach that used estimated future revenue and costs for each business segment as well as appropriate discount rates. The estimates that were used were consistent with the plans and estimates the Company used to manage the underlying business.

Reclassifications

Certain prior period amounts have been reclassified to conform to the Company's 2004 financial statement presentation; these reclassifications do not change revenue, total expenses, net loss, total assets, total liabilities or stockholders' equity.

NOTE 3 - STOCK BASED COMPENSATION

The Company accounts for employee stock-based compensation in accordance with APB No. 25 *Accounting for Stock Issued to Employees* (“APB No. 25”). Under APB No. 25, no compensation expense is recognized in connection with the awarding of stock option grants to employees provided that, as of the grant date, all terms associated with the award are fixed and the quoted market price of the stock is equal to or less than the amount an employee must pay to acquire the stock. Because the Company issues only fixed term stock option grants at or above the quoted market price on the date of the grant, there is no related compensation expense recognized in the accompanying financial statements. The Company adopted the disclosure only provisions of SFAS 123, *Accounting for Stock-Based Compensation* (“SFAS 123”) and SFAS 148 *Accounting for Stock-Based Compensation – Transition and Disclosure* (“SFAS 148”), which require certain financial statement disclosures, including pro forma operating results as if the Company had prepared its consolidated financial statements in accordance with the fair value based method of accounting for stock-based compensation.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no restrictions and are fully transferable and negotiable in a free trading market. Black-Scholes does not consider the employment, transfer or vesting restrictions that are inherent in the Company’s employee options. Use of an option valuation model, as required by SFAS 123, includes highly subjective assumptions based on long-term predictions, including the expected stock price volatility and average life of each option grant. Because the Company’s employee options have characteristics significantly different from those of freely traded options, and because changes in the subjective input assumptions can materially affect the Company’s estimate of the fair value of those options, in the Company’s opinion the existing valuation models, including Black-Scholes, are not reliable single measures and may misstate the fair value of the Company’s employee options.

As required under SFAS 123 and SFAS 148, the pro forma effects of stock-based compensation, including stock options and employee stock purchase plans, on the Company’s operating results and per share data have been estimated at the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	Nine Months Ended September 30,	
	2004	2003
Risk free interest rate	4.0%	4.0%
Volatility	55.0%	65.0%
Expected life (years)	5.0	5.0
Dividends	0.0%	0.0%
Weighted average fair value of options granted during the period	\$ 14.30	\$ 8.07

For purposes of pro forma disclosures, the options’ estimated fair value is assumed to be amortized to expense over the options’ vesting periods. The pro forma effects of stock-based compensation expense for the nine months ended September 30, 2003 does not include expense from the period prior to the Distribution Date as no options related to the Company’s stock were outstanding and no expense was required for Monster stock options granted to the Company’s employees prior to the Distribution Date. As a result of the Company’s inability to recognize current tax benefits on reported net losses, total stock-based compensation expense is shown without tax benefits for all periods presented. The pro forma effects of recognizing compensation expense under the fair value method on the Company’s operating results and per share data are as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Reported net loss	\$(6,947)	\$(226,274)	\$(25,438)	\$(285,375)
Add: Total stock-based employee compensation expense determined under fair value based method for all awards	(822)	(978)	(2,791)	(2,150)
Pro forma net loss	\$(7,769)	\$(227,252)	\$(28,229)	\$(287,525)
Basic and diluted loss per share:				
As reported net loss	\$ (.68)	\$ (26.92)	\$ (2.66)	\$ (34.05)
Pro forma net loss	\$ (.77)	\$ (27.04)	\$ (2.95)	\$ (34.30)

NOTE 4 - REVENUE, DIRECT COSTS AND GROSS MARGIN

The Company's revenue and direct costs, classified by temporary contracting and other employment services, are as follows:

	Quarter Ended September 30, 2004			Quarter Ended September 30, 2003		
	Temporary	Other	Total	Temporary	Other	Total
Revenue	\$ 223,653	\$ 91,376	\$ 315,029	\$ 196,790	\$ 75,391	\$ 272,181
Direct costs ⁽¹⁾	184,308	14,307	198,615	164,364	9,595	173,959
Gross margin	\$ 39,345	\$ 77,069	\$ 116,414	\$ 32,426	\$ 65,796	\$ 98,222

	Nine Months Ended September 30, 2004			Nine Months Ended September 30, 2003		
	Temporary	Other	Total	Temporary	Other	Total
Revenue	\$ 641,740	\$ 270,524	\$ 912,264	\$ 571,499	\$ 229,154	\$ 800,653
Direct costs ⁽¹⁾	531,525	39,445	570,970	473,686	27,495	501,181
Gross margin	\$ 110,215	\$ 231,079	\$ 341,294	\$ 97,813	\$ 201,659	\$ 299,472

⁽¹⁾ Direct costs include the direct staffing costs of salaries, payroll taxes, employee benefits, travel expenses and insurance costs for the Company's temporary contractors and reimbursed out-of-pocket expense and other direct costs. Other than reimbursed out-of-pocket expenses, there are no other direct costs associated with the Other category, which includes the search, permanent placement and other human resource solutions' revenue. The salaries, commissions, payroll taxes and employee benefits related to recruitment professionals are included in selling, general and administrative expenses.

NOTE 5 - BUSINESS REORGANIZATION EXPENSES

In the second quarter of 2002, the Company, as part of Monster, announced reorganization initiatives to streamline operations, lower its cost structure, integrate businesses previously acquired and improve return on capital. These reorganization programs included a workforce reduction, consolidation of excess facilities, restructuring of certain business functions and other special charges, primarily for exiting activities that were no longer part of the Company's strategic plan. In the fourth quarter of 2002, the Company also initiated reorganization efforts related to its separation from Monster, which consisted primarily of workforce reduction, office consolidation costs and related write-offs, professional fees and other special charges.

In 2003, the Company recorded additional charges and credits, as a result of changes in estimates related to the prior actions, and as a result of further actions in the fourth quarter of 2003 to close offices and business units that did not have the size or market capacity to provide future income growth.

Amounts in the "Change in estimate" column of the following tables represent amounts charged to business reorganization expenses in the Company's statement of operations for the nine months ended September 30, 2004. Costs and (recoveries) under these plans are charged (credited) to expense as estimates are finalized and events become accruable and represent modifications to previously accrued amounts that were initially established under each plan. Amounts under the "Utilization" caption of the following tables are primarily the cash payments associated with the plans.

A summary of activity for business reorganization expenses for the nine months ended September 30, 2004 is as follows:

	Balance December 31, 2003	Change in estimate	Utilization	Balance September 30, 2004
Workforce reductions	\$ 5,337	\$ 168	\$ (4,493)	\$ 1,012
Consolidation of excess facilities	18,340	2,287	(6,110)	14,517
Professional fees and other	2,706	995	(1,705)	1,996
Total	\$ 26,383	\$ 3,450	\$(12,308)	\$ 17,525

A summary of plan activity for business reorganization expenses for the nine months ended September 30, 2004 is as follows:

	Balance December 31, 2003	Change in estimate	Utilization	Balance September 30, 2004
Third Quarter 2002 Plan	\$ 4,717	\$ 1,202	\$ (2,107)	\$ 3,812
Fourth Quarter 2002 Plan	8,523	2,459	(2,860)	8,122
Fourth Quarter 2003 Plan	13,143	(211)	(7,341)	5,591
Total	\$ 26,383	\$ 3,450	\$(12,308)	\$ 17,525

NOTE 6 - BUSINESS COMBINATIONS**Acquisitions Accounted for Using the Purchase Method**

In June 2004, the Company purchased one business through the issuance of 183,587 shares of common stock, with a fair value of \$5,248. The Company recorded the preliminary allocation of the purchase price to the estimated fair value of the net assets acquired (\$1,258 in assets, \$562 in liabilities) with the excess of \$4,552 allocated to goodwill. The purchase agreement provides for contingent payouts to the sellers over the next three years, based upon future minimum annual and cumulative earnings thresholds. If and when such payments come due, the amounts paid will be added to the recorded value of goodwill. There were no acquisitions during the nine months ended September 30, 2003.

Accrued Merger and Integration Expenses

Pursuant to the conclusions stated in EITF 94-3 and EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, and in connection with the acquisitions and mergers made in 2001 and 2000, the Company formulated plans to integrate the operations of such companies. These plans involve the closure of certain offices of the acquired and merged companies and the termination of certain management and employees. The objectives of the plans are to eliminate redundant facilities and personnel and to create a single brand in the related markets in which the Company operates.

In connection with plans relating to pooled entities, the Company recovered \$354 and expensed \$876 in the first nine months of 2004 and 2003, respectively, relating to integration activities included as a component of merger and integration expenses. Amounts recorded relating to business combinations accounted for as purchases were charged to goodwill. The \$354 in recoveries for the first nine months of 2004 was entirely related to lease obligations on closed facilities.

Amounts reflected in the "Change in estimate" column represent modifications to plans subsequent to finalization and have been (recovered) expensed in the current period. Amounts under the "Utilization" caption of the following tables are primarily the cash payments associated with the plans.

A summary of activity for merger and integration expenses for the nine months ended September 30, 2004 is as follows:

	Balance December 31, 2003	Change in Estimate	Utilization	Balance September 30, 2004
Assumed lease obligations on closed facilities	\$ 5,984	\$ (354)	\$ (1,539)	\$ 4,091
Consolidation of acquired facilities	460	—	(354)	106
Total	\$ 6,444	\$ (354)	\$ (1,893)	\$ 4,197

A summary of plan activity for merger and integration expenses for the nine months ended September 30, 2004 is as follows:

	Balance December 31, 2003	Change in Estimate	Utilization	Balance September 30, 2004
2000 Plans	\$ 1,728	\$ (102)	\$ (447)	\$ 1,179
2001 Plans	2,293	(241)	(808)	1,244
2002 Plans	2,423	(11)	(638)	1,774
Total	\$ 6,444	\$ (354)	\$ (1,893)	\$ 4,197

NOTE 7 - TAXES

The provision for income taxes for the nine months ended September 30, 2004 was \$1,251 on a pretax loss of \$24,187, compared to \$5,917 on a pretax loss of \$279,458 for the same period of 2003. The higher tax provision in the first nine months of 2003 relates primarily to the increase in valuation allowances on certain foreign tax losses, which may not be realizable. In each period, the effective tax rate differs from the U.S. Federal statutory rate of 35% due primarily to valuation allowances on deferred tax assets, net operating losses retained or utilized by Monster, certain non-deductible expenses such as amortization, business restructuring and spin off costs, merger costs from pooling of interests transactions, asset impairment charges and variations from the U.S. tax rate in foreign jurisdictions. The Company records a valuation allowance against deferred tax assets to the extent that it is more likely than not that some portion, or all of, the deferred tax assets will not be realized.

NOTE 8 - RELATED PARTY TRANSACTIONS

Distribution Business Agreements

In connection with the Distribution, the Company and Monster entered into agreements covering employee benefit plans, real estate, transition services and tax separation.

The Company entered into a distribution agreement with Monster effective as of the Distribution Date, pursuant to which the Company, among other things, agreed to maintain independent employee benefit plans and programs (other than equity compensation) that are substantially similar to Monster's existing employee benefit plans and programs. Following the Distribution, Monster generally ceased to have any liability to the Company's current and former employees and their beneficiaries including liability under any of Monster's benefit plans or programs.

The Company and Monster entered into various lease and sublease arrangements for the sharing of certain facilities for a transitional period on commercial terms. In the case of subleases or sub-subleases of property, the lease terms and conditions generally coincide with the remaining terms and conditions of the primary lease or sublease, respectively.

The Company entered into a transition services agreement with Monster effective as of the Distribution Date. Under the agreement, Monster provides to the Company, and the Company provides to Monster, certain insurance, tax, legal, facilities, human resources, information technology and other services that are required for a limited time (generally for one year following the Distribution Date, except as otherwise agreed).

After the Distribution Date, the Company was no longer included in Monster's consolidated group for United States federal income tax purposes. The Company and Monster entered into a tax separation agreement to reflect the Company's separation from Monster with respect to tax matters. The primary purpose of the tax separation agreement is to reflect each party's rights and obligations relating to payments and refunds of taxes that are attributable to periods beginning before and including the date of the distribution and any taxes resulting from transactions effected in connection with the distribution.

Monster Funding of HH Group Obligations

Monster agreed at the Distribution Date to reimburse the Company for \$13,530 of cash payments related to the Company's accrued integration, restructuring and business reorganization obligations and other expenses during the first year following the spin-off. The Company received payments of \$13,530 since the Distribution. Legal obligation for settlement of such liabilities will remain with the Company.

Other Commercial Arrangements

The Company and Monster have entered into a three-year commercial contract involving the utilization of Monster.com services for targeting, sourcing, screening and tracking prospective job candidates around the world. The Company and Monster may from time to time also negotiate and purchase other services from the other, pursuant to customary terms and conditions. There is no contractual commitment that requires the Company to use Monster services in preference to other competitors.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Risks and Uncertainties

The Company has a history of operating losses and has only operated as an independent company since the Distribution Date. Prior to the Distribution Date, the Company's operations were historically financed by Monster as separate segments of Monster's broader corporate organization rather than as a separate stand-alone company. Monster assisted the Company by providing financing, particularly for acquisitions, as well as providing corporate functions such as identifying and negotiating acquisitions, legal and tax functions. Following the Distribution, Monster has no obligation to provide assistance to the Company other than the interim and transitional services, that will be provided by Monster pursuant to the transition services agreement described in Note 8. Because the Company's businesses have operated as an independent company only since the Distribution Date, the Company cannot provide assurance that it will be able to successfully implement the changes necessary to operate as a profitable stand-alone business, or to secure additional debt or equity financing on terms that are acceptable to the Company.

[Table of Contents](#)**NOTE 10 - FINANCIAL INSTRUMENTS**

The Company received \$27,919 in net proceeds from the issuance of 1,273,885 shares of its common stock in a registered public offering on March 23, 2004.

Credit Facility

The Company has a senior secured credit facility for \$50,000 with Wells Fargo Foothill, Inc., as agent, and certain lenders (the "Foothill Credit Facility"). The maturity date of the Foothill Credit Facility is March 31, 2007. Outstanding loans will bear interest equal to the prime rate plus 0.25% or LIBOR plus 2.00%, at the Company's option. The Foothill Credit Facility is secured by substantially all of the assets of the Company and extensions of credit will be based on a percentage of the accounts receivable of the Company. The Company expects to use such credit, if and when required, to support its ongoing working capital requirements, capital expenditures and other corporate purposes and to support letters of credit. During the nine months ended September 30, 2004, the Company borrowed and repaid a total of \$13,550 under this credit facility. As of September 30, 2004, no borrowings were outstanding and the Company had letters of credit issued and outstanding of \$13,179 leaving \$36,821 of the credit facility available for use on the terms set forth in the Foothill Credit Facility.

The Foothill Credit Facility contains various restrictions and covenants, including (1) prohibitions on payments of dividends and repurchases of the Company's stock; (2) requirements that the Company maintain its Adjusted EBITDA and capital expenditures within prescribed levels; (3) restrictions on the ability of the Company to make additional borrowings, or to consolidate, merge or otherwise fundamentally change the ownership of the Company; and (4) limitations on investments, dispositions of assets and guarantees of indebtedness. These restrictions and covenants could limit the Company's ability to respond to market conditions, to provide for unanticipated capital investments, to raise additional debt or equity capital, to pay dividends or to take advantage of business opportunities, including future acquisitions. On July 27, 2004, the Company entered into an amendment to the Foothill Credit Facility that approved the Company's updated plan for consolidation of certain of its subsidiaries, clarified the basis for establishing the Company's Adjusted EBITDA covenant for the Company's fiscal year 2005 and thereafter, joined certain subsidiaries of the Company as parties to the Foothill Credit Facility, and made certain other changes.

Derivatives Held for Purposes Other Than Trading

The Company periodically enters into forward contracts in order to reduce exposure to exchange rate risk related to short-term intercompany loans denominated in currencies other than the functional currency. The fair values for all derivatives are recorded in other assets or other liabilities in the consolidated balance sheets. The Company had no outstanding derivatives as of September 30, 2004.

NOTE 11 - COMPREHENSIVE INCOME

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net loss	\$ (6,947)	\$ (226,274)	\$ (25,438)	\$ (285,375)
Other comprehensive income (loss) - translation adjustments	(22)	696	(456)	9,301
Total comprehensive loss	\$ (6,969)	\$ (225,578)	\$ (25,894)	\$ (276,074)

NOTE 12 - SUPPLEMENTAL CASH FLOW INFORMATION

During the nine month period ended September 30, 2004, the Company issued 183,587 shares of common stock, with a fair value of \$5,248 to purchase a business in its Hudson segment. The Company also issued 46,083 shares of its common stock with a value of \$1,058 to satisfy the 2003 contribution liability to the 401(k) Savings Plan. The Company entered into capital lease obligations for furniture and fixtures and telecommunications equipment with a fair value of \$3,920, of which \$3,767 was related to a renegotiation of an existing operating lease that upon initiation of the new lease was converted to a capital lease. The Company also entered into an arrangement for the financing of a financial and operational application software package with a fair value of \$2,081, which for financial reporting purposes is being treated as a capital lease.

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NOTE 13 - SEGMENT AND GEOGRAPHIC DATA

The Company operates in two business segments: Hudson and Highland. The Company conducts operations in the following geographic regions: North America, the Asia/Pacific Region (primarily Australia), the United Kingdom and Continental Europe.

Segment information is presented in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. This standard is based on a management approach that requires segmentation based upon the Company's internal organization and disclosure of revenue and operating income based upon internal accounting methods. The Company's financial reporting systems present various data for management to run the business, including internal profit and loss statements prepared on a basis not consistent with generally accepted accounting principles. Accounts receivable, net and long-lived assets are the only significant assets separated by segment for internal reporting purposes.

Information by business segment	For the Quarter Ended September 30,		As of and for the Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenue				
Hudson	\$ 300,828	\$ 256,516	\$ 866,544	\$ 753,091
Highland	14,201	15,665	45,720	47,562
	<u>\$ 315,029</u>	<u>\$ 272,181</u>	<u>\$ 912,264</u>	<u>\$ 800,653</u>
Gross Margin				
Hudson	\$ 102,931	\$ 83,585	\$ 298,288	\$ 254,547
Highland	13,483	14,637	43,006	44,925
	<u>\$ 116,414</u>	<u>\$ 98,222</u>	<u>\$ 341,294</u>	<u>\$ 299,472</u>
Business reorganization expenses (recoveries)^(a)				
Hudson	\$ 706	\$ (335)	\$ 891	\$ 6,205
Highland	2,608	2,417	2,559	3,201
	<u>\$ 3,314</u>	<u>\$ 2,082</u>	<u>\$ 3,450</u>	<u>\$ 9,543</u>
Goodwill impairment				
Hudson	\$ —	\$ 195,404	\$ —	\$ 195,404
Highland	—	7,381	—	7,381
	<u>\$ —</u>	<u>\$ 202,785</u>	<u>\$ —</u>	<u>\$ 202,785</u>
Operating income (loss)				
Hudson	\$ 4,346	\$ (204,195)	\$ 5,381	\$ (231,018)
Highland	(2,597)	(13,235)	(1,932)	(24,491)
	<u>1,749</u>	<u>(217,430)</u>	<u>3,449</u>	<u>(255,509)</u>
Corporate expenses ^(a)	(8,497)	(8,195)	(25,824)	(22,643)
Interest and other income (expense), net	331	(870)	(1,812)	(1,306)
	<u>\$ (6,417)</u>	<u>\$ (226,495)</u>	<u>\$ (24,187)</u>	<u>\$ (279,458)</u>
Accounts receivable, net				
Hudson			\$ 173,641	\$ 130,853
Highland			8,211	10,123
			<u>\$ 181,852</u>	<u>\$ 140,976</u>
Long-lived assets, net of accumulated amortization				
Hudson			\$ 34,358	\$ 30,086
Highland			2,646	4,665
Corporate			5,936	6,461
			<u>\$ 42,940</u>	<u>\$ 41,212</u>

^(a) Corporate expenses include \$137 of business reorganization expenses in the first nine months of 2003.

[Table of Contents](#)**NOTE 13 - SEGMENT AND GEOGRAPHIC DATA (continued)**

<u>Information by geographic region</u>	<u>United States</u>	<u>Australia</u>	<u>United Kingdom</u>	<u>Continental Europe</u>	<u>Other ^(b)</u>	<u>Total</u>
For the Quarter Ended September 30, 2004						
Revenue	\$ 93,456	\$ 79,987	\$ 93,641	\$ 22,634	\$ 25,311	\$ 315,029
Long-lived assets	\$ 21,445	\$ 10,504	\$ 5,786	\$ 3,323	\$ 1,882	\$ 42,940
For the Quarter Ended September 30, 2003						
Revenue	\$ 72,869	\$ 84,597	\$ 71,324	\$ 22,804	\$ 20,587	\$ 272,181
Long-lived assets	\$ 18,918	\$ 8,030	\$ 6,906	\$ 4,475	\$ 2,883	\$ 41,212
For the Nine Months Ended September 30, 2004						
Revenue	\$265,310	\$245,058	\$258,465	\$ 74,231	\$69,200	\$912,264
For the Nine Months Ended September 30, 2003						
Revenue	\$239,852	\$225,217	\$205,316	\$ 72,219	\$58,049	\$800,653

^(b) Includes the Americas other than the United States and Asia Pacific other than Australia.

NOTE 14 - SUBSEQUENT EVENT

The Company filed a shelf registration on October 6, 2004 to enable it to issue up to 675,000 shares of its common stock from time to time in connection with acquisitions of businesses, assets or securities of other companies, whether by purchase, merger or any other form of acquisition or business combination. If any shares are issued using this shelf registration, the Company will not receive any proceeds from these offerings other than the assets, businesses or securities acquired. The registration statement replaced the Company's existing acquisition shelf registration statement filed on April 22, 2004 under which 166,413 shares of its common stock remained available for issuance.

Report of Independent Registered Public Accounting Firm

Board of Directors
Hudson Highland Group, Inc.
New York, New York

We have reviewed the consolidated condensed balance sheet of Hudson Highland Group, Inc. as of September 30, 2004, the related consolidated condensed statements of operations for the three month and nine month periods ended September 30, 2004 and 2003, the related consolidated condensed statements of cash flows for the nine month periods ended September 30, 2004 and 2003 and the consolidated condensed statement of changes in stockholders' equity for the nine month period ended September 30, 2004 included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended September 30, 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Hudson Highland Group, Inc. as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 5, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2003 is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ BDO Seidman, LLP
BDO Seidman, LLP

New York, New York
October 28, 2004

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in thousands, except per share data)

The following discussion should be read in conjunction with the consolidated condensed financial statements and the notes thereto, included in Item 1 of this Form 10-Q. This Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Please see “Special Note Regarding Forward-Looking Statements” for a discussion of the uncertainties, risks and assumptions associated with these statements.

Hudson Highland Group, Inc. (the “Company”) provides professional staffing services on a permanent, contract and temporary basis, as well as executive search and a range of human capital services to businesses operating in a wide variety of industries. The Company is organized into two principal business segments, Hudson businesses (“Hudson”) and Highland Partners (“Highland”), which constituted approximately 87% percent and 13% of gross margin, respectively, for the nine months ended September 30, 2004.

The Company’s management is focused primarily on returning the Company to profitability, after five years of losses. The Company has operated independently from Monster since April 1, 2003.

Since the Company’s spin-off from Monster, additional reorganization charges were recorded primarily as a result of actions designed to rationalize various aspects of the Company’s cost structure. These charges included costs related to rationalization of real estate, integration of financial and management information systems, reductions in headcount, the write-off of redundant assets and impairment charges related to the goodwill recorded for the acquisitions. The Company also closed or sold a number of its smaller business units in Europe and North America after determining that these businesses were not viable profit centers in the near term. In the first quarter of 2004, the Company abandoned its investment in its German subsidiary and recognized a loss on disposition of assets of \$1,182 for the nine months ended September 30, 2004. The operation has filed for insolvency and is currently operated under an administrator in Germany. The ultimate financial outcome cannot be determined at this time. Within individual geographic regions, the Company has integrated the systems, management structures and compensation plans of its business units. Globally, the businesses operate under common financial policies and timetables, they report through a single consolidation system, and cash management is coordinated centrally from the corporate headquarters in New York.

Hudson. Hudson primarily provides 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 professional qualifications, including accounting and finance, legal and technology. The length of temporary assignment can vary widely, but assignments in the professional sectors 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 professional skills and/or profile required by clients. Hudson provides permanent recruitment services on both a retained and contingent basis. In larger markets, the sales strategy focuses on both clients operating in particular business sectors, such as financial services, healthcare, or technology, and candidates possessing particular professional qualifications, such as accounting and finance, information technology and communications, legal and healthcare. Hudson uses both traditional and interactive methods to select potential candidates for its clients, employing a suite of products that assess talent and help predict whether a candidate will be successful in a given role.

Hudson also provides a variety of other services through its Human Capital Solutions and Hudson Inclusion Solutions units that encompass services including, among others, customized interactive recruiting and human resource solutions, executive assessment and coaching, diversity assessment and consulting, organizational effectiveness, and career transition. Through the Hudson Highland Center for High Performance, Hudson also offers leadership solutions designed to assist senior management in enhancing the operating performance of large organizations. These services enable Hudson to offer clients a comprehensive set of human capital management services, across the entire life cycle of employment, ranging from providing temporary workers, to assessment or coaching of permanent staff, to recruitment or search for permanent executives and professionals, to outplacement.

Hudson operates on a global basis in 21 countries and over 100 offices with its revenue generated approximately evenly among North America, Europe (including the United Kingdom), and the Asia Pacific region (primarily Australia and New Zealand).

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Highland. Highland offers a comprehensive range of executive search services on a retained basis aimed at recruiting senior level executives or professionals. Highland also has an active practice in assisting clients desiring to augment their boards of directors.

Highland approaches the market through industry sectors, such as financial services, life sciences, retail and consumer products, industrial and technology. This industry sector sales approach is designed to enable Highland to better understand the market conditions and strategic management issues faced by clients within their specific business sectors. Highland also recruits candidates through functional specialist groups, including board of directors, chief financial officer, chief information officer, human resources and legal. These functional expertise groups are comprised of consultants who have extensive backgrounds in placing executives in certain specialist positions within a business.

Highland, an executive search boutique with global capabilities, operates in 15 practice offices in four countries. For the nine months ended September 30, 2004, approximately 72% of revenue in the Highland business was derived in North America.

Corporate expenses are reported separately from the two operating segments and consist primarily of compensation, marketing and lease expense, and professional fees.

For all of the periods presented in this Form 10-Q, prior to the Distribution (as defined below), HH Group operated as part of Monster. Immediately prior to the Distribution, Monster transferred the assets and liabilities of its Hudson and Highland business segments to HH Group at Monster's historical cost. On March 31, 2003 (the "Distribution Date"), Monster distributed to all of its stockholders of record one share of the Company's Common Stock for each thirteen and one third shares of Monster Common Stock so held (the "Distribution"). Following the Distribution, the Company became an independent public company and Monster has no continuing stock ownership interest in the Company. Prior to the Distribution, HH Group entered into several agreements with Monster in connection with, among other things, employee matters, income taxes, leased real property and transitional services. See Note 8 of the Notes to Consolidated Condensed Financial Statements for a description of the agreements.

The Company's consolidated condensed financial statements reflect the historical financial position, results of operations and cash flows of the businesses transferred to HH Group from Monster as part of the Distribution. Additionally, net intercompany balances due to Monster were contributed to HH Group and are reflected as equity in the accompanying consolidated condensed financial statements. The financial information included herein, however, may not necessarily reflect HH Group's financial position, results of operations and cash flows in the future or what its financial position, results of operations and cash flows would have been had HH Group been a stand-alone company during the periods presented.

The Company's costs and expenses in the accompanying consolidated condensed financial statements include allocations from Monster for executive, legal, accounting, treasury, real estate, information technology, merger and integration costs and other Monster corporate services and infrastructure costs because specific identification of the expenses is not practicable. The total corporate services allocation to the Company from Monster was \$5,260 for the three months ended March 31, 2003. The expense allocations were determined on the basis that Monster and HH Group considered to be reasonable reflections of the utilization of services provided or the benefit received by HH Group using ratios that are primarily based on its revenue, net of costs of temporary contractors compared to Monster as a whole. Except as discussed above, interest charges from Monster have been allocated to HH Group only for that portion of third-party debt attributed to HH Group.

The Company recorded business reorganization and merger and integration expenses of \$3,096 and \$10,419 for the nine months ended September 30, 2004 and 2003, respectively. The merger and integration expenses were recorded in connection with its pooling of interest transactions and consist of costs to integrate and/or exit certain aspects of the operations of its pooled entities, particularly in areas where duplicate functions and facilities existed. The business reorganization expenses were related to the reorganization of operations announced in 2002 and 2003 and the Distribution in the first quarter of 2003.

Prior to the Distribution, HH Group was not a separate taxable entity for federal, state or local income tax purposes and its operating results were included in Monster's tax return. Income taxes have been calculated as if HH Group filed separate tax returns. However, Monster was managing its tax position for the benefit of its entire portfolio of businesses, and its tax strategies are not necessarily reflective of the tax strategies that HH Group would have followed or will follow as a stand-alone company.

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Results of Operations

The following table sets forth selected financial results for the Company.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenue	\$315,029	\$ 272,181	\$912,264	\$ 800,653
Gross margin ⁽¹⁾	\$ 116,414	\$ 98,222	\$341,294	\$ 299,472
Gross margin as a percentage of revenue	37.0%	36.1%	37.4%	37.4%
Operating loss	\$ (6,748)	\$(225,625)	\$ (22,375)	\$(278,152)
Net loss	\$ (6,947)	\$(226,274)	\$ (25,438)	\$(285,375)
TEMPORARY CONTRACTING DATA ⁽²⁾:				
Temporary contracting revenue	\$223,653	\$ 196,790	\$641,740	\$ 571,499
Direct costs of temporary contracting	184,308	164,364	531,525	473,686
Temporary contracting gross margin	\$ 39,345	\$ 32,426	\$ 110,215	\$ 97,813
Gross margin as a percent of revenue	17.6%	16.5%	17.2%	17.1%

⁽¹⁾ Gross margin consists of permanent recruitment and search fees less their associated direct costs (which tend to only be a small percentage of the associated fees) and temporary contracting gross margin as derived by deducting the direct costs of temporary contractors from temporary contracting revenue. The Company's calculation of gross margin may differ from those of other companies. Accordingly, the mix of temporary and permanent services, as well as the mix of temporary contracting services and geographic markets, affects the Company's gross margin as a percentage of revenue.

⁽²⁾ Temporary contracting revenue is a component of Hudson's revenue. Temporary contracting gross margin and gross margin as a percentage of revenue are shown to provide additional information on the Company's ability to manage its cost structure and provide further comparability relative to the Company's peers.

Constant Currencies

The Company defines the term "constant currencies" to mean that financial data for a period are translated into U.S. Dollars using the same foreign currency exchange rates that were used to translate financial data for the previously reported period. Changes in revenue, direct costs, gross margin and selling, general and administrative expenses include the effect of changes in foreign currency exchange rates. Variance analysis usually describes period-to-period variances that are calculated using constant currency as a percentage. The Company's management reviews and analyzes business results in constant currencies 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 not significant gains or losses on foreign currency transactions between subsidiaries. Changes in foreign currency exchange rates therefore generally impact only reported earnings and not the Company's economic condition.

	Quarter Ended September 30,			
	2004		2003	
	As reported	Currency Translation	Constant Currencies	As reported
Hudson revenue	\$ 300,828	\$ (19,858)	\$280,970	\$256,516
Highland revenue	14,201	(327)	13,874	15,665
Total revenue	315,029	(20,185)	294,844	272,181
Direct costs	198,615	(12,983)	185,632	173,959
Gross margin	\$ 116,414	\$ (7,202)	\$109,212	\$ 98,222
Selling, general and administrative expenses	\$ 120,165	\$ (7,068)	\$113,097	\$ 119,082

	Nine Months Ended September 30,			
	2004			2003
	As reported	Currency Translation	Constant Currencies	As reported
Hudson revenue	\$866,544	\$ (73,945)	\$792,599	\$753,091
Highland revenue	45,720	(1,875)	43,845	47,562
Total revenue	912,264	(75,820)	836,444	800,653
Direct costs	570,970	(48,184)	522,786	501,181
Gross margin	\$341,294	\$ (27,636)	\$313,658	\$299,472
Selling, general and administrative expenses	\$360,573	\$ (27,641)	\$332,932	\$364,420

Quarter Ended September 30, 2004 Compared to the Quarter Ended September 30, 2003

Revenue for the three months ended September 30, 2004 was \$315,029, an increase of \$42,848, or 15.7%, as compared to revenue of \$272,181 in the third quarter of 2003. On a constant currencies basis, revenue would have increased 8.3% comparing the third quarter of 2004 with the third quarter of 2003. This increase was primarily due to higher temporary contracting revenue and permanent placement revenue in the Hudson North America and U.K. businesses, partially offset by declines in temporary contracting revenue in Hudson Australia and the closing of the Highland continental European businesses in 2003.

Hudson revenue was \$300,828 for the three months ended September 30, 2004, an increase of 17.3% from \$256,516 for the same period of 2003. On a constant currencies basis, Hudson revenue would have increased 9.5% comparing the third quarter of 2004 with the third quarter of 2003. The increase in revenue on a constant currencies basis reflected growth in almost all North American practice groups (+32%), particularly in accounting and finance, legal and information technology ("IT"), growth in the U.K. (+17%) from temporary contracting and permanent placement businesses, and permanent placement revenue in the Asian region (+41%), primarily Singapore and Japan. These increases were partially offset by lower Australian temporary contracting revenue (-17%). Continental Europe was essentially unchanged from the prior year period, with increases in Belgium (+32%) and the Netherlands (+13%) offset by the decrease resulting from abandonment of the German business at the end of the first quarter of 2004.

Highland revenue of \$14,201 for the three months ended September 30, 2004 was down 9.3% from \$15,665 in the same period of 2003. On a constant currencies basis, Highland revenue would have decreased 11.4% comparing the third quarter 2004 with the third quarter 2003. The decrease was primarily the result of the absence of revenue from continental Europe, where Highland closed essentially all of its operations at the end of 2003 and declines in the U.K. (-23%), partially offset by improved results in Australia (+20%) and moderate growth in revenue in North America (+5%).

Direct costs for the three months ended September 30, 2004 were \$198,615, an increase of 14.2% compared to \$173,959 for the same period of 2003. Direct costs related to temporary contracting as a percentage of revenue were 82.4%, a decrease from the prior year's 83.5%. On a constant currencies basis, direct costs would have increased by approximately 7% in the third quarter of 2004 in comparison to the prior year period.

Gross margin, defined as revenue less direct costs, for the three months ended September 30, 2004 was \$116,414, an increase of \$18,192, or 18.5%, from \$98,222 reported in the three months ended September 30, 2003. Gross margin as a percentage of revenue rose to 37.0% for the third quarter of 2004, from 36.1% in the third quarter of 2003, primarily on improved temporary contracting margins in North America. On a constant currencies basis, the gross margin for the third quarter of 2004 would have increased by 11.2% compared to the third quarter of 2003. The increase in gross margin was attributable to improved margins in the Hudson North America temporary contracting business (+50%), and improvements in the Hudson permanent staffing businesses in North America (+87%), the U.K. (+25%), and Asian regions (+47%), partially offset by absence of the Highland continental European business and decreases in the Highland U.K. (-26%) and Hudson continental Europe (-1%).

Selling, general and administrative expenses for the three months ended September 30, 2004 were \$120,165, an increase of 0.9% compared with \$119,082 for the same period of 2003. Selling general and administrative expenses as a percentage of revenue were 38.1% and 43.8% for the third quarter of 2004 and 2003, respectively. Increases in support staff compensation, professional fees and other administrative expenses were essentially offset by lower provision for doubtful accounts (\$6,622), lower depreciation and amortization (\$887) and lower occupancy costs. On a constant currencies basis, the third quarter 2004 selling, general and administrative expenses would have decreased by 5.0% compared to the third quarter 2003.

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In the third quarter of 2003, the Company determined that goodwill should be tested for impairment due to current business conditions and changes in circumstances resulting from the Distribution, which established the Company as an independent entity with a separate market capitalization. As a result of this test and the related fair value examination, the Company recorded a non-cash goodwill impairment charge of \$202,785. The impairment valuation was based upon a discounted cash flow approach that used estimated future revenue and costs for each business segment as well as appropriate discount rates. The estimates that were used are consistent with the plans and estimates the Company is using to manage the underlying business. The goodwill impairment charge wrote-off all previously recorded goodwill related to both of the Company's business segments. There were no comparable expenses in 2004.

Business reorganization expenses for the three months ended September 30, 2004 totaled \$3,314 compared to \$2,082 in the same period of 2003. The 2004 expenses primarily related to the completion of the relocation of Highland's Toronto office and costs, net of recoveries associated with various U.S. and Australian office leases. The expenses for the third quarter of 2003 were primarily related new expenses related to leases for certain Highland European properties, partially offset by the finalization of the consolidation of certain facilities and leases at a lower than expected cost.

Merger and integration expenses (recoveries) reflect costs incurred or recoveries from prior accrued expenses as a result of pooling-of-interests transactions and the integration of such companies. For the three months ended September 30, 2004, merger and integration recoveries were \$(317) compared to \$(102) from the same period in the prior year.

As a result of the above, operating losses for the three months ended September 30, 2004 were \$6,748, an improvement of \$218,877 when compared to an operating loss of \$225,625 for the comparable period in 2003. Hudson reported operating income in the third quarter of 2004 of \$4,346 compared to an operating loss of \$204,195 for the comparable period in 2003, which included a \$195,404 goodwill impairment charge. Highland operating loss was \$2,597 in the third quarter of 2004 compared to a loss of \$13,235 for the comparable period in 2003, which included a goodwill impairment charge of \$7,381. Corporate expenses in the third quarter of 2004 increased to \$8,497 from \$8,195 in the same period in 2003, as a result of higher professional fees and staff compensation, partially offset by reduced depreciation expense (\$868).

Other non-operating income, including net interest income, was \$331 in the third quarter of 2004 compared to expenses of \$870 for the same period of 2003.

The expense for income taxes for the three months ended September 30, 2004 was \$530 on a pretax loss of \$6,417 compared with a benefit of \$221 on a pretax loss of \$226,495 for the same period of 2003. In each period, the effective tax rate differs from the U.S. Federal statutory rate of 35% due to valuation allowances on deferred tax assets, utilization of net operating losses retained or utilized by Monster, certain non-deductible expenses such as amortization, business restructuring and spin off costs, merger costs from pooling of interests transactions, asset impairment charges, and variations from the U.S. tax rate in foreign jurisdictions.

Net loss was \$6,947 for the three months ended September 30, 2004, compared with a loss of \$226,274 for the same period in 2003.

Basic and diluted loss per share for the third quarter of 2004 was a loss of \$.68 per share compared to a loss of \$26.92 per share in the third quarter of 2003. For the 2004 and 2003 periods, dilutive earnings per share calculations do not differ from basic earnings per share because the effects of any potential common stock were anti-dilutive and therefore not included in the calculation of dilutive earnings per share.

Nine Months Ended September 30, 2004 Compared to the Nine Months Ended September 30, 2003

Revenue for the nine months ended September 30, 2004 was \$912,264, an increase of \$111,611, or 13.9%, as compared to revenue of \$800,653 in the first nine months of 2003. On a constant currencies basis, revenue would have increased 4.5% comparing the first nine months of 2004 with the same period in 2003. This increase was primarily due to higher temporary contracting revenue and permanent placement revenue in the Hudson North America and U.K. businesses, partially offset by declines in temporary contracting revenue in Hudson Australia and the closing of the Highland continental European businesses in 2003.

Hudson revenue was \$866,544 for the nine months ended September 30, 2004, up 15.1% from \$753,091 for the same period of 2003. On a constant currencies basis, Hudson revenue would have increased 5.2% comparing the first nine months of 2004 with the same period in 2003. This increase reflected the higher revenue in the Hudson U.K. temporary contracting (+10%) and permanent placement (+27%) businesses, Hudson North America's improved revenue in permanent placement (+48%) and temporary contracting (+10%) and Hudson Asia's improved permanent placement business (+40%), offset by decreases in Hudson Australia (-6%) and slower revenue growth from Hudson Europe (+2%), as a result from the abandonment of its German subsidiary.

Highland revenue of \$45,720 for the nine months ended September 30, 2004 was down 3.9% from \$47,562 in same period of 2003, reflecting closure of its continental European operations, partially offset by an increase in the Australian business (+114%) and moderate growth in North America (+2%). On a constant currencies basis, Highland revenue would have decreased approximately 8% when compared with the same period in 2003.

Direct costs for the nine months ended September 30, 2004 increased \$69,789, or 13.9%, to \$570,970, compared to \$501,181 for the same period of 2003. On a constant currencies basis, direct costs would have increased in the first nine months of 2004 in comparison to the prior year by 4.3%. The increase was primarily the result of increased costs for temporary contractors and increases in out-of-pocket expenses.

Gross margin, defined as revenue less direct costs, for the nine months ended September 30, 2004 was \$341,294, higher by \$41,822, or 14.0%, from \$299,472 reported in the nine months ended September 30, 2003. Gross margin as a percentage of revenue was unchanged at 37.4% for the first nine months of 2004 and 2003. On a constant currencies basis, gross margin would have increased by 4.7% in the first nine months of 2004 when compared to the same period of 2003. The increase in gross margin was attributable to improved margin in the Hudson North America temporary contracting business (+19%), an improvement in the Hudson North America permanent staffing businesses in (+47%), the U.K (+9%), and Asian regions (+36%), partially offset by the absence of the Highland continental European business and decreases in the Hudson continental European business (-3%).

Selling, general and administrative expenses for the nine months ended September 30, 2004 were \$360,573, lower by 1.1% when compared with \$364,420 for the same period of 2003. Selling general and administrative expenses as a percentage of revenue were 39.5% and 45.5% for the first nine months of 2004 and 2003, respectively. A recovery of doubtful accounts in 2004 versus a provision for doubtful accounts in 2003 reduced 2004 selling general and administrative expenses by \$15,873 for the first nine months of 2004 when compared to the same period of 2003. This reduction was partially offset by higher compensation costs related to sales commissions and support staff compensation. On a constant currencies basis the first nine months of 2004 selling, general and administrative expenses would have decreased by 8.6% compared to the same period of 2003.

In the third quarter of 2003, the Company determined that goodwill should be tested for impairment due to current business conditions and changes in circumstances resulting from the Distribution, which established the Company as an independent entity with a separate market capitalization. As a result of this test and the related fair value examination, the Company recorded a non-cash goodwill impairment charge of \$202,785. The impairment valuation was based upon a discounted cash flow approach that used estimated future revenue and costs for each business segment as well as appropriate discount rates. The estimates that were used are consistent with the plans and estimates the Company is using to manage the underlying business. The goodwill impairment charge wrote-off all previously recorded goodwill related to both of the Company's business segments.

Business reorganization expenses for the nine months ended September 30, 2004 totaled \$3,450, as compared to \$9,543 in the same period of 2003. The 2004 expenses primarily related to the completion of the relocation of Highland's Toronto office and costs, net of recoveries associated with various U.S. and Australian office leases. The 2003 expenses primarily related to consolidation of facilities related to the Distribution, the continuation of the process to streamline operations begun in 2002 and new expenses related to leases for certain Highland European properties.

Merger and integration expenses (recoveries) reflect costs incurred or recoveries from prior accrued expenses as a result of pooling-of-interests transactions and the integration of such companies. For the nine months ended September 30, 2004, merger and integration recoveries were \$(354), compared to expense of \$876 in the same period of the prior year. The decrease in expenses for the first nine months of 2004 compared to the same period of 2003 was a result of the finalization of the exit strategies related to the pooled businesses.

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Operating loss for the nine months ended September 30, 2004 was \$22,375, compared to an operating loss of \$278,152 for the comparable period in 2003. The decrease in the loss was primarily the result of the absence of the goodwill impairment charge of \$202,785 in 2004 and improved gross margins, discussed above, and lower business reorganization expenses.

Hudson's operating income for the nine months ended September 30, 2004 was \$5,381, compared to an operating loss of \$231,018 for the same period in 2003. Hudson's nine-month 2004 operating income was higher when compared to the 2003 operating loss as a result of the absence of a goodwill impairment charge of \$195,404, lower allowances for doubtful accounts of \$15,873, improved gross margins in North America (+26%), the U.K. (+9%) and Asian (+36%) regions and lower business reorganization expenses \$5,314 when compared to 2003 results.

Highland's operating loss for the nine months ended September 30, 2004 was \$1,932, compared to an operating loss of \$24,491 for the same period in 2003. The nine-month 2004 loss was lower than the 2003 loss as a result of the absence of a goodwill impairment charge (\$7,381) and lower selling general and administrative costs (\$16,465), when compared to 2003 results.

Corporate expense for the nine months ended September 30, 2004 was \$25,824, compared to \$22,643 in the comparable period of 2003. Corporate expenses increased in the nine-month 2004 period as a result of higher marketing and professional fees.

Other non-operating expense, including net interest expense, was \$1,812 in the first nine months of 2004 and \$1,306 for the same period of 2003. Losses on the disposition and abandonment of assets were \$1,182 and \$2,063 for the nine-month periods ended September 30, 2004 and 2003, respectively.

The provision for income taxes for the nine months ended September 30, 2004 was \$1,251 on a pretax loss of \$24,187, compared with a provision for \$5,917 on a pretax loss of \$279,458 for the same period of 2003. The change in the Company's tax provision for the nine months ended September 30, 2004 compared to the same period in 2003 was primarily due to establishment of a valuation allowance in 2003 on certain foreign tax losses, which may not be realizable and the inability of the Company to realize benefits from its current losses in businesses where the future earnings ability to utilize those losses is not certain. In each period, the effective tax rate differs from the U.S. Federal statutory rate of 35% due to valuation allowance on deferred tax assets, net operating losses retained or utilized by Monster, certain non-deductible expenses such as amortization, business restructuring and spin off costs, merger costs from pooling of interests transactions, asset impairment charges, and variations from the U.S. tax rate in foreign jurisdictions.

Net loss was \$25,438 for the nine months ended September 30, 2004 compared with a net loss of \$285,375 for the same period in 2003. Basic and diluted loss per share for the first nine months of 2004 was a loss of \$2.66 per share, compared to a loss of \$34.05 per share in the first nine months of 2003. For the 2004 and 2003 periods, dilutive earnings per share calculations do not differ from basic earnings per share because the effects of any potential common stock were anti-dilutive and therefore not included in the calculation of dilutive earnings per share.

Liquidity and Capital Resources

The Company received \$27,919 in net proceeds from the issuance of 1,273,885 shares of its common stock in a registered public offering on March 23, 2004. The Company issued 183,587 shares of common stock, with a fair value of \$5,248, to purchase a business in the Hudson segment on June 2, 2004.

The Company's liquidity needs arise primarily from funding working capital requirements, as well as capital investment in information technology and reorganization costs. Prior to the Distribution, HH Group historically relied upon Monster's centralized cash management function and Monster's line of credit facility for its liquidity needs. Legal obligation for settlement of such liabilities remained with the Company. In connection with the Distribution, Monster provided HH Group with a cash balance of \$40,000 upon completion of the Distribution on March 31, 2003, and agreed to reimburse the Company \$13,530 of cash payments due under its accrued integration restructuring and business reorganization plans. The Company received full payment of this reimbursement before June 30, 2004.

The Company filed a shelf registration on October 6, 2004 to enable it to issue up to 675,000 shares of its common stock from time to time in connection with acquisitions of businesses, assets or securities of other companies, whether by purchase, merger or any other form of acquisition or business combination. If any shares are issued using this shelf registration, the Company will not receive any proceeds from these offerings other than the assets, businesses or securities acquired. The registration statement replaced the Company's existing acquisition shelf registration statement filed on April 22, 2004 under which 166,413 shares of its common stock remained available for issuance.

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The Company has a senior secured credit facility for \$50,000 with Wells Fargo Foothill, Inc., as agent, and certain lenders (the "Foothill Credit Facility"). The maturity date of the Foothill Credit Facility is March 31, 2007. Outstanding loans will bear interest equal to the prime rate plus 0.25% or LIBOR plus 2.00%, at the Company's option. The Foothill Credit Facility is secured by substantially all of the assets of the Company and extensions of credit will be based on a percentage of the accounts receivable of the Company. The Company expects to use such credit, if and when required, to support its ongoing working capital requirements, capital expenditures and other corporate purposes and to support letters of credit. As of September 30, 2004, the credit limit on the Foothill Credit Facility was \$50,000. During the nine months ended September 30, 2004, the Company borrowed and repaid a total of \$13,550 under this credit facility. As of September 30, 2004, no borrowings were outstanding and the Company had letters of credit issued and outstanding of \$13,179 leaving \$36,821 of the credit facility available for use on the terms set forth in the Foothill Credit Facility.

The Foothill Credit Facility contains various restrictions and covenants, including (1) prohibitions on payments of dividends and repurchases of the Company's stock; (2) requirements that the Company maintain its Adjusted EBITDA and capital expenditures within prescribed levels; (3) restrictions on the ability of the Company to make additional borrowings, or to consolidate, merge or otherwise fundamentally change the ownership of the Company; and (4) limitations on investments, dispositions of assets and guarantees of indebtedness. The Adjusted EBITDA covenant generally provides that the Company's Adjusted EBITDA (as defined in the Foothill Credit Facility) loss for the trailing twelve-month periods ending March 31, June 30, September 30 and December 31, 2004 may not exceed \$48,500, \$35,500, \$25,500 and \$8,000, respectively. The capital expenditure covenant provides that the Company's capital expenditures for 2004 may not exceed \$11,000. These restrictions and covenants could limit the Company's ability to respond to market conditions, to provide for unanticipated capital investments, to raise additional debt or equity capital, to pay dividends or to take advantage of business opportunities, including future acquisitions. On July 27, 2004, the Company entered into an amendment to the Foothill Credit Facility that approved the Company's updated plan for consolidation of certain of its subsidiaries, clarified the basis for establishing the Company's Adjusted EBITDA covenant for the Company's fiscal year 2005 and thereafter, joined certain subsidiaries of the Company as parties to the Foothill Credit Facility, and made certain other changes.

On April 22, 2004, the Company filed a registration statement on Form S-4 with the SEC to offer up to 350,000 shares of the Company's common stock from time to time in connection with acquisitions of businesses, assets or securities of other companies whether by purchase, merger or any other form of acquisition or business combination. On June 2, 2004, the Company issued 183,587 shares of common stock registered on the Form S-4, with a fair value of \$5,248, to purchase a business in its Hudson segment. With the filing of the new shelf registration on October 6, 2004, any shares not issued utilizing the April 22, 2004 shelf registration are no longer available for issuance.

During the nine months ended September 30, 2004 and 2003, the Company used cash in operating activities of \$27,420 and \$28,392, respectively. Cash usage decreased in the 2004 period from the 2003 period as a result of lower net losses (\$259,937) and lower working capital requirements, primarily current liabilities, business reorganization expenses and merger and integration expenses (\$11,198). These improvements in cash flow were partially offset by the absence of the 2003 non-cash goodwill impairment charge (\$202,785), higher accounts receivable from improved revenue (\$47,735) and a net recovery of doubtful accounts in 2004 versus a provision in 2003 (\$15,873).

During the nine months ended September 30, 2004 and 2003, the Company used cash in investing activities of \$6,288 and \$8,154, respectively. This use of cash was primarily related to capital expenditures in the normal course of operations and payments related to businesses purchased in prior years. The decreased use of cash in the first nine months of 2004 compared to the same period of 2003 was the result of lower capital expenditures (\$1,579) and lower payments related to purchases of businesses (\$287).

During the nine months ended September 30, 2004 and 2003, the Company generated cash from financing activities of \$34,449 and \$46,698, respectively. The cash provided from financing was lower in 2004 as a result of the absence of Monster cash transfers (\$41,317), partially offset by the proceeds from the issuance of common stock (\$27,919), proceeds from the exercise of options (\$1,364) and employee stock purchases (\$1,078). Third-party debt and capital leases as of September 30, 2004 were \$5,621.

The Company believes that the cash and cash equivalents on hand at September 30, 2004, supplemented by the Foothill Credit Facility, will provide it with sufficient liquidity to satisfy its working capital needs, capital expenditures, investment requirements and commitments through at least the next twelve months. Cash generated from operating activities is subject to fluctuations in the global economy and unemployment rates.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand the future prospects of a company and make informed investment decisions. This Form 10-Q contains these types of statements, which the Company believes to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995.

All statements other than statements of historical fact included in this Form 10-Q, including statements regarding the Company’s future financial condition, results of operations, business operations and business prospects, are forward-looking statements. Words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “predict,” “believe” and similar words, expressions and variations of these words and expressions are intended to identify forward-looking statements. All forward-looking statements are subject to important factors, risks, uncertainties and assumptions, including industry and economic conditions, that could cause actual results to differ materially from those described in the forward-looking statements. Such factors, risks, uncertainties and assumptions include, but are not limited to, (1) the impact of global economic fluctuations on the Company’s temporary contracting operations, (2) the cyclical nature of the Company’s executive search and mid-market professional staffing businesses, (3) the Company’s ability to manage its growth, (4) risks associated with expansion, (5) the Company’s heavy reliance on information systems and the impact of potentially losing or failing to develop technology, (6) competition in the Company’s markets, (7) fluctuations in the Company’s operating results from quarter to quarter, (8) risks relating to the Company’s foreign operations, including foreign currency fluctuations, (9) the Company’s dependence on its highly skilled professionals and key management personnel, (10) the impact of employees departing with existing executive search clients, (11) risks maintaining the Company’s professional reputation and brand name, (12) restrictions imposed by blocking arrangements, (13) the Company’s exposure to employment-related claims from both clients and employers and limits on related insurance coverage, (14) the impact of government regulations, (15) the Company’s ability to successfully operate as an independent company and the level of costs associated therewith, and (16) restrictions on the Company’s operating flexibility due to the terms of its credit facility. Please see “Risk Factors” in the Company’s Annual Report on Form 10-K filed with the SEC on March 10, 2004 for more information.

The Company cautions that undue reliance should not be placed on the forward-looking statements, which speak only as of the date of this Form 10-Q. The Company assumes no obligation, and expressly disclaims any obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The majority of the Company's borrowings are in fixed rate leases and seller financed notes. The carrying amounts of long-term debt approximate fair value, generally due to the short-term nature of the underlying instruments. During the nine months ended September 30, 2004, the Company borrowed and repaid a total of \$13,550 under its credit facility, which bears interest equal to the prime rate plus 0.25% or LIBOR plus 2.00%, at the Company's option. The Company does not trade derivative financial instruments for speculative purposes.

The Company also conducts operations in various foreign countries, including Australia, Belgium, Canada, France, the Netherlands, New Zealand and the United Kingdom. For the nine months ended September 30, 2004, approximately 74% of gross margin was earned outside the United States and collected in local currency, and related operating expenses also were paid in such corresponding local currency. Accordingly, the Company is subject to increased risk for exchange rate fluctuations between such local currencies and the U.S. dollar.

The financial statements of the Company's non-U.S. subsidiaries are translated into U.S. dollars using current rates of exchange, with translation gains or losses included in the cumulative translation adjustment account, a component of stockholders' equity. During the nine months ended September 30, 2004, the Company had a translation loss of \$456, primarily attributable to the slight strengthening of the U.S. dollar against the Australian dollar, partially offset by a weakening of the U.S. dollar against the British pound.

The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes. Accordingly, the Company enters into foreign currency forward contracts to minimize the impact of foreign exchange movements on intercompany loan balances. At September 30, 2004, the Company had no outstanding foreign currency forward contracts.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management, with the participation of the Company's Chairman of the Board and Chief Executive Officer and Executive Vice President and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the quarter ended September 30, 2004. Based upon their evaluation of these disclosure controls and procedures, the Chairman of the Board and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the quarter ended September 30, 2004 to ensure that material information relating to the Company, including the Company's consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

(b) Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2004 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION**ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table contains information related to the repurchase of common stock by the Company during the third quarter of 2004. No repurchases were made pursuant to a publicly announced repurchase plan or program.

<u>Period</u>	<u>Total number of shares purchased ^(a)</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Maximum number of shares that may yet be purchased under the plans or programs</u>
July 1, 2004 to July 31, 2004	442	\$ 26.63	—	—
August 1, 2004 to August 31, 2004	—	—	—	—
September 1, 2004 to September 30, 2004	—	—	—	—
Total	442	\$ 26.63	—	—

^(a) Represents shares of vested restricted stock tendered to the Company by employees to satisfy tax-withholding obligations resulting from the vesting of restricted stock.

ITEM 6. EXHIBITS

Exhibits: The following Exhibits are filed herewith.

- 3.1 Amended and Restated By-Laws (effective as of July 23, 2004)
- 10.1 Hudson Highland Group, Inc. board of directors stock option agreement
- 10.2 Hudson Highland Group, Inc. restricted stock award agreement
- 10.3 Hudson Highland Group, Inc. stock option agreement
- 15 Letter from BDO Seidman, LLP regarding unaudited interim financial information.
- 31.1 Certification by Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
- 31.2 Certification by the Executive Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
- 32.1 Certification of the Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of the Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HUDSON HIGHLAND GROUP, INC.
(Registrant)

By: _____ /s/ JON F. CHAIT
Jon F. Chait
Chairman and
Chief Executive Officer
(Principal Executive Officer)

Dated: November 2, 2004

By: _____ /s/ RICHARD W. PEHLKE
Richard W. Pehlke
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: November 2, 2004

**HUDSON HIGHLAND GROUP, INC.
FORM 10-Q**

EXHIBIT INDEX

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AMENDED AND RESTATED
B Y - L A W S
OF
HUDSON HIGHLAND GROUP, INC.
(a Delaware corporation)

ARTICLE I
OFFICES

Section 1. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. The Corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the Corporation may require.

ARTICLE II
MEETINGS OF STOCKHOLDERS

Section 1. All meetings of the stockholders for the election of directors shall be held in such place, either within or without the State of Delaware, at such place as may be fixed from time to time by the board of directors and as shall be designated from time to time by the board of directors and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as shall be stated in the notice of the meeting.

Section 2. Annual meetings of stockholders shall be held at such date and time as shall be designated from time to time by the board of directors and stated in the notice of the meeting, at which they shall elect by a plurality vote a board of directors, and transact such other business as may properly be brought before the meeting.

Section 3. Notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 4. Nominations of persons for election to the board of directors and the proposal of business to be transacted by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice with respect to such meeting, (b) by or at the direction of the board of directors or (c) by any stockholder of record of the Corporation who was a stockholder of record at the time of the giving of the notice provided for in the following paragraph, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this section.

For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of the foregoing paragraph, the stockholder must have given timely notice thereof in writing to the secretary of the Corporation and such business must be a proper matter for stockholder action under the Delaware General Corporation Law. To be timely, a stockholder's notice shall be delivered to the secretary not less than 45 or more than 75 days prior to the first anniversary of the date on which the Corporation first mailed its proxy materials for the preceding year's annual meeting of stockholders; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not later than the close of business on the later of (i) the 90th day prior to such annual meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, and such person's written consent to serve as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of the Corporation that are owned beneficially and of record by such stockholder and such beneficial owner and (iii) a representation that such stockholder intends to appear in person or by proxy at the meeting to bring such business before the meeting.

In the event that the number of directors to be elected to the board of directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased board of directors made by the Corporation at least 55 days prior to the first anniversary of the date on which the Corporation first mailed its proxy materials for the preceding year's annual meeting of stockholders, a stockholder's notice required by this section shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

Only persons nominated in accordance with the procedures set forth in this section shall be eligible to serve as directors and only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. The chairman of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in this section and in Section 8 of this Article and, if any proposed

nomination or business is not in compliance with such procedures, to declare that such defectively proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

Notwithstanding the foregoing provisions of this section or of Section 8 of this Article, a stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to matters set forth herein. Nothing in such provisions shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under such Act.

Section 5. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, at the principal place of business of the Corporation.

Section 6. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, may be called by the chairman of the board and shall be called by the chairman of the board or secretary at the request in writing of a majority of the entire board of directors. Such request shall state the purpose or purposes of the proposed meeting.

Section 7. Notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting, to each stockholder entitled to vote at such meeting.

Section 8. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the board of directors or (b) by any stockholder of record of the Corporation who is a stockholder of record at the time of giving of notice provided for in this paragraph, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in Section 4 of this Article. Nominations by stockholders of persons for election to the board of directors may be made at such a special meeting of stockholders if the stockholder's notice required by the second paragraph of Section 4 of this Article shall be delivered to the secretary of the Corporation not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting.

Section 9. The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to the chairman in order. The chairman shall have the power to adjourn the meeting to another place, if any, date and time. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting.

Section 10. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 11. When a quorum is present at any meeting, and except as provided in Section 2 of Article II of these by-laws, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the certificate of incorporation, a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 12. Unless otherwise provided in the certificate of incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted on or after three years from its date, unless the proxy provides for a longer period.

Section 13. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation

Section 14. At all meetings of stockholders, the chairman of the meeting shall have absolute authority over matters of procedure, and there shall be no appeal from the ruling of the chairman.

Section 15. If the object of a stockholders meeting is to elect directors or to take a vote of the stockholders on any proposition, then the chairman of the meeting shall appoint a person, who is not a director, as inspector to receive and canvass the votes given at such meeting and certify the result to the chairman.

Section 16. Attendance of a stockholder, in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where the stockholder, in person or by proxy, attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

ARTICLE III
DIRECTORS

Section 1. The number of directors constituting the entire board of directors shall be fixed, and may be increased or decreased from time to time, exclusively by resolutions of the board of directors, and such number shall never be more than eleven nor less than five.

The board of directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire board of directors. The initial division of the board of directors into classes shall be made by the decision of the affirmative vote of a majority of the board of directors. The term of the initial Class I directors shall terminate on the date of the 2004 annual meeting of stockholders; the term of the initial Class II directors shall terminate on the date of the 2005 annual meeting of stockholders; and the term of the initial Class III directors shall terminate on the date of the 2006 annual meeting of stockholders. At each succeeding annual meeting of stockholders beginning in 2004, successors to the class of directors whose term expires at that annual meeting of stockholders shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. The term "entire board of directors" means the total number of directors which the Corporation would have if there were no vacancies.

A director shall hold office until the annual meeting of stockholders for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

Section 2. Subject to the rights of the holders of any series of Preferred Stock, any vacancy on the board of directors that results from an increase in the number of directors may be filled by a majority of the board of directors then in office, provided that a quorum is present, and any other vacancy occurring on the board of directors may be filled by a majority of the board of directors then in office, even if less than a quorum, or by a sole remaining director. Any director of any class elected to fill a vacancy resulting from an increase in the number of directors of such class shall hold office for a term that shall coincide with the remaining term of that class. Any director elected to fill a vacancy

not resulting from an increase in the number of directors shall have the same remaining term as that of his or her predecessor.

Section 3. The property and business of the Corporation shall be managed by or under the director of its board of directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

Section 4. Directors must be nominated in accordance with the procedure set forth in Section 4 of Article II hereof. No person shall be qualified to be elected and to hold office as a director if such person is determined by the affirmative vote of a majority of the entire board of directors to have violated either Federal or state law, in a manner contrary to the best interests of the Corporation, to have interests not properly authorized in conflict with the interests of the Corporation, or to have breached any agreement between such director and the Corporation relating to such director's services as a director or employee of the Corporation.

MEETINGS OF THE BOARD OF DIRECTORS

Section 5. The board of directors of the Corporation, or any committee thereof, may hold meetings, both regular and special, either within or without the State of Delaware.

Section 6. Regular meetings of the board of directors may be held upon such notice, or without notice at such time and at such place as shall from time to time be determined by the board.

Section 7. Special meetings of the full board may be called by the chairman of the board or any director by mailing seven days' written notice to each director or by telephone or by telegraph, telex, facsimile or electronic transmission not less than 24 hours before the meeting.

Section 8. Notice of a meeting need not be given to any director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or a waiver of notice of such meeting.

Section 9. At all meetings of the board a majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum shall not be present at any meeting of the board of directors the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 10. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board or committee. Such filing shall be in paper form if minutes are maintained in paper form and shall be in electronic form if minutes are maintained in electronic form.

Section 11. Unless otherwise restricted by the certificate of incorporation or these by-laws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

COMMITTEES

Section 12. There shall be the following committees of the board of directors which shall have and may exercise the authority specified in these bylaws: a Compensation Committee, an Audit Committee, a Nominating and Governance Committee and an Executive Committee, each of which shall (i) consist of the number of directors with the requisite qualifications and (ii) have the responsibilities as set forth in their respective charters. The board of directors may also, by resolution passed by a majority of the whole board, designate one or more other committees, each committee to consist of one or more directors of the Corporation. The Executive Committee shall have and may exercise all the powers and authority of the board of directors in the management of the business, properties and affairs of the Corporation, including authority to take all action provided by law and in the by-laws to be taken by the board of directors, except as such powers are limited by Section 12 of this Article III. All acts done and powers conferred by the Executive Committee shall be deemed to be, and may be certified as being, done or conferred under authority of the board of directors. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors, or by these by-laws, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the Corporation, but no such committee shall have the power or authority in reference to the following matters: (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the Delaware General Corporation Law to be submitted to stockholders for approval or (ii) adopting, amending or repealing any by-law of the Corporation; and, unless the resolution or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend or to

authorize the issuance of stock. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors.

Section 13. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

COMPENSATION OF DIRECTORS

Section 14. Unless otherwise restricted by the certificate of incorporation or these by-laws, the board of directors shall have the authority to fix the compensation of directors. The directors may also be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors and/or a stated salary as director. The directors may also be granted stock options at the discretion of the board of directors. No such payment or compensation shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

REMOVAL OF DIRECTORS

Section 15. Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, any or all of the directors of the Corporation may be removed from office only for cause and only by the affirmative vote of the holders of at least seventy percent (70%) of the voting power of the Corporation's then outstanding capital stock entitled to vote generally in the election of directors.

ARTICLE IV **NOTICES**

Section 1. Whenever, under the provisions of the statutes or of the certificate of incorporation or of these by-laws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at such person's address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Without limiting the manner by which notice otherwise may be given to stockholders, any notice to stockholders may also be given by electronic transmission in the manner provided in the Delaware General Corporation Law. Notice to directors may also be given by courier, telephone, telegram, telex, facsimile or electronic transmission or personally.

Section 2. Whenever any notice is required to be given under the provisions of the statutes or of the certificate of incorporation or of these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, or waiver by electronic transmission by such person or persons, whether before or after the time stated therein,

shall be deemed equivalent thereto. A person entitled to notice of any meeting of the board of directors or stockholders, as the case may be, waives such notice if he or she appears in person or, in the case of a stockholder, by proxy at such meeting, except when the person attends a meeting for the express purposes of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

ARTICLE V
OFFICERS

Section 1. The officers of the Corporation shall be chosen by the board of directors and shall be a chairman of the board, a secretary and a treasurer. The board of directors may also choose one or more vice presidents, one or more assistant secretaries and assistant treasurers and other officers, as it shall deem necessary. Any such officers shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board. Any number of offices may be held by the same person, unless the certificate of incorporation or these by-laws otherwise provide.

Section 2. The board of directors at its first meeting after each annual meeting of stockholders shall choose a chairman of the board of directors, a secretary and a treasurer.

Section 3. The salaries of all officers and agents of the Corporation shall be fixed by the board of directors.

Section 4. The officers of the Corporation shall hold office until their successors are chosen and qualify or until their earlier resignation or removal. Any officer elected or appointed by the board of directors may be removed at any time with or without cause by the affirmative vote of a majority of the board of directors. Any vacancy occurring in any office of the Corporation shall be filled by the board of directors.

CHAIRMAN OF THE BOARD

Section 5. The chairman of the board shall be the chief executive officer and shall preside at all meetings of the board of directors or of the stockholders of the Corporation. The chairman shall have such other powers and perform such other duties as are provided in these by-laws and, in addition thereto, as the board of directors may from time to time determine.

Section 6. The chairman of the board shall have general direction and supervision over day-to-day matters relating to the business and affairs of the Corporation, shall implement or supervise the implementation of corporate policies as established by the board of directors and shall be in charge of stockholder relations. He

or she shall have such other powers and perform such other duties as the board of directors may from time to time prescribe.

Section 7. He or she shall have the authority to execute bonds, mortgages and other contracts and, except as otherwise provided by law or the board of directors, he or she may authorize any vice president or other officer or agent of the Corporation to execute such documents in his or her place and stead.

THE VICE PRESIDENTS

Section 8. The vice president, if any, or, if there shall be more than one, the vice presidents in the order determined by the board of directors (or, in the absence of any designation, then in the order of their election) shall, in the absence or disability of the chairman of the board, perform the duties and exercise the powers of the chairman and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

THE SECRETARY AND ASSISTANT SECRETARY

Section 9. The secretary shall attend all meetings of the board of directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the board of directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He or she shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the board of directors, and shall perform such other duties as may be prescribed by the board of directors or person serving as chairman of the board of directors, under whose supervision he or she shall be.

Section 10. The assistant secretary or, if there be more than one, the assistant secretaries in the order determined by the board of directors (or, in the absence of any designation, then in the order of their election), shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

THE TREASURER AND ASSISTANT TREASURERS

Section 11. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the board of directors.

Section 12. He or she shall disburse the funds of the Corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements, and shall render to the person serving as chairman of the board and to the board of directors at

its regular meetings, or when the board of directors so requires, an account of all his or her transactions as treasurer and of the financial condition of the Corporation.

Section 13. If required by the board of directors, he or she shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his or her control belonging to the Corporation.

Section 14. The assistant treasurer, or, if there shall be more than one, the assistant treasurers in the order determined by the board of directors (or, in the absence of any designation, then in the order of their election), shall, in the absence or disability of the treasurer, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

ARTICLE VI

CERTIFICATES OF STOCK

Section 1. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by the chairman of the board of directors, or a vice-president and the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the Corporation, certifying the number of shares owned by that holder in the Corporation.

Section 2. Any of or all the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if that person or entity were such officer, transfer agent or registrar at the date of issue.

LOST CERTIFICATES

Section 3. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or the owner's legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond or payment of applicable insurance premium in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

TRANSFERS OF STOCK

Section 4. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

FIXING RECORD DATE

Section 5. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

REGISTERED STOCKHOLDERS

Section 6. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII **INDEMNIFICATION**

Section 1. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall

not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 2. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. To the extent that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 or 2 of this Article VII or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 4. Any indemnification under Sections 1 or 2 of this Article VII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in Sections 1 or 2 of this Article VII. Such determination shall be made, with respect to a person which is a director or officer at the time of such determination, (a) by a majority vote of the directors who were not parties to such action, suit or proceeding, even though less than a quorum, or (b) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (c) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (d) by the stockholders. To the extent, however, that a director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith, without the necessity of authorization in the specific case.

Section 5. For purposes of any determination under Section 4 of this Article VII, a person shall be deemed to have acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his or her conduct was unlawful, if such person's action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to such person by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 5 shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a director, officer, employee or agent. The provisions of this Section 5 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Section 1 or 2 of this Article VII, as the case may be.

Section 6. Notwithstanding any contrary determination in the specific case under Section 4 of this Article VII, and notwithstanding the absence of any determination thereunder, any director or officer may apply to the Court of Chancery of the State of Delaware or any other court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standards of conduct set forth in Section 1 or 2 of this Article VII, as the case may be. Neither a contrary determination in the specific case under Section 4 of this Article VII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 6 shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 7. Expenses (including attorneys' fees) incurred by a director or officer of the Corporation in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article VII. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the Corporation deems appropriate.

Section 8. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the certificate of incorporation or any bylaw, agreement, vote of stockholders or disinterested directors or pursuant to the direction of any court of competent jurisdiction or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Section 1 and 2 of this Article VII shall be made to the fullest extent permitted by law. The provisions of this Article VII shall not be deemed to preclude the indemnification of any person who is not specified in Section 1 or 2 of this Article VII but whom the Corporation has the power or obligation to indemnify under the provisions of the GCL, or otherwise.

Section 9. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation, as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article VII.

Section 10. For purposes of Article VII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had the power and authority to indemnify its directors, officers and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under Article VII with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

Section 11. For purposes of Article VII, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves service by, such director, officer, employee, or agent, as the case may be, with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner that person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in Article VII.

Section 12. The indemnification and advancement of expenses provided by, or granted pursuant to this Article VII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such person.

Section 13. Notwithstanding anything contained in this Article VII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 6 hereof), the Corporation shall not be obligated to indemnify any director or officer (or his or her heirs, executors or personal or legal representatives) or advance expenses in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the board of directors of the Corporation.

Section 14. The Corporation may, to the extent authorized from time to time by the board of directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article VII to directors and officers of the Corporation.

ARTICLE VIII
GENERAL PROVISIONS

DIVIDENDS

Section 1. Dividends upon the capital stock of the Corporation subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

ANNUAL STATEMENT

Section 3. The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the Corporation.

CHECKS

Section 4. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

FISCAL YEAR

Section 5. The fiscal year of the Corporation shall be fixed, and shall be subject to change, by the Board of Directors.

SEAL

Section 6. The corporate shall not be required to have a seal.

ARTICLE IX
AMENDMENTS

Section 1. These by-laws may be altered, amended, restated or repealed or new by-laws may be adopted by the board of directors or the stockholders as provided in the certificate of incorporation.

**HUDSON HIGHLAND GROUP, INC.
BOARD OF DIRECTORS
STOCK OPTION AGREEMENT**

STOCK OPTION AGREEMENT (“Agreement”) made as of the [DAY]th day of [MONTH], [YEAR], by and between **HUDSON HIGHLAND GROUP, INC.**, a Delaware corporation (the “Company”) and [FIRST NAME LAST NAME] (the “Optionee”).

WITNESSETH:

WHEREAS, pursuant to the Hudson Highland Group, Inc. Long Term Incentive Plan (the “Plan”), the Company desires to grant to the Optionee and the Optionee desires to accept an option to purchase shares of common stock, \$.001 par value, of the Company (the “Common Stock”) upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant. Subject to the terms and conditions set forth herein, the Company hereby grants to the Optionee an option to purchase up to [OPTIONS] shares of Common Stock at a purchase price per share of \$[PRICE]. This option is intended to be treated as an option that does not qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. Vesting. As of the date of this Agreement, 40% of the option will be vested and exercisable. Except as specifically provided otherwise herein, the remainder of the option will vest and become exercisable, if at all, in accordance with the following schedule based upon the number of full years of the Optionee’s continuous service with the Company or an affiliate (as defined below) of the Company following the date of this Agreement. As used in this Agreement, the term “affiliate” means an affiliate of the Company within the meaning of Rule 405 under the Securities Act of 1933, as amended.

<u>Full Years of Continuous Service</u>	<u>Incremental Percentage of Option Exercisable</u>	<u>Cumulative Percentage of Option Exercisable</u>
1	20%	60%
2	20%	80%
3	20%	100%

If any fractional shares would result from the strict application of the incremental percentages set forth above, then the actual number of shares vesting on any specific date will cover only the full number of shares determined by rounding the number of shares to be issued from the strict application of the incremental percentages set forth above to the nearest whole number. Unless sooner terminated, the option will expire on the tenth anniversary of the date hereof.

3. Exercise. Any portion of the option which has vested and is exercisable may be exercised in whole or in part by delivering to the Executive Vice President, Human Resources of the Company at its corporate headquarters in New York, New York (a) a written notice specifying (1) the number of shares to be purchased, (2) the date of this Agreement and the specific number of shares referred to in Section 1 of this Agreement, (3) the Optionee's home address and, if the Optionee has one, the Optionee's social security or U.S. taxpayer identification number and (4) delivery instructions with respect to the shares of Common Stock issuable upon exercise, and (b) cash payment in full of the exercise price, together with the amount, if any, deemed necessary by the Company to enable it to satisfy any federal, foreign or other tax withholding obligations with respect to the exercise (unless other arrangements acceptable to the Company in its sole discretion have been made). The Company may from time to time change (or provide alternatives to) the method of exercise of the option granted hereunder by notice to the Optionee, it being understood that from and after such notice the Optionee will be bound by the method (or alternatives) specified in any such notice. The Company (in its sole and absolute discretion) may permit all or part of the exercise price to be paid with shares of Common Stock which have been owned by the Optionee for at least six months, or in installments (together with interest) evidenced by the Optionee's secured promissory note.

4. Issuance of Shares. No shares of Common Stock shall be sold or delivered hereunder until full payment for such shares has been made. The Optionee shall have no rights as a stockholder with respect to any shares covered by the option until a stock certificate for such shares is issued to the Optionee. Except as otherwise provided herein, no adjustment shall be made for dividends or distributions of other rights for which the record date is prior to the date such stock certificate is issued.

5. No Assignment of Option. This option is not assignable or transferable except upon the Optionee's death to a beneficiary designated by the Optionee in a written beneficiary designation filed with the Company or, if no duly designated beneficiary shall survive the Optionee, pursuant to the Optionee's will and/or by the laws of descent and distribution, and is exercisable during the Optionee's lifetime only by the Optionee or the Optionee's guardian or legal representative.

6. Termination of Service. If the Optionee's service as a director of the Company ceases for any reason other than death, then, unless sooner terminated, that portion of the option which is exercisable on the date the Optionee ceases service will remain exercisable for a period of six months after such date (one year in the case of an Optionee whose service ceases by reason of disability (as defined below)) but in no event after the expiration of the option in accordance with Section 2, and the remaining portion of the option will automatically expire on such date. If the Optionee's service ceases by reason of the Optionee's death, then, unless sooner terminated, the option will become fully vested (to the extent it was not vested on the date of death) and will remain exercisable by the Optionee's beneficiary for a period of one year after the date of the Optionee's death but in no event after the expiration of the option in accordance with Section 2. Any vested option which is not exercised within the applicable six month or one-year period following termination of service will automatically expire. For purposes hereof, the term "disability" means the inability of the Optionee to perform the customary duties of the Optionee's service with the Company or an affiliate of the Company by

reason of a physical or mental incapacity which is expected to result in death or be of indefinite duration as determined by the Committee (as defined in the Plan).

7. Securities Law Restrictions. Notwithstanding anything herein to the contrary, the option shall in no event be exercisable and shares shall not be issued hereunder if, in the opinion of counsel to the Company, such exercise and/or issuance may result in a violation of federal or state securities laws or the securities laws of any other relevant jurisdiction.

8. Capital and Corporate Changes.

(a) Adjustments Upon Changes in Capitalization. The number and class of shares covered by this option and, if applicable, the exercise price per share shall be adjusted proportionately or as otherwise appropriate to reflect any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or any like capital adjustment, or the payment of any stock dividend, and/or to reflect a change in the character or class of shares covered by the Plan arising from a readjustment or recapitalization of the Company's capital stock.

(b) Change in Control. If, in connection with a Change in Control (as defined below), the stockholders of the Company receive capital stock of another corporation ("Exchange Stock") in exchange for their shares of Common Stock (whether or not such Exchange Stock is the sole consideration), and if the Board of Directors of the Company (the "Board") so directs, then this option will be converted into an option to purchase shares of Exchange Stock. The number of shares and exercise price under the converted option will be determined by adjusting the number of shares and exercise price under this option on the same basis as the determination of the number of shares of Exchange Stock the holders of Common Stock will receive in connection with the Change in Control and, unless the Board determines otherwise, the vesting conditions with respect to the converted options will be substantially the same as the vesting conditions set forth herein. If the Board does not direct a conversion of the outstanding option in connection with a Change in Control, then the Optionee will be permitted to exercise the outstanding option in whole or in part (whether or not otherwise vested or exercisable) prior to the Change in Control, and any outstanding option which is not exercised before the Change in Control will thereupon terminate.

(c) Definition of Change in Control. For purposes hereof, the term "Change in Control" shall be deemed to occur if (1) there shall be consummated (A) any consolidation, merger or reorganization involving the Company, unless such consolidation, merger or reorganization is a "Non-Control Transaction" (as defined below) or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; (2) the stockholders of the Company shall approve any plan or proposal for liquidation or dissolution of the Company; (3) any person (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of more than 50% of the combined voting power of the Company's then outstanding voting securities other than pursuant to a plan or arrangement entered into by such person and the Company; or (4) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board shall cease for any

reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period or who were so approved. A "Non-Control Transaction" shall mean a consolidation, merger or reorganization of the Company where (1) the stockholders of the Company immediately before such consolidation, merger or reorganization own, directly or indirectly, at least a majority of the combined voting power of the outstanding voting securities of the corporation resulting from such consolidation, merger or reorganization (the "Surviving Corporation"); (2) the individuals who were members of the Board immediately prior to the execution of the agreement providing for such consolidation, merger or reorganization constitute at least 50% of the members of the board of directors of the Surviving Corporation, or a corporation directly or indirectly beneficially owning a majority of the voting securities of the Surviving Corporation; and (3) no person (other than (a) the Company, (b) any subsidiary of the Company, (c) any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any subsidiary, or (d) any person who, immediately prior to such consolidation, merger or reorganization, beneficially owned more than 50% of the combined voting power of the Company's then outstanding voting securities) beneficially owns more than 50% of the combined voting power of the Surviving Corporation's then outstanding voting securities.

(d) Fractional Shares. In the event of any adjustment in the number of shares covered by this option pursuant to the provisions hereof, any fractional shares resulting from such adjustment will be disregarded, and the option, as adjusted, will cover only the number of full shares resulting from the adjustment.

(e) Determination of the Board to be Final. All adjustments under this Section shall be made by the Board, and its determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive.

9. Plan Provisions. The provisions of the Plan shall govern if and to the extent that there are inconsistencies between those provisions and the provisions hereof. The Optionee acknowledges receipt of a copy of the Plan prior to the execution of this Agreement.

10. Administration. The Committee will have full power and authority to interpret and apply the provisions of this Agreement and act on behalf of the Company and the Board in connection with this Agreement, and the decision of the Committee as to any matter arising under this Agreement shall be binding and conclusive as to all persons.

11. Binding Effect; Headings. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. The subject headings of Sections of this Agreement are included for the purpose of convenience only and shall not affect the construction or interpretation of any of its provisions. All references in this Agreement to "\$" or "dollars" are to United States dollars.

12. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and controls and supersedes any prior understandings, agreements or representations by or between the parties,

written or oral with respect to its subject matter and may not be modified except by written instrument executed by the parties. The Optionee has not relied on any representation not set forth in this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first above written.

HUDSON HIGHLAND GROUP, INC.

By: _____
Name:
Title:

Optionee – Signature

Optionee – Print Name

**HUDSON HIGHLAND GROUP, INC.
RESTRICTED STOCK AWARD AGREEMENT**

RESTRICTED STOCK AWARD AGREEMENT (“Agreement”) made as of the [DAY]th day of [MONTH], [YEAR], by and between **HUDSON HIGHLAND GROUP, INC.**, a Delaware corporation (the “Company”) and FIRST NAME LAST NAME (the “Grantee”).

WITNESSETH:

WHEREAS, pursuant to the Hudson Highland Group, Inc. Long Term Incentive Plan (the “Plan”), the Company desires to grant to the Grantee and the Grantee desires to accept an award of shares of common stock, \$.001 par value, of the Company (the “Common Stock”) upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. Award. Subject to the terms and conditions set forth herein, the Company hereby awards the Grantee [RESTRICTED STOCK AWARDS] shares of Common Stock at a purchase price per share of \$[PRICE] (the “Restricted Stock”).

2. Restrictions; Vesting. Except as otherwise provided herein, the Restricted Stock may not be sold, transferred, pledged, encumbered, assigned or otherwise alienated or hypothecated, if at all, until such shares of Restricted Stock have vested in accordance with the following schedule based upon the number of full years of the Grantee’s continuous employment with the Company or an affiliate (as defined below) of the Company following the date of this Agreement. As used in this Agreement, the term “affiliate” means an affiliate of the Company within the meaning of Rule 405 under the Securities Act of 1933, as amended.

<u>Full Years of Continuous Employment</u>	<u>Incremental Percentage of Vested Restricted Stock</u>	<u>Cumulative Percentage of Vested Restricted Stock</u>
Less than 1	___%	___%
1	___%	___%
2	___%	___%
3	___%	___%
[4]	___%	___%

If any fractional shares would result from the strict application of the incremental percentages set forth above, then the actual number of shares of Restricted stock that vest on any specific date will cover only the full number of shares determined by rounding the number of shares to be issued from the strict application of the incremental percentages set forth above to the nearest whole number.

3. Evidence of Restricted Stock. The shares of Restricted Stock awarded under this Agreement initially will be evidenced by book entries on the Company's stock transfer records. If and when the shares of Restricted Stock vest pursuant to Section 2 and the restrictions imposed by Section 2 terminate, the Company will deliver to the Grantee one or more stock certificates for the appropriate number of shares, free of any restrictions imposed under this Agreement.

4. Tax Withholding. Notwithstanding anything herein to the contrary, certificates for shares of Restricted Stock that have vested shall not be delivered to the Grantee unless and until the Grantee has delivered to the Executive Vice President, Human Resources of the Company, at its corporate headquarters in New York, New York, cash payment, if any, deemed necessary by the Company to enable it to satisfy any federal, foreign or other tax withholding obligations with respect to the shares of Restricted Stock that have vested (the "Tax Amount") (unless other arrangements acceptable to the Company in its sole discretion have been made). Notwithstanding anything herein to the contrary, in the event that a Grantee has not satisfied the conditions outlined in the immediately preceding sentence within twenty (20) days after the shares of Restricted Stock have vested, the Company may (but shall not be required to), in its sole discretion, at any time by notice to the Grantee, choose to satisfy the conditions outlined in the immediately preceding sentence by unilaterally revoking the Grantee's right to receive that number of shares of Restricted Stock that have vested with an aggregate value equal to 150% of the Tax Amount. For purposes of the preceding sentence, each share of Restricted Stock shall be deemed to have a value equal to the average closing price of a share of the Common Stock on the Nasdaq National Market (or such other U.S. exchange or market on which the Common Stock is then primarily traded) on the five (5) trading days up to and including the date of vesting. The Company may from time to time change (or provide alternatives to) the method of tax withholding on the Restricted Stock granted hereunder by notice to the Grantee, it being understood that from and after such notice the Grantee will be bound by the method (or alternatives) specified in any such notice. The Company (in its sole and absolute discretion) may permit all or part of the Tax Amount to be paid with shares of Common Stock that have been owned by the Grantee for at least six months, or in installments (together with interest) evidenced by the Grantee's secured promissory note.

5. Termination of Employment. If the Grantee's employment or service with the Company or its affiliates is terminated for any reason other than death or disability, then the shares of Restricted Stock that have not yet become fully vested in accordance with Section 2 will automatically be forfeited by the Grantee (or the Grantee's successors) and any book entry with respect thereto will be canceled. If the Grantee's employment terminates by reason of the Grantee's death, then the shares of Restricted Stock that have not yet become fully vested in accordance with Section 2 will automatically become fully vested and the restrictions imposed upon the Restricted Stock by Section 2 will be immediately deemed to have lapsed.

6. Voting Rights; Dividends and Other Distributions.

(a) While the Restricted Stock is subject to restrictions under Section 2 and prior to any forfeiture thereof, the Grantee may exercise full voting rights for the Restricted Stock registered in his name.

(b) While the Restricted Stock is subject to the restrictions under Section 2 and prior to any forfeiture thereof, the Grantee shall be entitled to receive all dividends and other distributions paid with respect to the Restricted Stock. If any such dividends or distributions are paid in shares of Common Stock, then such shares shall be subject to the same restrictions as the shares of Restricted Stock with respect to which they were paid.

(c) Subject to the provisions of this Agreement, the Grantee shall have, with respect to the Restricted Stock, all other rights of holders of Common Stock.

7. Securities Law Restrictions. Notwithstanding anything herein to the contrary, shares of Restricted Stock shall not be issued hereunder if, in the opinion of counsel to the Company, such exercise and/or issuance may result in a violation of federal or state securities laws or the securities laws of any other relevant jurisdiction.

8. Change in Control. Effective upon a Change in Control (as defined below), the shares Restricted Stock will fully vest and the restrictions imposed upon the Restricted Stock by Section 2 will be immediately deemed to have lapsed. For purposes hereof, the term "Change in Control" shall be deemed to occur if (a) there shall be consummated (1) any consolidation, merger or reorganization involving the Company, unless such consolidation, merger or reorganization is a "Non-Control Transaction" (as defined below) or (2) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; (b) the stockholders of the Company shall approve any plan or proposal for liquidation or dissolution of the Company; (c) any person (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of more than 50% of the combined voting power of the Company's then outstanding voting securities other than pursuant to a plan or arrangement entered into by such person and the Company; or (d) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period or who were so approved. A "Non-Control Transaction" shall mean a consolidation, merger or reorganization of the Company where (a) the stockholders of the Company immediately before such consolidation, merger or reorganization own, directly or indirectly, at least a majority of the combined voting power of the outstanding voting securities of the corporation resulting from such consolidation, merger or reorganization (the "Surviving Corporation"); (b) the individuals who were members of the Board immediately prior to the execution of the agreement providing for such consolidation, merger or reorganization constitute at least 50% of the members of the board of directors of the Surviving Corporation, or a corporation directly or indirectly beneficially owning a majority of the voting securities of the Surviving Corporation; and (c) no person (other than (1) the Company, (2) any subsidiary of the Company, (3) any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any subsidiary, or (4) any person who, immediately prior to such consolidation, merger or reorganization, beneficially owned more than 50% of the combined voting power of the Company's then outstanding voting securities) beneficially owns more than 50% of the combined voting power of the Surviving Corporation's then outstanding voting securities.

9. No Employment Rights. Nothing in this Agreement shall give the Grantee any right to continue in the employment of the Company or any affiliate of the Company, or interfere in any way with the right of the Company or any affiliate of the Company to terminate the employment of the Grantee.

10. Plan Provisions. The provisions of the Plan shall govern if and to the extent that there are inconsistencies between those provisions and the provisions hereof. The Grantee acknowledges receipt of a copy of the Plan prior to the execution of this Agreement.

11. Administration. The Committee will have full power and authority to interpret and apply the provisions of this Agreement and act on behalf of the Company and the Board in connection with this Agreement, and the decision of the Committee as to any matter arising under this Agreement shall be binding and conclusive as to all persons.

12. Binding Effect; Headings. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. The subject headings of Sections of this Agreement are included for the purpose of convenience only and shall not affect the construction or interpretation of any of its provisions. All references in this Agreement to "\$" or "dollars" are to United States dollars.

13. Employee Handbook and Arbitration Agreements. As a material inducement to the Company to grant this award of Restricted Stock and to enter into this Agreement, the Grantee hereby expressly agrees to (a) comply with and abide by the terms and conditions of, and rules relating to, such Grantee's employment with the Company or an affiliate set forth in the applicable employee handbook and (b) be bound by the terms and provisions of any arbitration or similar agreement to which the Grantee is or becomes a party with the Company or an affiliate.

14. Confidentiality, Non-Solicitation and Work Product Assignment. As a material inducement to the Company to grant this award of Restricted Stock and enter into this Agreement, the Grantee hereby expressly agrees to be bound by the following covenants, terms and conditions:

(a) Definition. "Confidential Information" consists of all information or data relating to the business of the Company, including but not limited to, business and financial information; new product development and technological data; personnel information and the identities of employees; the identities of clients and suppliers and prospective clients and suppliers; client lists and potential client lists; development, expansion and business strategies, plans and techniques; computer programs, devices, methods, techniques, processes and inventions; research and development activities; trade secrets as defined by applicable law and other materials (whether in written, graphic, audio, visual, electronic or other media, including computer software) developed by or on behalf of the Company which is not generally known to the public, which the Company has and will take precautions to maintain as confidential, and which derives at least a portion of its value to the Company from its confidentiality. Additionally, Confidential Information includes information of any third party doing business with the Company (actively or prospectively) that the Company or such third party identifies as being confidential. Confidential Information does not include any information that is in the

public domain or otherwise publicly available (other than as a result of a wrongful act by the Grantee or an agent or other employee of the Company). For purposes of this Section 14, the term “the Company” also refers to each of its officers, directors, employees and agents, all subsidiary and affiliated entities, all benefit plans and benefit plans’ sponsors and administrators, fiduciaries, affiliates, and all successors and assigns of any of them.

(b) Agreement to Maintain the Confidentiality of Confidential Information. The Grantee acknowledges that, as a result of his/her employment by the Company, he/she will have access to such Confidential Information and to additional Confidential Information which may be developed in the future. The Grantee acknowledges that all Confidential Information is the exclusive property of the Company, or in the case of Confidential Information of a third party, of such third party. The Grantee agrees to hold all Confidential Information in trust for the benefit of the owner of such Confidential Information. The Grantee further agrees that he/she will use Confidential Information for the sole purpose of performing his/her work for the Company, and that during his/her employment with the Company, and at all times after the termination of that employment for any reason, the Grantee will not use for his/her benefit, or the benefit of others, or divulge or convey to any third party any Confidential Information obtained by the Grantee during his/her employment by the Company, unless it is pursuant to the Company’s prior written permission.

(c) Return of Property. The Grantee acknowledges that he/she has not acquired and will not acquire any right, title or interest in any Confidential Information or any portion thereof. The Grantee agrees that upon termination of his/her employment for any reason, he/she will deliver to the Company immediately, but in no event later than the last day of his/her employment, all documents, data, computer programs and all other materials, and all copies thereof, that were obtained or made by the Grantee during his/her employment with the Company, which contain or relate to Confidential Information and will destroy all electronically stored versions of the foregoing.

(d) Disclosure and Assignment of Inventions and Creative Works. The Grantee agrees to promptly disclose in writing to the Company all inventions, ideas, discoveries, developments, improvements and innovations (collectively “Inventions”), whether or not patentable and all copyrightable works, including but limited to computer software designs and programs (“Creative Works”) conceived, made or developed by the Grantee, whether solely or together with others, during the period the Grantee is employed by the Company. The Grantee agrees that all Inventions and all Creative Works, whether or not conceived or made during working hours, that: (1) relate directly to the business of the Company or its actual or demonstrably anticipated research or development, or (2) result from the Grantee’s work for the Company, or (3) involve the use of any equipment, supplies, facilities, Confidential Information, or time of the Company, are the exclusive property of the Company. The Grantee hereby assigns and agrees to assign all right, title and interest in and to all such Inventions and Creative Works to the Company. The Grantee understands that he/she is not required to assign to the Company any Invention or Creative Work for which no equipment, supplies, facilities, Confidential Information or time of the Company was used, unless such Invention or Creative Work relates directly to the Company’s business or actual or demonstrably anticipated research and development, or results from any work performed by the Grantee for the Company.

(e) Non-Solicitation of Clients. During the period of the Grantee's employment with the Company and for a period of one year from the date of termination of such employment for any reason, the Grantee agrees that he/she will not, directly or indirectly, for the Grantee's benefit or on behalf of any person, corporation, partnership or entity whatsoever, call on, solicit, perform services for, interfere with or endeavor to entice away from the Company any client to whom the Company provides services at any time during the 12 month period proceeding the date of termination of the Grantee's employment with the Company, or any prospective client to whom the Company had made a presentation at any time during the 12 month period preceding the date of termination of the Grantee's employment with the Company.

(f) Non-Solicitation of Employees. For a period of one year after the date of termination of the Grantee's employment with the Company for any reason, the Grantee agrees that he/she will not, directly or indirectly, hire, attempt to hire, solicit for employment or encourage the departure of any employee of the Company, to leave employment with the Company, or any individual who was employed by the Company as of the last day of the Grantee's employment with the Company.

(g) Enforcement. If, at the time of enforcement of this Section 14, a court holds that any of the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area deemed reasonable under such circumstances will be substituted for the stated period, scope or area as contained in this Section 14. Because money damages would be an inadequate remedy for any breach of the Grantee's obligations under this Agreement, in the event the Grantee breaches or threatens to breach this Section 14, the Company, or any successors or assigns, may, in addition to other rights and remedies existing in its favor, apply to any court of competent jurisdiction for specific performance, or injunctive or other equitable relief in order to enforce or prevent any violations of this Section 14.

(h) Miscellaneous. The Grantee acknowledges and agrees that the provisions of this Section 14 are in addition to, and not in lieu of, any confidentiality, non-solicitation, work product assignment and/or similar obligations that the Grantee may have with respect to the Company and/or its affiliates, whether by agreement, fiduciary obligation or otherwise and that the grant and the vesting of the Restricted Stock contemplated by this Agreement are expressly made contingent on the Grantee's compliance with the provisions of this Section 14. Without in any way limiting the provisions of this Section 14, the Grantee further acknowledges and agrees that the provisions of this Section 14 shall remain applicable in accordance with their terms after the Grantee's termination of employment with the Company, regardless of whether (1) the Grantee's termination or cessation of employment is voluntary or involuntary or (2) the Restricted Stock has not or will not vest.

15. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and controls and supersedes any prior understandings, agreements or representations by or between the parties, written or oral with respect to its subject matter and may not be modified except by written instrument executed by the parties. The Grantee has not relied on any representation not set forth in this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first above written.

HUDSON HIGHLAND GROUP, INC.

By: _____
Name:
Title:

Grantee – Signature

Grantee – Print Name

**HUDSON HIGHLAND GROUP, INC.
STOCK OPTION AGREEMENT**

STOCK OPTION AGREEMENT (“Agreement”) made as of the [DAY]th day of [MONTH], [YEAR], by and between **HUDSON HIGHLAND GROUP, INC.**, a Delaware corporation (the “Company”) and [FIRST NAME LAST NAME] (the “Optionee”).

WITNESSETH:

WHEREAS, pursuant to the Hudson Highland Group, Inc. Long Term Incentive Plan (the “Plan”), the Company desires to grant to the Optionee and the Optionee desires to accept an option to purchase shares of common stock, \$.001 par value, of the Company (the “Common Stock”) upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. **Grant.** Subject to the terms and conditions set forth herein, the Company hereby grants to the Optionee an option to purchase up to [OPTIONS] shares of Common Stock at a purchase price per share of \$[PRICE]. This option is intended to be treated as an option that does not qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. **Vesting.** Except as specifically provided otherwise herein, the option will vest and become exercisable, if at all, in accordance with the following schedule based upon the number of full years of the Optionee’s continuous employment with the Company or an affiliate (as defined below) of the Company following the date of this Agreement. As used in this Agreement, the term “affiliate” means an affiliate of the Company within the meaning of Rule 405 under the Securities Act of 1933, as amended.

Full Years of Continuous Employment	Incremental Percentage of Option Exercisable	Cumulative Percentage of Option Exercisable
Less than 1	___%	___%
1	___%	___%
2	___%	___%
3	___%	___%
[4]	___%	___%

If any fractional shares would result from the strict application of the incremental percentages set forth above, then the actual number of shares vesting on any specific date will cover only the full number of shares determined by rounding the number of shares to be issued from the strict application of the incremental percentages set forth above to the nearest whole number. Unless sooner terminated, the option will expire on the tenth anniversary of the date hereof.

3. Exercise. Any portion of the option which has vested and is exercisable may be exercised in whole or in part by delivering to the Executive Vice President, Human Resources of the Company at its corporate headquarters in New York, New York (a) a written notice specifying (1) the number of shares to be purchased, (2) the date of this Agreement and the specific number of shares referred to in Section 1 of this Agreement, (3) the Optionee's home address and, if the Optionee has one, the Optionee's social security or U.S. taxpayer identification number and (4) delivery instructions with respect to the shares of Common Stock issuable upon exercise, and (b) cash payment in full of the exercise price, together with the amount, if any, deemed necessary by the Company to enable it to satisfy any federal, foreign or other tax withholding obligations with respect to the exercise (unless other arrangements acceptable to the Company in its sole discretion have been made). The Company may from time to time change (or provide alternatives to) the method of exercise of the option granted hereunder by notice to the Optionee, it being understood that from and after such notice the Optionee will be bound by the method (or alternatives) specified in any such notice. The Company (in its sole and absolute discretion) may permit all or part of the exercise price to be paid with shares of Common Stock which have been owned by the Optionee for at least six months, or in installments (together with interest) evidenced by the Optionee's secured promissory note.

4. Issuance of Shares. No shares of Common Stock shall be sold or delivered hereunder until full payment for such shares has been made. The Optionee shall have no rights as a stockholder with respect to any shares covered by the option until a stock certificate for such shares is issued to the Optionee. Except as otherwise provided herein, no adjustment shall be made for dividends or distributions of other rights for which the record date is prior to the date such stock certificate is issued.

5. No Assignment of Option. This option is not assignable or transferable except upon the Optionee's death to a beneficiary designated by the Optionee in a written beneficiary designation filed with the Company or, if no duly designated beneficiary shall survive the Optionee, pursuant to the Optionee's will and/or by the laws of descent and distribution, and is exercisable during the Optionee's lifetime only by the Optionee or the Optionee's guardian or legal representative.

6. Termination of Employment for Cause. If the Optionee's employment or service is terminated by the Company or its affiliates for cause (as defined below), or at a time when grounds for a termination for cause exist, then any option held by the Optionee, whether or not otherwise exercisable on the termination date, shall immediately terminate and cease to be exercisable. For purposes hereof, the term "cause" means (a) in the case where there is no employment, consulting or similar service agreement between the participant and the Company or its affiliates or where such an agreement exists but does not define "cause" (or words of like import), a termination classified by the Company or its affiliates, in their sole discretion, as a termination due to the participant's dishonesty, fraud, insubordination, willful misconduct, refusal to perform services or materially unsatisfactory performance of duties, or (b) in the case where there is an employment, consulting or similar service agreement between the participant and the Company or its affiliates that defines "cause" (or words of like import), a termination

that is or would be deemed for “cause” (or words of like import) as classified by the Company or its affiliates, in their sole discretion, under such agreement.

7. Other Termination of Employment. If the Optionee ceases to be employed by the Company or any of its affiliates for any reason other than death or for cause (as defined in Section 6), then, unless sooner terminated, that portion of the option which is exercisable on the date of the Optionee’s termination of employment will remain exercisable for a period of six months after such date (one year in the case of an Optionee whose employment terminates by reason of disability (as defined below)) but in no event after the expiration of the option in accordance with Section 2, and the remaining portion of the option will automatically expire on such date. If the Optionee’s employment terminates by reason of the Optionee’s death, then, unless sooner terminated, the option will become fully vested (to the extent it was not vested on the date of death) and will remain exercisable by the Optionee’s beneficiary for a period of one year after the date of the Optionee’s death but in no event after the expiration of the option in accordance with Section 2. Any vested option which is not exercised within the applicable six month or one-year period following termination of employment will automatically expire. For purposes hereof, the term “disability” means the inability of the Optionee to perform the customary duties of the Optionee’s employment with the Company or an affiliate of the Company by reason of a physical or mental incapacity which is expected to result in death or be of indefinite duration as determined by the Committee (as defined in the Plan).

8. Securities Law Restrictions. Notwithstanding anything herein to the contrary, the option shall in no event be exercisable and shares shall not be issued hereunder if, in the opinion of counsel to the Company, such exercise and/or issuance may result in a violation of federal or state securities laws or the securities laws of any other relevant jurisdiction.

9. Capital and Corporate Changes.

(a) Adjustments Upon Changes in Capitalization. The number and class of shares covered by this option and, if applicable, the exercise price per share shall be adjusted proportionately or as otherwise appropriate to reflect any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or any like capital adjustment, or the payment of any stock dividend, and/or to reflect a change in the character or class of shares covered by the Plan arising from a readjustment or recapitalization of the Company’s capital stock.

(b) Change in Control. If, in connection with a Change in Control (as defined below), the stockholders of the Company receive capital stock of another corporation (“Exchange Stock”) in exchange for their shares of Common Stock (whether or not such Exchange Stock is the sole consideration), and if the Board of Directors of the Company (the “Board”) so directs, then this option will be converted into an option to purchase shares of Exchange Stock. The number of shares and exercise price under the converted option will be determined by adjusting the number of shares and exercise price under this option on the same basis as the determination of the number of shares of Exchange Stock the holders of Common Stock will receive in connection with the Change in Control and, unless the Board determines otherwise, the vesting conditions with respect to the converted options will be substantially the same as the vesting conditions set forth herein. If the Board does not direct a conversion of the

outstanding option in connection with a Change in Control, then the Optionee will be permitted to exercise the outstanding option in whole or in part (whether or not otherwise vested or exercisable) prior to the Change in Control, and any outstanding option which is not exercised before the Change in Control will thereupon terminate.

(c) Definition of Change in Control. For purposes hereof, the term “Change in Control” shall be deemed to occur if (1) there shall be consummated (A) any consolidation, merger or reorganization involving the Company, unless such consolidation, merger or reorganization is a “Non-Control Transaction” (as defined below) or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; (2) the stockholders of the Company shall approve any plan or proposal for liquidation or dissolution of the Company; (3) any person (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of more than 50% of the combined voting power of the Company’s then outstanding voting securities other than pursuant to a plan or arrangement entered into by such person and the Company; or (4) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company’s stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period or who were so approved. A “Non-Control Transaction” shall mean a consolidation, merger or reorganization of the Company where (1) the stockholders of the Company immediately before such consolidation, merger or reorganization own, directly or indirectly, at least a majority of the combined voting power of the outstanding voting securities of the corporation resulting from such consolidation, merger or reorganization (the “Surviving Corporation”); (2) the individuals who were members of the Board immediately prior to the execution of the agreement providing for such consolidation, merger or reorganization constitute at least 50% of the members of the board of directors of the Surviving Corporation, or a corporation directly or indirectly beneficially owning a majority of the voting securities of the Surviving Corporation; and (3) no person (other than (a) the Company, (b) any subsidiary of the Company, (c) any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any subsidiary, or (d) any person who, immediately prior to such consolidation, merger or reorganization, beneficially owned more than 50% of the combined voting power of the Company’s then outstanding voting securities) beneficially owns more than 50% of the combined voting power of the Surviving Corporation’s then outstanding voting securities.

(d) Fractional Shares. In the event of any adjustment in the number of shares covered by this option pursuant to the provisions hereof, any fractional shares resulting from such adjustment will be disregarded, and the option, as adjusted, will cover only the number of full shares resulting from the adjustment.

(e) Determination of the Board to be Final. All adjustments under this Section shall be made by the Board, and its determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive.

10. No Employment Rights. Nothing in this Agreement shall give the Optionee any right to continue in the employment of the Company or any affiliate of the Company, or interfere in any way with the right of the Company or any affiliate of the Company to terminate the employment of the Optionee.

11. Plan Provisions. The provisions of the Plan shall govern if and to the extent that there are inconsistencies between those provisions and the provisions hereof. The Optionee acknowledges receipt of a copy of the Plan prior to the execution of this Agreement.

12. Administration. The Committee will have full power and authority to interpret and apply the provisions of this Agreement and act on behalf of the Company and the Board in connection with this Agreement, and the decision of the Committee as to any matter arising under this Agreement shall be binding and conclusive as to all persons.

13. Employee Handbook and Arbitration Agreements. As a material inducement to the Company to grant this option and to enter into this Agreement, the Optionee hereby expressly agrees to (a) comply with and abide by the terms and conditions of, and rules relating to, such Optionee's employment with the Company or an affiliate set forth in the applicable employee handbook and (b) be bound by the terms and provisions of any arbitration or similar agreement to which the Optionee is or becomes a party with the Company or an affiliate.

14. Confidentiality, Non-Solicitation and Work Product Assignment. As a material inducement to the Company to grant this option and enter into this Agreement, the Optionee hereby expressly agrees to be bound by the following covenants, terms and conditions:

(a) Definition. "Confidential Information" consists of all information or data relating to the business of the Company, including but not limited to, business and financial information; new product development and technological data; personnel information and the identities of employees; the identities of clients and suppliers and prospective clients and suppliers; client lists and potential client lists; development, expansion and business strategies, plans and techniques; computer programs, devices, methods, techniques, processes and inventions; research and development activities; trade secrets as defined by applicable law and other materials (whether in written, graphic, audio, visual, electronic or other media, including computer software) developed by or on behalf of the Company which is not generally known to the public, which the Company has and will take precautions to maintain as confidential, and which derives at least a portion of its value to the Company from its confidentiality. Additionally, Confidential Information includes information of any third party doing business with the Company (actively or prospectively) that the Company or such third party identifies as being confidential. Confidential Information does not include any information that is in the public domain or otherwise publicly available (other than as a result of a wrongful act by the Optionee or an agent or other employee of the Company). For purposes of this Section 14, the term "the Company" also refers to each of its officers, directors, employees and agents, all subsidiary and affiliated entities, all benefit plans and benefit plans' sponsors and administrators, fiduciaries, affiliates, and all successors and assigns of any of them.

(b) Agreement to Maintain the Confidentiality of Confidential Information. The Optionee acknowledges that, as a result of his/her employment by the Company, he/she will have access to such Confidential Information and to additional Confidential Information which may be developed in the future. The Optionee acknowledges that all Confidential Information is the exclusive property of the Company, or in the case of Confidential Information of a third party, of such third party. The Optionee agrees to hold all Confidential Information in trust for the benefit of the owner of such Confidential Information. The Optionee further agrees that he/she will use Confidential Information for the sole purpose of performing his/her work for the Company, and that during his/her employment with the Company, and at all times after the termination of that employment for any reason, the Optionee will not use for his/her benefit, or the benefit of others, or divulge or convey to any third party any Confidential Information obtained by the Optionee during his/her employment by the Company, unless it is pursuant to the Company's prior written permission.

(c) Return of Property. The Optionee acknowledges that he/she has not acquired and will not acquire any right, title or interest in any Confidential Information or any portion thereof. The Optionee agrees that upon termination of his/her employment for any reason, he/she will deliver to the Company immediately, but in no event later than the last day of his/her employment, all documents, data, computer programs and all other materials, and all copies thereof, that were obtained or made by the Optionee during his/her employment with the Company, which contain or relate to Confidential Information and will destroy all electronically stored versions of the foregoing.

(d) Disclosure and Assignment of Inventions and Creative Works. The Optionee agrees to promptly disclose in writing to the Company all inventions, ideas, discoveries, developments, improvements and innovations (collectively "Inventions"), whether or not patentable and all copyrightable works, including but limited to computer software designs and programs ("Creative Works") conceived, made or developed by the Optionee, whether solely or together with others, during the period the Optionee is employed by the Company. The Optionee agrees that all Inventions and all Creative Works, whether or not conceived or made during working hours, that: (1) relate directly to the business of the Company or its actual or demonstrably anticipated research or development, or (2) result from the Optionee's work for the Company, or (3) involve the use of any equipment, supplies, facilities, Confidential Information, or time of the Company, are the exclusive property of the Company. The Optionee hereby assigns and agrees to assign all right, title and interest in and to all such Inventions and Creative Works to the Company. The Optionee understands that he/she is not required to assign to the Company any Invention or Creative Work for which no equipment, supplies, facilities, Confidential Information or time of the Company was used, unless such Invention or Creative Work relates directly to the Company's business or actual or demonstrably anticipated research and development, or results from any work performed by the Optionee for the Company.

(e) Non-Solicitation of Clients. During the period of the Optionee's employment with the Company and for a period of one year from the date of termination of such employment for any reason, the Optionee agrees that he/she will not, directly or indirectly, for the Optionee's benefit or on behalf of any person, corporation, partnership or entity whatsoever, call on, solicit, perform services for, interfere with or endeavor to entice away from the Company any client to whom the Company provides services at any time during the 12 month period

proceeding the date of termination of the Optionee's employment with the Company, or any prospective client to whom the Company had made a presentation at any time during the 12 month period preceding the date of termination of the Optionee's employment with the Company.

(f) Non-Solicitation of Employees. For a period of one year after the date of termination of the Optionee's employment with the Company for any reason, the Optionee agrees that he/she will not, directly or indirectly, hire, attempt to hire, solicit for employment or encourage the departure of any employee of the Company, to leave employment with the Company, or any individual who was employed by the Company as of the last day of the Optionee's employment with the Company.

(g) Enforcement. If, at the time of enforcement of this Section 14, a court holds that any of the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area deemed reasonable under such circumstances will be substituted for the stated period, scope or area as contained in this Section 14. Because money damages would be an inadequate remedy for any breach of the Optionee's obligations under this Agreement, in the event the Optionee breaches or threatens to breach this Section 14, the Company, or any successors or assigns, may, in addition to other rights and remedies existing in its favor, apply to any court of competent jurisdiction for specific performance, or injunctive or other equitable relief in order to enforce or prevent any violations of this Section 14.

(h) Miscellaneous. The Optionee acknowledges and agrees that the provisions of this Section 14 are in addition to, and not in lieu of, any confidentiality, non-solicitation, work product assignment and/or similar obligations that the Optionee may have with respect to the Company and/or its affiliates, whether by agreement, fiduciary obligation or otherwise and that the grant and exercisability of the option contemplated by this Agreement are expressly made contingent on the Optionee's compliance with the provisions of this Section 14. Without in any way limiting the provisions of this Section 14, the Optionee further acknowledges and agrees that the provisions of this Section 14 shall remain applicable in accordance with their terms after the Optionee's termination of employment with the Company, regardless of whether (1) the Optionee's termination or cessation of employment is voluntary or involuntary, (2) the Optionee has exercised the option in whole or in part or (3) the option has not or will not vest.

15. Binding Effect; Headings. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. The subject headings of Sections of this Agreement are included for the purpose of convenience only and shall not affect the construction or interpretation of any of its provisions. All references in this Agreement to "\$" or "dollars" are to United States dollars.

16. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and controls and supersedes any prior understandings, agreements or representations by or between the parties, written or oral with respect to its subject matter and may not be modified except by written instrument executed by the parties. The Optionee has not relied on any representation not set forth in this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first above written.

HUDSON HIGHLAND GROUP, INC.

By: _____

Name:

Title:

Optionee – Signature

Optionee – Print Name

November 2, 2004

Securities and Exchange Commission
450 Fifth Street N.W.
Washington, D.C. 20549

We are aware that Hudson Highland Group, Inc. has incorporated by reference in its Registration Statements on Form S-3 (Nos. 333-110765 and 333-113703), Form S-4 (Nos. 333-119563 and 333-114731) and Form S-8 (Nos. 333-104209, 333-104210, 333-104212, 333-117005 and 333-117006) our report dated October 28, 2004, relating to the Company's unaudited interim consolidated condensed financial statements appearing in its quarterly report on Form 10-Q for the quarter ended September 30, 2004. Pursuant to Regulation C under the Securities Act of 1933, that report is not considered a part of the registration statement prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act. It should be noted that we have not performed any procedures subsequent to October 28, 2004.

/s/ BDO Seidman, LLP
New York, New York

CERTIFICATIONS

I, Jon F. Chait, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hudson Highland Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 2, 2004

/s/ JON F. CHAIT

Jon F. Chait
Chairman and
Chief Executive Officer

CERTIFICATIONS

I, Richard W. Pehlke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hudson Highland Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 2, 2004

/s/ RICHARD W. PEHLKE

Richard W. Pehlke
Executive Vice President and
Chief Financial Officer

**Written Statement of the Chairman and Chief Executive Officer
Pursuant to 18 U.S.C. ss.1350, as adopted pursuant to
ss.906 of the Sarbanes-Oxley Act of 2002**

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chairman of the Board and Chief Executive Officer of Hudson Highland Group, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JON F. CHAIT

Jon F. Chait

November 2, 2004

**Written Statement of the Executive Vice President and Chief Financial Officer
Pursuant to 18 U.S.C. ss.1350, as adopted pursuant to
ss.906 of the Sarbanes-Oxley Act of 2002**

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Executive Vice President and Chief Financial Officer of Hudson Highland Group, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD W. PEHLKE

Richard W. Pehlke

November 2, 2004