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)

DELAWARE	**59-3547281**
(State or other jurisdiction of incorporation or organization)	**(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 x 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	x
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 x

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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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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HUDSON HIGHLAND GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(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.

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HUDSON HIGHLAND GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 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

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)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Treasury stock	Total
Balances at January 1, 2008	$ 26	$ 444,075	$ (288,587)	$ 44,946	$ (345)	$ 200,115
Net income			6,320			6,320
Other comprehensive income, translation adjustments				5,340		5,340
Purchase of treasury stock					(5,286)	(5,286)
Issuance of shares for 401(k) plan		(176)			1,156	980
Issuance of shares from exercise of stock options		372				372
Issuance of shares for employee stock purchase plans		1,358				1,358
Stock-based compensation		2,920				2,920
Balances at June 30, 2008	$ 26	$ 448,549	$ (282,267)	$ 50,286	$ (4,475)	$ 212,119

See accompanying notes to condensed consolidated financial statements.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

NOTE 1 BASIS OF PRESENTATION

These interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of Hudson Highland Group, Inc. (Hudson or the Company) filed in its Annual Report on Form 10-K for the year ended December 31, 2007.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of operating revenues and expenses. These estimates are based on management s knowledge and judgments. In the opinion of management, all adjustments (consisting of normal recurring adjustments) 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. The results of operations for interim periods are not necessarily indicative of the results of operations for the full year. Certain prior year amounts have been reclassified to conform to the current period presentation.

The condensed consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. All significant inter-company accounts and transactions between and among the Company and its subsidiaries have been eliminated in consolidation.

NOTE 2 DESCRIPTION OF BUSINESS

The Company provides professional contract consultants, permanent recruitment services and a range of talent management services to businesses operating in a wide variety of industries. The Company is organized into three reportable segments Hudson Americas, Hudson Europe, and Hudson Asia Pacific (collectively, the Hudson regional businesses), which constituted approximately 16%, 47%, and 37%, respectively, of the Company s gross margin for the six months ended June 30, 2008.

Hudson Americas operates from thirty-five offices in two countries, with 96% of its gross margin generated in the United States (U.S.) during the six months ended June 30, 2008. Hudson Europe operates from forty-six offices in seventeen countries, with 46% of its gross margin generated in the United Kingdom (U.K.) during the six months ended June 30, 2008. Hudson Asia Pacific operates from twenty-one offices in six countries, with 64% of its gross margin generated in Australia during the six months ended June 30, 2008.

With respect to contract personnel, Hudson focuses on providing candidates with specialized functional skills and competencies, such as accounting and finance, legal and information technology. The length of a contract assignment can vary, but engagements at the professional level 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 and $150 annually and possessing the professional skills and/or profiles 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 industry sectors, such as financial services or technology, and candidates possessing particular professional skills, such as accounting and finance, information technology, legal and human resources. 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.

The Hudson regional businesses also provide organizational effectiveness and development services through their talent management offerings. These services encompass candidate assessment, competency modeling, leadership development, performance management, and career transition. These services enable Hudson to offer clients a comprehensive set of management services across the entire employment life-cycle from attracting, assessing and selecting best-fit employees to engaging and developing those individuals to help build a high-performance organization.

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NOTE 3 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework, or hierarchy, for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement will be effective 60 days following the Securities Exchange and Commission s (SEC) approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not currently expect the adoption of SFAS No. 162 to have a material impact on its results of operations or financial condition.

In March 2008, FASB issued SFAS No. 161 Disclosures About Derivative Instruments and Hedging Activities (SFAS No. 161). SFAS No. 161 enhances disclosures for derivative instruments and hedging activities, including: (i) the manner in which a company uses derivative instruments; (ii) the manner in which derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and (iii) the effect of derivative instruments and related hedged items on a company s financial position. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company does not currently expect the adoption of SFAS No. 161 to have a material impact on its results of operations or financial condition.

In September 2006, FASB issued SFAS No. 157 Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. In February 2008, FASB issued Staff Position 157-2 Partial Deferral of the Effective Date of Statement 157 (FSP No. 157-2). FSP No. 157-2 delays the effective date of SFAS No. 157, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material effect on the Company s results of operations or financial position. The Company does not currently expect the adoption of FSP No. 157-2 for nonfinancial assets and nonfinancial liabilities to have a material impact on its results of operations or financial condition.

In February 2007, FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with changes in fair value recognized in earnings each reporting period. The Company adopted SFAS No. 159 on January 1, 2008 and the adoption did not have a material impact on its results of operations or financial condition as the Company did not elect to apply the option to measure any of its financial assets or liabilities.

NOTE 4 EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share are computed by dividing the Company s net income (loss) from continuing operations by the weighted average number of shares outstanding during the period. When the effects are not anti-dilutive, diluted earnings per share is computed by dividing the Company s net income (loss) from continuing operations by the weighted average number of shares outstanding and the impact of all dilutive potential common shares, primarily stock options and unvested restricted stock. The dilutive impact of stock options and unvested restricted stock is determined by applying the treasury stock method. For periods in which losses are presented, dilutive loss per share calculations do not differ from basic loss per share because the effects of any potential common shares were anti-dilutive and therefore not included in the calculation of dilutive earnings per share. For the three months ended June 30, 2008, 1,688,075 outstanding stock options were excluded from the diluted earnings per share calculation because the options exercise prices were greater than the average share price for the period. For the six months ended June 30, 2007, the effect of approximately 823,000 outstanding stock options and other common stock equivalents was excluded from the calculation of diluted loss per share because their effect was anti-dilutive.

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NOTE 5 STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), Share-Based Payment (SFAS No. 123(R)), as interpreted by SEC Staff Accounting Bulletins No. 107 and No. 110. Under SFAS No. 123(R), stock-based compensation is based on the fair value of the award on the date of grant, which is recognized over the related service period, net of estimated forfeitures. The service period is the period over which the related service is performed, which is generally the same as the vesting period. The Company uses the Black-Scholes option-pricing model to determine the compensation expense related to stock options.

Long Term Incentive Plan

The Company maintains the Hudson Highland Group, Inc. Long Term Incentive Plan (the LTIP) pursuant to which it can offer equity-based compensation incentives to eligible recipients. The LTIP permits the granting of stock options and restricted stock as well as other types of equity-based instruments. The Compensation Committee of the Company s Board of Directors will establish such conditions as it deems appropriate on the granting or vesting of stock options or restricted stock.

Stock Options

Stock options granted under the LTIP generally expire ten years after the date of grant. Stock options granted under the LTIP have an exercise price of at least 100% of the fair market value of the underlying stock and generally vest ratably over a four-year period.

For the six months ended June 30, 2008 and 2007, the Company recognized $901 and $2,017, respectively, of stock-based compensation related to stock options. For the three months ended June 30, 2008 and 2007, the Company recognized $503 and $1,195, respectively, of stock-based compensation related to stock options.

As of June 30, 2008, the Company had $2,012 of total unrecognized stock-based compensation related to outstanding nonvested stock options. The Company expects to recognize that cost over a weighted-average service period of two years.

The weighted average fair value of stock options granted during the six months ended June 30, 2007 was $9.30. There were no options granted during the six months ended June 30, 2008.

Restricted Stock

Shares of restricted stock are valued at the closing market value of the Company s common stock on the date of grant. During the six months ended June 30, 2008, the Company granted 293,180 shares of restricted stock to various employees. Of the 293,180 shares granted, (i) 228,980 vest over a one year period (with 50% vesting on July 1, 2008 and the remaining 50% vesting on February 13, 2009), (ii) 45,000 shares vest ratably over a four year period, (iii) 15,600 vest over a four year period (with 50% vesting on July 1, 2008 and the remaining 50% vesting ratably over a three year period beginning May 12, 2009) and (iv) 3,600 shares vested immediately.

For the six months ended June 30, 2008 and 2007, the Company recognized $1,570 and $479, respectively, of stock-based compensation related to restricted stock. For the three months ended June 30, 2008 and 2007, the Company recognized $1,065 and $341, respectively, of stock-based compensation related to restricted stock.

As of June 30, 2008, the Company had $1,352 of total unrecognized stock-based compensation related to outstanding nonvested restricted stock. That cost is expected to be recognized over a weighted-average service period of 1.38 years.

Employee Stock Purchase Plan

The Company also maintains the Hudson Highland Group, Inc. Employee Stock Purchase Plan (the ESPP), pursuant to which eligible employees may purchase shares of the Company s common stock at the lesser of 85% of the fair market value at the commencement of each plan purchase period or 85% of the fair market value as of the purchase date. Eligible employee purchases are limited to $25 in any calendar year.

For the six months ended June 30, 2008 and 2007, the Company recognized $449 and $312, respectively, of stock-based compensation related to shares purchased under the ESPP. For the three months ended June 30, 2008 and 2007, the Company recognized $266 and $181, respectively, of stock-based compensation related to shares purchased under the ESPP. As of June 30, 2008, the Company had 223,258 shares reserved for purchase under the ESPP.

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NOTE 6 DISCONTINUED OPERATIONS

Effective May 1, 2008, the Company completed the sale of substantially all of the assets of Balance Public Management B.V. (BPM), a division of Balance Ervaring op Projectbasis, B.V. (Balance), a subsidiary of the Company, to KH Health Care B.V. (KHHC). At the closing of the sale, the Company received 4,250, or $6,628, in cash from KHHC. The Company recorded a gain on the sale of Balance of $2,762, which included $243 of foreign currency translation gains, net of $3,713 of goodwill allocated to the business.

On February 4, 2008, the Company completed the sale of substantially all of the assets of Hudson Americas energy, engineering and technical staffing division (ETS) to System One Holdings LLC (System One). At the close of the sale, the Company received from System One, pursuant to the agreement (i) $10,988 in cash, subject to a post-closing net working capital adjustment, (ii) a subordinated secured note in the aggregate principal amount of $5,000 with a five year maturity and (iii) a warrant to purchase 10% of the units of membership interests in System One. The Company has the right to receive an additional $600 that has been deposited by System One into an escrow account upon the resolution of certain tax withholdings. Of this amount, $119 was released from escrow during the three months ended June 30, 2008. During June 2008, the post-closing net working capital adjustment was finalized which resulted in a $372 payment to System One. The Company retained approximately $3,600 of receivables of the business, all of which were collected as of April 30, 2008. The Company also retained $1,153 of workers compensation liabilities. The Company recorded a loss on the sale of ETS of $671, net of approximately $903 of direct costs of the transaction and $6,944 of goodwill allocated to the business.

On December 14, 2007, the Company completed the sale of all of the outstanding shares of its Netherlands reintegration subsidiary, Hudson Human Capital Solutions B.V. (HHCS) to Workx! Holding B.V (Workx). At the closing of the HHCS sale, the Company received 500 in cash. The share purchase agreement entered into in connection with the HHCS sale provides for contingent payments to the Company of up to 200 subject to the achievement by HHCS of certain earnings before interest, income taxes, other non-operating expense, and depreciation and amortization (EBITDA) targets in 2008 and 2009. The gain before income taxes on the sale of HHCS was $4,921, which included approximately $7,354 of accumulated foreign currency translation gains previously included in other comprehensive income and now reclassified in accordance with SFAS No. 52, Foreign Currency Translation as a result of the sale of the entity, offset by severance and professional fees of approximately $2,478.

Effective October 29, 2007, certain of the Company s subsidiaries completed the sale of Hudson Asia Pacific s Australian blue-collar trade and industrial business (T&I) to Skilled Group Limited. The Company recorded a gain on the sale of T&I of $1,877 from cash proceeds of approximately $3,000 in the fourth quarter of 2007.

Effective October 1, 2006, the Company completed the sale of its Highland Partners executive search business (Highland) to Heidrick & Struggles International, Inc. (Heidrick). The Company recorded an initial gain of $20,358 on the sale of Highland from cash proceeds of $36,600, less post-closing net working capital adjustments, $9,550 paid to certain partners of Highland in consideration for providing assistance in completing the sale of Highland, entering into employment agreements with Heidrick and providing the Company with a general release from liability, and other direct costs of the transaction. Heidrick also assumed certain on-going liabilities and obligations of Highland. In April 2008, as a result of Highland achieving certain revenue metrics in 2007, the Company received an additional earn-out payment of $3,375. The additional gain on sale was recorded in discontinued operations. The Company may receive up to an additional $11,625 from Heidrick in 2009, subject to the achievement by Highland of certain future revenue metrics in 2008. Under the purchase agreement, Heidrick is required to provide the Company with a notice stating the amount of any such contingent payment thirty days after Heidrick s public release of its consolidated results of operations, or approximately at the end of March 2009. The Company will determine the future amounts to be received under the Heidrick purchase agreement at that time. During the quarter ended June 30, 2008, the Company recorded a reduction in taxes payable and recognized a deferred tax asset of $926. In March 2008, the Company received notification of an employee-related ruling requiring the Company to pay approximately $698 to a former Highland employee. The Company accrued the related liability as of March 31, 2008.

ETS was part of the Hudson Americas reportable segment, BPM and HHCS were part of the Hudson Europe reportable segment and T&I was part of the Hudson Asia Pacific reportable segment. The Highland business was a separate reportable segment of the Company at the time of its sale. The gain or loss on sale and results of operations from all five of these operations were reported in discontinued operations in the relevant periods.

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NOTE 6 DISCONTINUED OPERATIONS (Continued)

Reported results for the discontinued operations by period were as follows:

	For The Three Months Ended June 30, 2008					
	Highland	T&I	HHCS	ETS	BPM	Total
Revenue	$	$	$	$ (38)	$ 808	$ 770
Gross margin	$	$	$	$ (52)	$ 199	$ 147
Depreciation and amortization	$	$	$	$	$ 2	$ 2
Operating income (loss)	$ 34	$	$	$ (374)	$ 48	$ (292)
Other income	37					37
(Loss) gain on sale				(126)	2,762	2,636
Benefit from income taxes (a)	(926)				(23)	(949)
Income (loss) from discontinued operations	$ 997	$	$	$ (500)	$ 2,833	$ 3,330

	For The Six Months Ended June 30, 2008					
	Highland	T&I	HHCS	ETS	BPM	Total
Revenue	$	$	$	$ 12,956	$ 2,827	$ 15,783
Gross margin	$	$	$	$ 568	$ 816	$ 1,384
Depreciation and amortization	$	$	$	$ 112	$ 6	$ 118
Operating (loss) income	$ (520)	$	$	$ (1,514)	$ 240	$ (1,794)
Other expense	(3)					(3)
Gain (loss) on sale	3,375			(671)	2,762	5,466
Benefit from income taxes (a)	(926)				(129)	(1,055)
Income (loss) from discontinued operations	$ 3,778	$	$	$ (2,185)	$ 3,131	$ 4,724

	For The Three Months Ended June 30, 2007					
	Highland	T&I	HHCS	ETS	BPM	Total
Revenue	$	$ 11,095	$ 3,453	$ 35,785	$ 1,483	$ 51,816
Gross margin	$	$ 1,318	$ 1,319	$ 4,762	$ 484	$ 7,883
Depreciation and amortization	$	$ (2)	$ 80	$ 20	$ 2	$ 100
Operating (loss) income	$ (101)	$ 487	$ (143)	$ 536	$ 198	$ 977
Other (expense) income	(146)		1	(3)		(148)
Provision (benefit) for income taxes (a)	11	146			(60)	97
(Loss) income from discontinued operations	$ (258)	$ 341	$ (142)	$ 533	$ 258	$ 732

	For The Six Months Ended June 30, 2007						
	Highland		T&I	HHCS	ETS	BPM	Total
Revenue	$		$ 20,922	$ 7,118	$ 72,042	$ 2,818	$ 102,900
Gross margin	$		$ 2,494	$ 3,294	$ 9,748	$ 913	$ 16,449
Depreciation and amortization	$		$ 7	$ 163	$ 42	$ 7	$ 219
Operating (loss) income	$ (101)		$ 856	$ 194Daily*	None		
U.S. fixed-income securities (h)	3,116,019	Daily*	None				
U.S. money market securities (i)	1,384,117	Daily*	None				

*The fund trustee, in its sole discretion, reserves the right to value any contributions or withdrawals as of the next succeeding valuation date or another date as the fund trustee deems appropriate.

There are no unfunded commitments related to the categories of investments where NAV is available as a practical expedient.

(a) The fund seeks preservation of principal and to provide interest income reasonably obtained under prevailing market conditions and rates, consistent with seeking to maintain required liquidity.

(b) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of a U.S. bond index over the long term.

(c) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the Dow Jones-UBS Commodity Total Return IndexSM over the long term.

(d) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the MSCI ACWI ex-USA IMI Index over the long term.

(e) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the S&P 500 over the long term.

(f) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the FTSE EPRA/NAREIT Developed Liquid Index over the long term.

(g) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the Russell Small Cap Completeness Index over the long term.

(h) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the Barclays U.S. 1-3 Year Government/Credit Bond Index over the long term.

(i) The fund seeks to maximize current income, to the extent consistent with the preservation of capital and liquidity and the maintenance of a stable $1.00 per share NAV, by investing in U.S. dollar-denominated money market securities.

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Alcancorp Hourly Employees Savings Plan

Notes to Financial Statements

Note 6. Parties-in-Interest Transactions

The Master Trust is managed by State Street. Therefore, transactions within the Master Trust qualify as party-in-interest transactions. The Master Trust also holds collective trust funds that are managed by State Street Global Advisors (SSgA), the investment management division of State Street. Fees paid by the Master Trust or Plan for investment management services to State Street or SSgA were included as a reduction of the return earned on each investment, as they are paid through revenue sharing, rather than a direct payment.

The Master Trust invests in Rio Tinto plc common stock ADRs. The Master Trust held 912,975 shares of Rio Tinto plc common stock ADRs at December 31, 2012, valued at $58.05.

During the period January 1, 2013, through December 20, 2013, the Plan had transactions with Xerox Business Services, LLC, the Plan s record keeper, which are allowed by the Plan. These transactions qualified as party-in-interest transactions, which are exempt from prohibited transaction rules.

Note 7. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated April 7, 2012, that the Plan and related trust were designed in accordance with the applicable requirements of the IRC. The Plan has been amended since receiving the determination letter; however, the Plan Administrator and the Plan s legal counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC and therefore believe that the Plan and the related trust are tax-exempt.

The Plan Administrator has evaluated the Plan s tax positions and concluded that the Plan had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. With few exceptions, the Plan is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years prior to 2010.

Note 8. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits as presented in the financial statements to the Form 5500 as of December 20, 2013, and December 31, 2012:

	December 20, 2013	December 31, 2012
Net assets available for benefits as presented in the financial statements	$	$ 21,751,996
Adjustment from fair value to contract value for fully benefit-responsive investment contracts		353,974
Net assets available for benefits as presented in the Form 5500	$	$ 22,105,970

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The following is a reconciliation of the decrease in net assets available for benefits before transfers as presented in the financial statements to the Form 5500 for the period January 1, 2013, through December 20, 2013:

Net decrease in net assets available for benefits before transfers as presented in these financial statements	$	(16,654,362)
Subtract adjustment from fair value to contract value for fully benefit-responsive investment contracts for 2012		(353,974)
Net decrease in net assets available for benefits before transfers as presented in Form 5500	$	(17,008,336)

Note 9. Plan Freeze and Merger

On May 31, 2013, the Company completed the sale of the Sebree division to Century Echo LLC. The Plan was frozen to new participants and contributions effective May 31, 2013, and all participants became 100 percent vested as of the closing date.

The Plan subsequently merged remaining accounts into the Rio Tinto Alcan 401(k) Savings Plan for Former Employees effective December 20, 2013. As a result, participants account balances totaling approximately $5,098,000, became participants account balances in the Rio Tinto Alcan 401(k) Savings Plan for Former Employees on December 20, 2013. There was no physical transfer of plan assets or changes in participants account balances, as the Plan was invested in the same master trust with the same investment options as the Rio Tinto Alcan 401(k) Savings Plan for Former Employees.

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EXHIBIT INDEX

Exhibit Number	Document
23.1	Consent of Independent Registered Public Accounting Firm