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

Form 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): February 16, 2006

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

Delaware
(State or other jurisdiction of incorporation)

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

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

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

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

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

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

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

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

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On February 16, 2006, Hudson Highland Group, Inc. issued a press release announcing its financial results for the quarter and year ended December 31, 2005. A copy of such press release is furnished as Exhibit 99.1 to this Current Report.

Also on February 16, 2006, Hudson Highland Group, Inc. posted a Letter to Shareholders, Employees and Friends on its web site, which discusses results for the quarter and year ended December 31, 2005. A copy of such letter is furnished as Exhibit 99.2 to this Current Report.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements.

None.

(b) Pro Forma Financial Information.

None.

(c) Exhibits

99.1 Press Release of Hudson Highland Group, Inc. issued on February 16, 2006.

99.2 Letter to Shareholders, Employees and Friends issued February 16, 2006 and posted to Company’s web site.

SIGNATURES

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

HUDSON HIGHLAND GROUP, INC. (Registrant)

By: /s/ MARY JANE RAYMOND

Mary Jane Raymond
Executive Vice President and Chief Financial Officer

Dated: February 16, 2006

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

Exhibit Index

Exhibit Number	**Description**
99.1	Press Release of Hudson Highland Group, Inc. issued on February 16, 2006.
99.2	Letter to Shareholders, Employees and Friends issued February 16, 2006 and posted to Company’s web site.

Exhibit 99.1

For Immediate Release

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Hudson Highland Group Reports
2005 Fourth Quarter and Full-Year Financial Results

NEW YORK, NY – February 16, 2006 – Hudson Highland Group, Inc. (NASDAQ: HHGP), one of the world's leading providers of specialized professional staffing, retained executive search and human capital solutions, today announced financial results for the fourth quarter and full year ended December 31, 2005.

2005 Fourth Quarter Summary

- Revenue of $354.0 million, an increase of 2.9 percent from $344.1 million for the fourth quarter of 2004
- Gross margin of $132.4 million, or 37.4 percent of revenue, up 2.7 percent from $128.9 million, or 37.5 percent of revenue, for the same year ago period
- EBITDA of $7.1 million, or 2.0 percent of revenue, an increase of 44.7 percent compared with $4.9 million, or 1.4 percent of revenue, for the fourth quarter of 2004
- Net income of $2.8 million, or $0.12 per basic and $0.11 per diluted share, compared with a net loss of $1.3 million, or $0.07 per basic and diluted share for the fourth quarter of 2004

2005 Full-Year Summary

- Revenue of $1.428 billion, an increase of 13.7 percent from $1.256 billion for 2004
- Gross margin of $536.9 million, or 37.6 percent of revenue, up 14.2 percent from $470.2 million, or 37.4 percent of revenue, for 2004
- EBITDA of $29.6 million, or 2.1 percent of revenue, compared with a loss of $3.1 million for 2004
- Net income of $5.3 million, or $0.24 per basic and $0.22 per diluted share, compared to a net loss of $26.8 million, or $1.38 per basic and diluted share for 2004

"Hudson Highland Group made solid progress during 2005 toward strategic business segment growth and improved profitability, despite some hiring demand softness that surfaced during the fourth quarter in the Australia/New Zealand market," said Jon Chait, chairman and chief executive officer of Hudson Highland Group. "We remain confident about our overall prospects and firmly committed to our long-term goal of sustainable EBITDA margins in the 7 to 10 percent range."

Mary Jane Raymond, executive vice president and chief financial officer of Hudson Highland Group commented, "For 2006, the company will maintain its focus on continuing to shift its business portfolio to high-value, high-margin segments and achieving further profitability improvement."

Guidance

Given the current economic environment, the company expects 2006 EBITDA as a percentage of revenue to be 2.5 to 3.5 percent, constant currency revenue growth of 1 to 5 percent and constant currency gross margin growth of 5 to 10 percent. This guidance is based on expectations of constant currency revenue growth of 7 to 12 percent for Hudson North America, 0 to 5 percent for Hudson Europe and Highland Partners, and -5 to 5 percent in Hudson Asia Pacific. This guidance does not reflect the impact of any acquisitions or divestitures that the company may consider in the future.

For the first quarter of 2006, historically the smallest profit generating quarter of the year, the company expects lower revenue and EBITDA than the prior year period due to business conditions in the Asia Pacific region.

Beginning in the first quarter of 2006, the company will record compensation expense related to outstanding employee stock options in accordance with FAS 123R. Based on current information, the company anticipates the impact of this to be $4.9 million for the full year 2006. Corresponding costs in 2005 would have been $4.5 million.

Conference Call / Webcast

Hudson Highland Group will conduct a conference call Friday, February 17, 2006 at 9:00 AM ET to discuss this announcement. Investors wishing to participate can join the conference call by dialing 1-800-374-1532 followed by the participant passcode 3355299 at 8:50 AM ET. For those outside the United States, please call in on 1-706-634-5594 followed by the participant passcode 3355299. Hudson Highland Group's quarterly conference call can also be accessed online through Yahoo! Finance at www.yahoo.com and the investor information section of the company's website at www.hhgroup.com.

Additional Information

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

Hudson Highland Group

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

Safe Harbor Statement

This press release contains statements that the company believes to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this press release, including those under the caption "Guidance" and other statements regarding the company's future financial condition, results of operations, business operations and business prospects, are forward-looking statements. Words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "predict," "believe" and similar words, expressions and variations of these words and expressions are intended to identify forward-looking statements. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to, the impact of global economic fluctuations on temporary contracting operations; the cyclical nature of the company's executive search and mid-market professional staffing businesses; the company's ability to manage its growth; risks associated with expansion; risks and financial impact associated with disposition of non-strategic assets; the company's reliance on information systems and technology; competition; fluctuations in operating results; risks relating to foreign operations, including foreign currency fluctuations; dependence on highly skilled professionals and key management personnel; the impact of employees departing with existing executive search clients; risks maintaining professional reputation and brand name; restrictions imposed by blocking arrangements; exposure to employment-related claims, and limits on insurance coverage related thereto; government regulations; and restrictions on the company's operating flexibility due to the terms of its credit facility. Additional information concerning these and other factors is contained in the company's filings with the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this press release. The company assumes no obligation, and expressly disclaims any obligation, to review or confirm analysts' expectations or estimates or to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Financial Tables Follow, Presented in Refined Segment Information Format

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

	Three Months Ended December 31,		Year Ended December 31,	
	2005	2004	2005	2004
Revenue	$ 353,969	$ 344,090	$ 1,428,276	$ 1,256,354
Direct costs	221,580	215,164	891,345	786,134
Gross margin	132,389	128,926	536,931	470,220
Operating expenses:				
Selling, general and administrative	125,210	123,003	507,184	469,214
Depreciation and amortization	4,711	5,746	18,412	20,108
Business reorganization expenses (recoveries)	90	(89)	233	3,361
Merger and integration (recoveries) expenses	(35)	1,090	(70)	736
Total operating expenses	129,976	129,750	525,759	493,419
Operating income (loss)	2,413	(824)	11,172	(23,199)
Other income (expense):				
Interest, net	(600)	(51)	(1,852)	(104)
Other, net	654	(75)	1,029	(1,834)
Income (loss) before provision for (benefit) for income taxes	2,467	(950)	10,349	(25,137)
Provision (benefit) for income taxes	(323)	387	5,036	1,638
Net income (loss)	$ 2,790	$ (1,337)	$ 5,313	$ (26,775)
Income (loss) per share:				
Basic income (loss)	$ .12	$ (0.07)	$ .24	$ (1.38)
Diluted income (loss)	$ .11	$ (0.07)	$ .22	$ (1.38)
Weighted average shares outstanding:				
Basic	24,103,000	20,371,000	22,295,000	19,457,000
Diluted	25,823,000	20,371,000	23,674,000	19,457,000

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

	December 31, 2005 (unaudited)	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,108	$ 21,064
Accounts receivable, net	232,081	197,582
Other current assets	14,330	14,187
Total current assets	280,519	232,833
Property and equipment, net	31,438	36,360
Intangibles, net	31,100	6,104
Other assets	5,359	6,081
Total assets	$ 348,416	$ 281,378
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 24,718	$ 27,023
Accrued expenses and other current liabilities	140,036	140,903
Short-term borrowings and current portion of long-term debt	32,544	4,066
Accrued business reorganization expenses	4,223	8,930
Accrued merger and integration expenses	1,239	1,872
Total current liabilities	202,760	182,794
Accrued business reorganization expenses, non-current	4,095	6,832
Accrued merger and integration expenses, non-current	2,038	3,329
Other non-current liabilities	5,948	2,648
Long-term debt, less current portion	478	2,041
Total liabilities	215,319	197,644
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized; issued: 24,341,907 and 20,612,966 shares, respectively	24	21
Additional paid-in capital	404,755	353,825
Accumulated deficit	(306,263)	(311,576)
Accumulated other comprehensive income - translation adjustments	34,811	41,694
Treasury stock, 15,798 shares	(230)	(230)
Total stockholders' equity	133,097	83,734
	$ 348,416	$ 281,378

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

For the Three Months Ended December 31, 2005	Hudson Americas (2)	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$ 117,472	$ 117,282	$ 102,641	$ 16,574	$ —	$ 353,969
Gross margin	$ 30,262	$ 49,917	$ 36,288	$ 15,922	$ —	$ 132,389
Adjusted EBITDA (1)	$ 4,768	$ 3,597	$ 4,905	$ 1,740	$ (7,831)	$ 7,179
Business reorganization expenses	1	37	43	9	—	90
Merger and integration (recoveries)	—	—	(35)	—	—	(35)
EBITDA (1)	4,767	3,560	4,897	1,731	(7,831)	7,124
Depreciation and amortization	1,471	1,828	926	331	155	4,711
Operating income (loss)	$ 3,296	$ 1,732	$ 3,971	$ 1,400	$ (7,986)	$ 2,413

For the Three Months Ended December 31, 2004	Hudson Americas (2)	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$ 98,259	$ 120,250	$ 109,622	$ 15,959	$ —	$ 344,090
Gross margin	$ 25,597	$ 49,687	$ 38,519	$ 15,123	$ —	$ 128,926
Adjusted EBITDA (1)	$ 3,680	$ 1,427	$ 7,391	$ 939	$ (7,514)	$ 5,923
Business reorganization expenses (recoveries)	(150)	275	—	(214)	—	(89)
Merger and integration expenses (recoveries)	139	447	(91)	595	—	1,090
EBITDA (1)	3,691	705	7,482	558	(7,514)	4,922
Depreciation and amortization	1,622	1,114	2,315	500	195	5,746
Operating income (loss)	$ 2,069	$ (409)	$ 5,167	$ 58	$ (7,709)	$ (824)

(1) Non-GAAP earnings before interest, income taxes, special charges, other non-operating expense, and depreciation and amortization (“Adjusted EBITDA”) and non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization (“EBITDA”) are presented to provide additional information about the company’s operations on a basis consistent with the measures which the company uses to manage its operations and evaluate its performance. Management also uses these measurements to evaluate capital needs and working capital requirements. Adjusted EBITDA and EBITDA should not be considered in isolation or as a substitute for operating income, cash flows from operating activities, and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as a measure of the company’s profitability or liquidity. Furthermore, adjusted EBITDA and EBITDA as presented above may not be comparable with similarly titled measures reported by other companies.

(2) See attached Hudson Americas Segment Analysis for further details.

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

For the Year Ended December 31, 2005	Hudson Americas (2)	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$ 446,949	$ 481,623	$ 436,877	$ 62,827	$ —	$ 1,428,276
Gross margin	$ 114,414	$ 204,439	$ 158,345	$ 59,733	$ —	$ 536,931
Adjusted EBITDA (1)	$ 14,385	$ 16,164	$ 30,563	$ 4,174	$ (35,539)	$ 29,747
Business reorganization expenses (recoveries)	510	(42)	43	(278)	—	233
Merger and integration (recoveries)	(35)	—	(35)	—	—	(70)
EBITDA (1)	13,910	16,206	30,555	4,452	(35,539)	29,584
Depreciation and amortization	5,217	4,771	6,501	1,354	569	18,412
Operating income (loss)	$ 8,693	$ 11,435	$ 24,054	$ 3,098	$ (36,108)	$ 11,172

For the Year Ended December 31, 2004	Hudson Americas (2)	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$ 334,765	$ 447,483	$ 412,427	$ 61,679	$ —	$ 1,256,354
Gross margin	$ 86,662	$ 182,069	$ 143,360	$ 58,129	$ —	$ 470,220
Adjusted EBITDA (1)	$ 5,281	$ 969	$ 23,358	$ 2,871	$ (31,473)	$ 1,006
Business reorganization expenses (recoveries)	1,051	225	(260)	2,345	—	3,361
Merger and integration expenses (recoveries)	(113)	447	(193)	595	—	736
EBITDA (1)	4,343	297	23,811	(69)	(31,473)	(3,091)
Depreciation and amortization	5,307	4,773	6,163	1,805	2,060	20,108
Operating income (loss)	$ (964)	$ (4,476)	$ 17,648	$ (1,874)	$ (33,533)	$ (23,199)

(1) Non-GAAP earnings before interest, income taxes, special charges, other non-operating expense, and depreciation and amortization ("Adjusted EBITDA") and non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization ("EBITDA") are presented to provide additional information about the company's operations on a basis consistent with the measures which the company uses to manage its operations and evaluate its performance. Management also uses these measurements to evaluate capital needs and working capital requirements. Adjusted EBITDA and EBITDA should not be considered in isolation or as a substitute for operating income, cash flows from operating activities, and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as a measure of the company's profitability or liquidity. Furthermore, adjusted EBITDA and EBITDA as presented above may not be comparable with similarly titled measures reported by other companies.

(2) See attached Hudson Americas Segment Analysis for further details.

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

	For the Three Months Ended December 31, 2005			For the Three Months Ended December 31, 2004		
	N. America	Development	Total	N. America	Development	Total
Revenue	$117,062	$ 410	$117,472	$ 97,818	$ 441	$ 98,259
Gross margin	$ 29,919	$ 343	$ 30,262	$ 25,155	$ 442	$ 25,597
Adjusted EBITDA (1)	$ 5,044	$ (276)	$ 4,768	$ 4,653	$ (973)	$ 3,680
Business reorganization (recoveries) expenses	1	—	1	(150)	—	(150)
Merger and integration expenses	—	—	—	139	—	139
EBITDA (1)	5,043	(276)	4,767	4,664	(973)	3,691
Depreciation and amortization	1,395	76	1,471	1,542	80	1,622
Operating income (loss)	$ 3,648	$ (352)	$ 3,296	$ 3,122	$ (1,053)	$ 2,069

	For the Year Ended December 31, 2005			For the Year Ended December 31, 2004		
	N. America	Development	Total	N. America	Development	Total
Revenue	$444,877	$ 2,072	$446,949	$333,061	$ 1,704	$334,765
Gross margin	$112,889	$ 1,525	$114,414	$ 85,054	$ 1,608	$ 86,662
Adjusted EBITDA (1)	$ 18,001	$ (3,616)	$ 14,385	$ 10,707	$ (5,426)	$ 5,281
Business reorganization expenses	510	—	510	1,051	—	1,051
Merger and integration (recoveries)	(35)	—	(35)	(113)	—	(113)
EBITDA (1)	17,526	(3,616)	13,910	9,769	(5,426)	4,343
Depreciation and amortization	4,908	309	5,217	5,040	267	5,307
Operating income (loss)	$ 12,618	$ (3,925)	$ 8,693	$ 4,729	$ (5,693)	$ (964)

(1) Non-GAAP earnings before interest, income taxes, special charges, other non-operating expense, and depreciation and amortization ("Adjusted EBITDA") and non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization ("EBITDA") are presented to provide additional information about the company's operations on a basis consistent with the measures which the company uses to manage its operations and evaluate its performance. Management also uses these measurements to evaluate capital needs and working capital requirements. Adjusted EBITDA and EBITDA should not be considered in isolation or as a substitute for operating income, cash flows from operating activities, and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as a measure of the company's profitability or liquidity. Furthermore, adjusted EBITDA and EBITDA as presented above may not be comparable with similarly titled measures reported by other companies.

Exhibit 99.2

HUDSON HIGHLAND GROUP

To: Shareholders, Employees and Friends
February 16, 2006

Hudson Highland Group 2005 Fourth Quarter and Full-Year
Financial Results Show Continued Improvement

Consolidated Results

Historically, the fourth quarter of the year is a strong period in the recruitment industry. Though not as strong as originally expected, the company delivered a solid performance in the fourth quarter, achieving good overall improvement against the year-ago results and continuing progress toward its long-term goals.

In the fourth quarter of 2005, consolidated revenue and gross margin both increased by 3 percent from the same period in 2004. On a constant currency basis, revenue and gross margin dollars increased 6 percent. Gross margin percentage was 37.4 percent, compared to 37.5 percent in the fourth quarter of 2004. Temporary contracting margins improved to 18.7 percent, up from 17.9 percent in the year ago period. Consolidated EBITDA was up 45 percent year-over year to $7.1 million compared with $4.9 million in the fourth quarter of 2004. EBITDA rose 54 percent on a constant currency basis. Consolidated EBITDA was 2.0 percent of revenue in the fourth quarter of 2005 compared with 1.4 percent in the same period of 2004.

For the full year 2005, consolidated revenue and gross margin both increased by 14 percent from 2004. On a constant currency basis, revenue increased 12 percent and gross margin dollars increased 13 percent. Gross margin percentage was 37.6 percent, compared to 37.4 percent in 2004. Temporary contracting margins improved to 18.0 percent, up from 17.4 percent last year. Consolidated EBITDA totaled $29.6 million compared with a loss of $3.1 million in 2004 and was 2.1 percent of revenue in 2005, compared with negative 0.2 percent in 2004.

Particularly strong fourth quarter performances were achieved in Hudson Europe, where EBITDA increased more than 400 percent as the region focused on improving profitability, and Highland Partners, where EBITDA more than tripled on modest revenue growth.

The company set a target in 2005 to return 25 to 50 percent of increased gross margin dollars to EBITDA. In the fourth quarter, $2.6 million, or 33 percent of the $8.0 million increase in consolidated gross margin in constant currency, was realized in EBITDA. For the full year 2005, $30.9 million, or 51 percent of the $60.8 million increase in consolidated gross margin in constant currency, was realized in EBITDA.

Consolidated net income in the quarter was $2.8 million, including depreciation and amortization of $4.7 million, interest expense of $0.6 million due to increased borrowing on the company’s credit facility, and non-operating income of $0.7 million. The company had a tax credit of $0.3

million during the quarter due to lower income in Asia Pacific and a reduction in the prior year Australian tax provision. Basic and diluted earnings per share in the quarter were $0.12 and $0.11, respectively, up from a net loss of $0.07 per basic and diluted earnings per share in the year-ago period.

Consolidated net income in 2005 was $5.3 million, including depreciation and amortization of $18.4 million, interest of $1.9 million, non-operating income of $1.0 million and tax expense of $5.0 million. 2005 basic and diluted earnings per share were $0.24 and $0.22, respectively, up from a 2004 net loss of $1.38 per basic and diluted share.

Strategic Review

The company's strategy is founded on three primary elements: 1) focusing on core high-growth, high-margin business lines, 2) increasing the percentage of professional contracting and project solutions in our business portfolio to help offset the inherent volatility of permanent recruitment, and 3) leveraging our human capital solutions (HCS) service offerings to deliver greater value to our clients and further distinguish us from our competitors.

Achieving our high-growth, high-margin business focus and mix may mean that we sacrifice revenue growth for improved profitability in the short term by exiting lower-margin businesses to redirect resources to expand higher-margin operations. Exemplifying this strategy, the company's fourth quarter EBITDA increased 45 percent while revenue grew at a modest 3 percent rate. More specifically, during the same period, the temporary contracting revenue of Hudson United Kingdom declined 2 percent while the gross margin rose 2 percent and EBITDA as a percent of revenue increased to 4.5 percent from 3.1 percent a year ago.

Regarding our goal to reduce the impact of permanent recruitment volatility, temporary contracting represented 37 percent of gross margin for the fourth quarter of 2005, up from 34 percent a year ago. In addition, on a constant currency basis, contracting gross margin grew 13 percent in the quarter, while permanent placement gross margin rose only 2 percent during the period. Moreover, acquisitions in 2004 and 2005 contributed to this strategic goal, all of which consisted of businesses primarily engaged in high-margin contracting and project solutions.

Finally, the company's HCS business is core to the firm's value proposition and responds to a growing demand from clients for value-added services that complement our core recruitment offerings. Further, it supports our high-growth, high-margin business focus and contributed 10 percent of consolidated gross margin in 2005. During the fourth quarter, we completed a small HCS acquisition in North America that brought to the company new leadership development service offerings and will further our plans to expand our international offerings domestically.

Regional Review

During the fourth quarter of 2005, Hudson North America achieved strong 20 percent revenue growth. Gross margin increased 19 percent, driven by a 35 percent increase in permanent recruitment and a 14 percent increase in temporary contracting (78 percent of gross margin dollars). Average weekly contractors on billing increased 24 percent in the 2005 fourth quarter compared with the previous year, and 6 percent over the third quarter of 2005. Temporary gross margin was 21.1 percent of revenue compared with 22.0 percent in the fourth quarter of 2004 due to higher benefits payments, higher workers' compensation expense and the resolution of Peoplesoft billing delays in the third quarter that resulted in some customer credits in the fourth quarter.

Hudson North America's gross margin gains reflect year-over-year increases in three of its core business lines: Legal increased 25 percent, Accounting & Finance increased 6 percent, and Engineering, Aerospace & Defense increased 154 percent. IT decreased 9 percent as continued declines in a specific customer account offset small growth in the base business.

On a sequential basis, revenue increased 7 percent in Hudson North America in the fourth quarter compared with the third quarter of 2005, while gross margin increased 4 percent. Gross margin increased 41 percent sequentially in Aerospace & Defense and 6 percent in IT, but decreased 13 percent in Accounting & Finance and 6 percent in Legal.

In the fourth quarter of 2005, less than half of contract work in Accounting and Finance related to Sarbanes-Oxley, compared to a significant majority a year ago. The reduction has been offset by increases in the areas of risk management, internal audit, and general financial solutions work, all areas where we expect continued growth.

Hudson North America reported $5.0 million in EBITDA, up from $4.7 million in the fourth quarter of 2004. The unit achieved EBITDA equal to 4.3 percent of revenue, and returned 8 percent of the increase in gross margin dollars to EBITDA. The low leverage in the quarter was primarily due to higher professional fees related to the installation of Peoplesoft. While some consulting expenses will likely continue through the first half of 2006, we believe we have fully addressed the billing timeliness issues, and we expect, with continued monitoring and refinement over the next several quarters, to reap the benefits of a more robust support system in North America.

Hudson Europe revenue decreased by 2 percent in the fourth quarter, while gross margin was flat. In constant currency, revenue increased 4 percent and gross margin increased 8 percent in the quarter. Excluding the Balance acquisition, constant currency revenue decreased 4 percent while gross margin increased 2 percent in the quarter.

Hudson Europe achieved $3.6 million in EBITDA in the fourth quarter compared to $0.7 million in the same quarter last year, a significant improvement. Again, in line with management's focus on sustainable profitability, Hudson Europe achieved an EBITDA of 3.0 percent of revenue compared to less than 1 percent last year. Hudson United Kingdom results were strong with EBITDA increasing by 41 percent over the year ago period, reaching 4.5 percent of revenue in local currency. Other key EBITDA contributions came from Belgium and recently acquired Netherlands-based Balance, and from improvements in France, Netherlands, Spain, and Central and Eastern Europe.

Hudson Asia Pacific revenue and gross margin decreased 6 percent in the fourth quarter of 2005 compared to the previous year. In constant currency, revenue was down 5 percent and gross margin was down 4 percent. Hudson Asia Pacific earned $4.9 million in EBITDA, or 4.8 percent of revenue, compared to $7.5 million a year ago.

Hudson Asia Pacific includes both Australia/New Zealand and Asia. Hudson Australia/New Zealand revenue declined by 6 percent and gross margin declined by 7 percent in constant currency compared to the fourth quarter of 2004, impacted by hiring freezes and slowing demand in the IT, Telecom and Financial Services sectors. Hudson Australia/New Zealand's permanent placement gross margin was down 8 percent and temporary contracting gross margin was down 3 percent in constant currency in the quarter compared to the year ago period. EBITDA as a percent of revenue was 3.9 percent in Hudson Australia/New Zealand.

Though demand slowed in Japan, Hudson Asia revenue and gross margin both increased by 10 percent in the fourth quarter, primarily on growth in Singapore and Hong Kong. EBITDA as a percent of revenue was 16 percent in Hudson Asia in the fourth quarter in constant currency.

The declines in Australia/New Zealand are best understood in the context of the general economic environment. Macroeconomic data for Australia is not indicating recessionary conditions. While Australian GDP is forecast by Westpac Bank to grow 3 percent in 2006, up from a 2.5 percent growth rate last year, variations in economic strength among the Australian states are having an impact on our business. The fastest growing areas are Western Australia and Queensland, where the largest driver of growth is the mining and natural resources sector, but in which we have smaller operations. By contrast, the areas where our professional service lines predominate – New South Wales and Victoria – are experiencing slower growth. In New Zealand, a market that represents about 25 percent of Hudson Australia/New Zealand gross margin, GDP growth is forecast to slow to 1.2 percent this year compared with 2.4 percent last year and 4.4 percent in 2004.

Considering these factors, we anticipate softness in Australia and New Zealand continuing into 2006, but within the context of a growing economy. It is normal to encounter headwinds in different national economies and it is seldom the case that all economies are growing robustly at the same time. In light of these factors, the company has taken and expects to continue to take steps to cushion the effects without affecting the revenue producing capacity of the business.

Results at Highland Partners continued to improve. Revenue increased 5 percent in constant currency in the fourth quarter compared to prior year and EBITDA reached $1.7 million, up from $0.6 million in the year ago period. Highland Partners achieved EBITDA equal to 10.4 percent of revenue in the fourth quarter.

Guidance

Given the current economic environment, the company expects 2006 EBITDA as a percentage of revenue to be 2.5 to 3.5 percent, constant currency revenue growth of 1 to 5 percent and constant currency gross margin growth of 5 to 10 percent. This guidance is based on expectations of constant currency revenue growth of 7 to 12 percent for Hudson North America, 0 to 5 percent for Hudson Europe and Highland Partners, and -5 to 5 percent in Hudson Asia Pacific. This guidance does not reflect the impact of any acquisitions or divestitures that the company may consider in the future.

For the first quarter of 2006, historically the smallest profit generating quarter of the year, the company expects lower revenue and EBITDA than the prior year period due to business conditions in the Asia Pacific region.

Beginning in the first quarter of 2006, the company will record compensation expense related to outstanding employee stock options in accordance with FAS 123R. Based on current information, the company anticipates the impact of this to be $4.9 million for the full year 2006. Corresponding costs in 2005 would have been $4.5 million.

Safe Harbor Statement

This press release contains statements that the company believes to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this press release, including those under the caption “Guidance” and other statements regarding the company’s future financial condition, results of operations, business operations and business prospects, are forward-looking statements. Words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “predict,” “believe” and similar words, expressions and variations of these words and expressions are intended to identify forward-looking statements. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to, the impact of global economic fluctuations on temporary contracting operations; the cyclical nature of the company’s executive search and mid-market professional staffing businesses; the company’s ability to manage its growth; risks associated with expansion; risks and financial impact associated with disposition of non-strategic assets; the company’s reliance on information systems and technology; competition; fluctuations in operating results; risks relating to foreign operations, including foreign currency fluctuations; dependence on highly skilled professionals and key management personnel; the impact of employees departing with existing executive search clients; risks maintaining professional reputation and brand name; restrictions imposed by blocking arrangements; exposure to employment-related claims, and limits on insurance coverage related thereto; government regulations; and restrictions on the company’s operating flexibility due to the terms of its credit facility. Additional information concerning these and other factors is contained in the company’s filings with the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this press release. The company assumes no obligation, and expressly disclaims any obligation, to review or confirm analysts’ expectations or estimates or to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Financial Tables Follow, Presented in Refined Segment Information Format

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

For the Three Months Ended December 31, 2005	Hudson Americas (2)	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$ 117,472	$ 117,282	$ 102,641	$ 16,574	$ —	$ 353,969
Gross margin	$ 30,262	$ 49,917	$ 36,288	$ 15,922	$ —	$ 132,389
Adjusted EBITDA (1)	$ 4,768	$ 3,597	$ 4,905	$ 1,740	$ (7,831)	$ 7,179
Business reorganization expenses	1	37	43	9	—	90
Merger and integration (recoveries)	—	—	(35)	—	—	(35)
EBITDA (1)	4,767	3,560	4,897	1,731	(7,831)	7,124
Depreciation and amortization	1,471	1,828	926	331	155	4,711
Operating income (loss)	$ 3,296	$ 1,732	$ 3,971	$ 1,400	$ (7,986)	$ 2,413

For the Three Months Ended December 31, 2004	Hudson Americas (2)	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$ 98,259	$ 120,250	$ 109,622	$ 15,959	$ —	$ 344,090
Gross margin	$ 25,597	$ 49,687	$ 38,519	$ 15,123	$ —	$ 128,926
Adjusted EBITDA (1)	$ 3,680	$ 1,427	$ 7,391	$ 939	$ (7,514)	$ 5,923
Business reorganization expenses (recoveries)	(150)	275	—	(214)	—	(89)
Merger and integration expenses (recoveries)	139	447	(91)	595	—	1,090
EBITDA (1)	3,691	705	7,482	558	(7,514)	4,922
Depreciation and amortization	1,622	1,114	2,315	500	195	5,746
Operating income (loss)	$ 2,069	$ (409)	$ 5,167	$ 58	$ (7,709)	$ (824)

(1) Non-GAAP earnings before interest, income taxes, special charges, other non-operating expense, and depreciation and amortization (“Adjusted EBITDA”) and non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization (“EBITDA”) are presented to provide additional information about the company’s operations on a basis consistent with the measures which the company uses to manage its operations and evaluate its performance. Management also uses these measurements to evaluate capital needs and working capital requirements. Adjusted EBITDA and EBITDA should not be considered in isolation or as a substitute for operating income, cash flows from operating activities, and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as a measure of the company’s profitability or liquidity. Furthermore, adjusted EBITDA and EBITDA as presented above may not be comparable with similarly titled measures reported by other companies.

(2) See attached Hudson Americas Segment Analysis for further details.

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

For the Year Ended December 31, 2005	Hudson Americas (2)	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$ 446,949	$481,623	$436,877	$62,827	$ —	$1,428,276
Gross margin	$ 114,414	$204,439	$158,345	$59,733	$ —	$ 536,931
Adjusted EBITDA (1)	$ 14,385	$ 16,164	$ 30,563	$ 4,174	$(35,539)	$ 29,747
Business reorganization expenses (recoveries)	510	(42)	43	(278)	—	233
Merger and integration (recoveries)	(35)	—	(35)	—	—	(70)
EBITDA (1)	13,910	16,206	30,555	4,452	(35,539)	29,584
Depreciation and amortization	5,217	4,771	6,501	1,354	569	18,412
Operating income (loss)	$ 8,693	$ 11,435	$ 24,054	$ 3,098	$(36,108)	$ 11,172

For the Year Ended December 31, 2004	Hudson Americas (2)	Hudson Europe	Hudson Asia Pacific	Highland Partners	Corporate	Total
Revenue	$ 334,765	$447,483	$412,427	$61,679	$ —	$1,256,354
Gross margin	$ 86,662	$182,069	$143,360	$58,129	$ —	$ 470,220
Adjusted EBITDA (1)	$ 5,281	$ 969	$ 23,358	$ 2,871	$(31,473)	$ 1,006
Business reorganization expenses (recoveries)	1,051	225	(260)	2,345	—	3,361
Merger and integration expenses (recoveries)	(113)	447	(193)	595	—	736
EBITDA (1)	4,343	297	23,811	(69)	(31,473)	(3,091)
Depreciation and amortization	5,307	4,773	6,163	1,805	2,060	20,108
Operating income (loss)	$ (964)	$ (4,476)	$ 17,648	$ (1,874)	$(33,533)	$ (23,199)

(1) Non-GAAP earnings before interest, income taxes, special charges, other non-operating expense, and depreciation and amortization ("Adjusted EBITDA") and non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization ("EBITDA") are presented to provide additional information about the company's operations on a basis consistent with the measures which the company uses to manage its operations and evaluate its performance. Management also uses these measurements to evaluate capital needs and working capital requirements. Adjusted EBITDA and EBITDA should not be considered in isolation or as a substitute for operating income, cash flows from operating activities, and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as a measure of the company's profitability or liquidity. Furthermore, adjusted EBITDA and EBITDA as presented above may not be comparable with similarly titled measures reported by other companies.

(2) See attached Hudson Americas Segment Analysis for further details.

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

	For the Three Months Ended December 31, 2005			For the Three Months Ended December 31, 2004		
	N. America	Development	Total	N. America	Development	Total
Revenue	$117,062	$ 410	$117,472	$ 97,818	$ 441	$ 98,259
Gross margin	$ 29,919	$ 343	$ 30,262	$ 25,155	$ 442	$ 25,597
Adjusted EBITDA (1)	$ 5,044	$ (276)	$ 4,768	$ 4,653	$ (973)	$ 3,680
Business reorganization (recoveries) expenses	1	—	1	(150)	—	(150)
Merger and integration expenses	—	—	—	139	—	139
EBITDA (1)	5,043	(276)	4,767	4,664	(973)	3,691
Depreciation and amortization	1,395	76	1,471	1,542	80	1,622
Operating income (loss)	$ 3,648	$ (352)	$ 3,296	$ 3,122	$ (1,053)	$ 2,069

	For the Year Ended December 31, 2005			For the Year Ended December 31, 2004		
	N. America	Development	Total	N. America	Development	Total
Revenue	$444,877	$ 2,072	$446,949	$333,061	$ 1,704	$334,765
Gross margin	$112,889	$ 1,525	$114,414	$ 85,054	$ 1,608	$ 86,662
Adjusted EBITDA (1)	$ 18,001	$ (3,616)	$ 14,385	$ 10,707	$ (5,426)	$ 5,281
Business reorganization expenses	510	—	510	1,051	—	1,051
Merger and integration (recoveries)	(35)	—	(35)	(113)	—	(113)
EBITDA (1)	17,526	(3,616)	13,910	9,769	(5,426)	4,343
Depreciation and amortization	4,908	309	5,217	5,040	267	5,307
Operating income (loss)	$ 12,618	$ (3,925)	$ 8,693	$ 4,729	$ (5,693)	$ (964)

(1) Non-GAAP earnings before interest, income taxes, special charges, other non-operating expense, and depreciation and amortization ("Adjusted EBITDA") and non-GAAP earnings before interest, income taxes, other non-operating expense, and depreciation and amortization ("EBITDA") are presented to provide additional information about the company's operations on a basis consistent with the measures which the company uses to manage its operations and evaluate its performance. Management also uses these measurements to evaluate capital needs and working capital requirements. Adjusted EBITDA and EBITDA should not be considered in isolation or as a substitute for operating income, cash flows from operating activities, and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as a measure of the company's profitability or liquidity. Furthermore, adjusted EBITDA and EBITDA as presented above may not be comparable with similarly titled measures reported by other companies.

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

The company defines the term “constant currency” to mean that financial data for a period are translated into U.S. Dollars using the same foreign currency exchange rates that were used to translate financial data for the previously reported period. Changes in revenues, direct costs, gross margin and selling, general and administrative expenses include the effect of changes in foreign currency exchange rates. Variance analysis usually describes period-to-period variances that are calculated using constant currency as a percentage. The company’s management reviews and analyzes business results in constant currency and believes these results better represent the company’s underlying business trends.

The company believes that these calculations are a useful measure, indicating the actual change in operations. Earnings from subsidiaries are rarely repatriated to the United States, and there are no significant gains or losses on foreign currency transactions between subsidiaries. Therefore, changes in foreign currency exchange rates generally impact only reported earnings and not the company’s economic condition.

	For the three months ended December 31,			
	2005			2004
	As reported	Currency translation	Constant currency	As reported
Revenue				
Hudson Americas	$117,472	$ (28)	$117,444	$ 98,259
Hudson Europe	117,282	8,197	125,479	120,250
Hudson Asia Pacific	102,641	1,537	104,178	109,622
Highland	16,574	158	16,732	15,959
Total revenue	$353,969	$ 9,864	$363,833	$344,090
Direct costs				
Hudson Americas	$ 87,210	$ (25)	$ 87,185	$ 72,662
Hudson Europe	67,365	4,545	71,910	70,563
Hudson Asia Pacific	66,353	825	67,178	71,103
Highland	652	(4)	648	836
Total direct costs	$221,580	$ 5,341	$226,921	$215,164
Gross margin				
Hudson North Americas	$ 30,262	$ (3)	$ 30,259	$ 25,597
Hudson Europe	49,917	3,652	53,569	49,687
Hudson Asia Pacific	36,288	712	37,000	38,519
Highland	15,922	162	16,084	15,123
Total Gross margin	$132,389	$ 4,523	$136,912	$128,926
Selling, general and administrative (a)				
Hudson Americas	$ 26,965	$ (10)	$ 26,955	$ 23,539
Hudson Europe	48,148	3,580	51,728	49,374
Hudson Asia Pacific	32,309	525	32,834	33,443
Highland	14,513	183	14,696	14,684
Corporate	7,986	—	7,986	7,709
Total Selling, general and administrative expenses (a)	$129,921	$ 4,278	$134,199	$128,749

(a) Selling, general and administrative expenses include the Condensed Consolidated Statements of Operations’ captions: selling, general and administrative and depreciation and amortization.

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

The company defines the term "constant currency" to mean that financial data for a period are translated into U.S. Dollars using the same foreign currency exchange rates that were used to translate financial data for the previously reported period. Changes in revenues, direct costs, gross margin and selling, general and administrative expenses include the effect of changes in foreign currency exchange rates. Variance analysis usually describes period-to-period variances that are calculated using constant currency as a percentage. The company's management reviews and analyzes business results in constant currency and believes these results better represent the company's underlying business trends.

The company believes that these calculations are a useful measure, indicating the actual change in operations. Earnings from subsidiaries are rarely repatriated to the United States, and there are no significant gains or losses on foreign currency transactions between subsidiaries. Therefore, changes in foreign currency exchange rates generally impact only reported earnings and not the company's economic condition.

	For the year ended December 31,			
	2005			2004
	As reported	Currency translation	Constant currency	As reported
Revenue				
Hudson Americas	$ 446,949	$ 142	$ 447,091	$ 334,765
Hudson Europe	481,623	1,616	483,239	447,483
Hudson Asia Pacific	436,877	(17,177)	419,700	412,427
Highland	62,827	(627)	62,200	61,679
Total revenue	$1,428,276	$(16,046)	$1,412,230	$1,256,354
Direct costs				
Hudson Americas	$ 332,535	$ 297	$ 332,832	$ 248,103
Hudson Europe	277,184	1,324	278,508	265,414
Hudson Asia Pacific	278,532	(11,379)	267,153	269,067
Highland	3,094	(358)	2,736	3,550
Total direct costs	$ 891,345	$(10,116)	$ 881,229	$ 786,134
Gross margin				
Hudson Americas	$ 114,414	$ (155)	$ 114,259	$ 86,662
Hudson Europe	204,439	292	204,731	182,069
Hudson Asia Pacific	158,345	(5,798)	152,547	143,360
Highland	59,733	(269)	59,464	58,129
Total gross margin	$ 536,931	$ (5,930)	$ 531,001	$ 470,220
Selling, general and administrative (a)				
Hudson Americas	$ 105,246	$ (164)	$ 105,082	$ 86,688
Hudson Europe	193,046	549	193,595	185,873
Hudson Asia Pacific	134,283	(4,543)	129,740	126,165
Highland	56,913	(222)	56,691	57,063
Corporate	36,108	—	36,108	33,533
Total selling, general and administrative expenses (a)	$ 525,596	$ (4,380)	$ 521,216	$ 489,322

(a) Selling, general and administrative expenses include the Condensed Consolidated Statements of Operations' captions: selling, general and administrative and depreciation and amortization.