

HUDSON HIGHLAND GROUP INC

Form 10-Q

August 06, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

or

.. 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)

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DELAWARE
(State or other jurisdiction of
incorporation or organization)

59-3547281
(IRS Employer
Identification No.)

560 Lexington Avenue, New York, New York 10022
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

| Class | Outstanding on July 31, 2008 |
|----------------------------------|------------------------------|
| Common Stock - \$0.001 par value | 25,369,881 |

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****HUDSON HIGHLAND GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)****(unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | \$ 305,940 | \$ 297,045 | \$ 601,428 | \$ 583,860 |
| Direct costs (Note 7) | 168,723 | 167,325 | 338,603 | 336,826 |
| Gross margin | 137,217 | 129,720 | 262,825 | 247,034 |
| Selling, general and administrative expenses | 125,926 | 117,772 | 245,311 | 230,577 |
| Acquisition-related expenses | | 3,853 | | 4,151 |
| Depreciation and amortization | 3,570 | 3,852 | 7,429 | 7,542 |
| Business reorganization expenses | 1,071 | 1,578 | 2,391 | 4,694 |
| Operating income | 6,650 | 2,665 | 7,694 | 70 |
| Other income (expense): | | | | |
| Other, net | 899 | (19) | 1,325 | 2,588 |
| Interest, net | 183 | 435 | 543 | 647 |
| Income before provision for income taxes | 7,732 | 3,081 | 9,562 | 3,305 |
| Provision for income taxes | 6,106 | 4,431 | 7,966 | 6,636 |
| Net income (loss) from continuing operations | 1,626 | (1,350) | 1,596 | (3,331) |
| Net income from discontinued operations | 3,330 | 732 | 4,724 | 2,768 |
| Net income (loss) | \$ 4,956 | \$ (618) | \$ 6,320 | \$ (563) |
| Earnings (loss) per share: | | | | |
| Basic from continuing operations | \$ 0.07 | \$ (0.05) | \$ 0.06 | \$ (0.13) |
| Basic from discontinued operations | 0.13 | 0.03 | 0.19 | 0.11 |
| Basic | \$ 0.20 | \$ (0.02) | \$ 0.25 | \$ (0.02) |
| Diluted from continuing operations | \$ 0.06 | \$ (0.05) | \$ 0.06 | \$ (0.13) |
| Diluted from discontinued operations | 0.13 | 0.03 | 0.19 | 0.11 |
| Diluted | \$ 0.19 | \$ (0.02) | \$ 0.25 | \$ (0.02) |
| Weighted average shares outstanding: | | | | |
| Basic | 24,984 | 25,247 | 25,135 | 25,084 |
| Diluted | 25,512 | 25,247 | 25,616 | 25,084 |

See accompanying notes to condensed consolidated financial statements.

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(in thousands, except per share amounts)

| | June 30, 2008 (unaudited) | December 31, 2007 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 51,429 | \$ 39,245 |
| Cash restricted | 481 | |
| Accounts receivable, less allowance for doubtful accounts of \$4,531 and \$4,838, respectively | 196,949 | 187,980 |
| Prepaid and other | 20,143 | 18,389 |
| Current assets from discontinued operations | | 13,461 |
| Total current assets | 269,002 | 259,075 |
| Goodwill | 67,947 | 73,444 |
| Other intangibles, net | 5,144 | 4,791 |
| Property and equipment, net | 30,025 | 29,470 |
| Other assets | 11,742 | 7,214 |
| Non-current assets from discontinued operations | | 212 |
| Total assets | \$ 383,860 | \$ 374,206 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 27,679 | \$ 20,988 |
| Accrued expenses and other current liabilities | 117,583 | 120,323 |
| Short-term borrowings | 1,107 | 243 |
| Accrued business reorganization expenses | 3,356 | 3,490 |
| Current liabilities from discontinued operations | | 7,382 |
| Total current liabilities | 149,725 | 152,426 |
| Other non-current liabilities | 19,711 | 18,976 |
| Accrued business reorganization expenses, non-current | 2,305 | 2,689 |
| Total liabilities | 171,741 | 174,091 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 10,000 shares authorized; none issued or outstanding | | |
| Common stock, \$0.001 par value, 100,000 shares authorized; issued 25,956 and 25,691 shares, respectively | 26 | 26 |
| Additional paid-in capital | 448,549 | 444,075 |
| Accumulated deficit | (282,267) | (288,587) |
| Accumulated other comprehensive income translation adjustments | 50,286 | 44,946 |
| Treasury stock, 589 and 25 shares, respectively, at cost | (4,475) | (345) |
| Total stockholders' equity | 212,119 | 200,115 |
| Total liabilities and stockholders' equity | \$ 383,860 | \$ 374,206 |

See accompanying notes to condensed consolidated financial statements.

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

| | Six Months Ended June 30, | |
|---|--------------------------------------|------------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 6,320 | \$ (563) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,547 | 7,761 |
| Stock-based compensation | 2,920 | 2,808 |
| Gain on sale of assets | (5,996) | (3,241) |
| Other non-cash compensation | | 4,151 |
| Provision for doubtful accounts | (628) | (292) |
| Deferred income taxes | (293) | (559) |
| Changes in assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 10,642 | (1,068) |
| (Increase) decrease in other assets | (1,636) | 616 |
| (Decrease) increase in accounts payable, accrued expenses and other liabilities | (13,791) | 9,011 |
| Decrease in accrued business reorganization expenses | (609) | (762) |
| Decrease in accrued merger and integration expenses | (165) | (816) |
| Net cash provided by operating activities | 4,311 | 17,046 |
| Cash flows from investing activities: | | |
| Capital expenditures | (6,290) | (6,360) |
| Proceeds from sale of assets | 20,615 | 3,393 |
| Acquisition and investment in businesses, net of cash acquired | (5,473) | (7,569) |
| Net cash provided by (used in) investing activities | 8,852 | (10,536) |
| Cash flows from financing activities: | | |
| Borrowings under credit facility | 204,854 | 233,832 |
| Repayments under credit facility | (203,920) | (233,832) |
| Purchase of treasury shares | (5,286) | (51) |
| Issuance of common stock Employee Stock Purchase Plan | 1,358 | 1,132 |
| Issuance of common stock Long Term Incentive Plan option exercises | 372 | 3,143 |
| Payments on short and long-term debt | (119) | (73) |
| Net cash (used in) provided by financing activities | (2,741) | 4,151 |
| Effect of exchange rate changes on cash and cash equivalents | 1,762 | 1,417 |
| Net increase in cash and cash equivalents | 12,184 | 12,078 |
| Cash and cash equivalents, beginning of period | 39,245 | 44,649 |
| Cash and cash equivalents, end of period | \$ 51,429 | \$ 56,727 |

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Supplemental disclosures of cash flow information:

Cash paid during the period for:

| | | | | |
|----------|----|-------|----|-------|
| Interest | \$ | 749 | \$ | 669 |
| Taxes | \$ | 9,471 | \$ | 4,644 |

See accompanying notes to condensed consolidated financial statements.

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HUDSON HIGHLAND GROUP, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands)

(unaudited)