

Hudson Global, Inc.  
Form 10-Q  
October 31, 2013

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2013

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

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HUDSON GLOBAL, 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)

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 definition of "large accelerated filer", "accelerated filer", and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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 September 30, 2013
Common Stock - \$0.001 par value	33,357,645

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HUDSON GLOBAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND OTHER COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenue	\$ 163,587	\$ 187,873	\$ 500,624	\$ 593,301
Direct costs	107,791	120,207	327,648	375,359
Gross margin	55,796	67,666	172,976	217,942
Operating expenses:				
Selling, general and administrative expenses	58,679	66,074	183,291	214,070
Depreciation and amortization	1,529	1,672	4,833	4,788
Business reorganization expenses	728	1,520	3,959	7,551
Operating income (loss)	(5,140 )	(1,600 )	(19,107 )	(8,467 )
Non-operating income (expense):				
Interest income (expense), net	(158 )	(161 )	(458 )	(510 )
Other income (expense), net	296	591	472	215
Income (loss) before provision for income taxes	(5,002 )	(1,170 )	(19,093 )	(8,762 )
Provision for (benefit from) income taxes	45	995	6	(3,770 )
Net income (loss)	\$(5,047 )	\$(2,165 )	\$(19,099 )	\$(4,992 )
Earnings (loss) per share:				
Basic	\$(0.15 )	\$(0.07 )	\$(0.59 )	\$(0.16 )
Diluted	\$(0.15 )	\$(0.07 )	\$(0.59 )	\$(0.16 )
Weighted-average shares outstanding:				
Basic	32,600	32,156	32,468	32,024
Diluted	32,600	32,156	32,468	32,024
Comprehensive income (loss):				
Net income (loss)	\$(5,047 )	\$(2,165 )	\$(19,099 )	\$(4,992 )
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of income taxes	2,260	1,395	(3,128 )	1,834
Amortization of prior service costs - defined benefit pension plan	16	—	60	—
Total other comprehensive income (loss), net of income taxes	2,276	1,395	(3,068 )	1,834
Comprehensive income (loss)	\$(2,771 )	\$(770 )	\$(22,167 )	\$(3,158 )

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$33,237	\$38,653
Accounts receivable, less allowance for doubtful accounts of \$1,180 and \$1,167, respectively	98,317	107,216
Prepaid and other	10,676	11,543
Total current assets	142,230	157,412
Property and equipment, net	16,389	20,050
Deferred tax assets, non-current	10,495	9,816
Other assets	5,791	6,190
Total assets	\$174,905	\$193,468
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$6,745	\$9,292
Accrued expenses and other current liabilities	62,653	55,960
Accrued business reorganization expenses	2,920	1,916
Total current liabilities	72,318	67,168
Other non-current liabilities	6,228	7,853
Deferred rent and tenant improvement contributions	6,556	8,061
Income tax payable, non-current	3,956	3,845
Total liabilities	89,058	86,927
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 33,566 and 33,100 shares, respectively	33	33
Additional paid-in capital	475,325	473,372
Accumulated deficit	(406,126)	(387,027)
Accumulated other comprehensive income	17,468	20,536
Treasury stock, 208 and 79 shares, respectively, at cost	(853)	(373)
Total stockholders' equity	85,847	106,541
Total liabilities and stockholders' equity	\$174,905	\$193,468

See accompanying notes to condensed consolidated financial statements.

HUDSON GLOBAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands)  
 (Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$(19,099	) \$(4,992
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,833	4,788
Provision for (recovery of) doubtful accounts	44	46
Provision for (benefit from) deferred income taxes	(913	) (1,818
Stock-based compensation	1,953	2,386
Other, net	444	361
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	6,950	17,824
Decrease (increase) in prepaid and other assets	367	3,445
Increase (decrease) in accounts payable, accrued expenses and other liabilities	3,749	(16,407
Increase (decrease) in accrued business reorganization expenses	98	3,268
Net cash provided by (used in) operating activities	(1,574	) 8,901
Cash flows from investing activities:		
Capital expenditures	(2,165	) (7,793
Net cash provided by (used in) investing activities	(2,165	) (7,793
Cash flows from financing activities:		
Borrowings under credit agreements	13,474	72,544
Repayments under credit agreements	(13,492	) (75,775
Repayment of capital lease obligations	(347	) (332
Purchase of restricted stock from employees	(480	) (542
Net cash provided by (used in) financing activities	(845	) (4,105
Effect of exchange rates on cash and cash equivalents	(832	) 578
Net increase (decrease) in cash and cash equivalents	(5,416	) (2,419
Cash and cash equivalents, beginning of the period	38,653	37,302
Cash and cash equivalents, end of the period	\$33,237	\$34,883
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$185	\$268
Cash payments during the period for income taxes, net of refunds	\$666	\$2,394

See accompanying notes to condensed consolidated financial statements.

HUDSON GLOBAL, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
 (in thousands)  
 (Unaudited)

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock	Total
	Shares	Value					
Balance at December 31, 2012	33,021	\$33	\$473,372	\$(387,027 )	\$ 20,536	\$(373 )	\$106,541
Net income (loss)	—	—	—	(19,099 )	—	—	(19,099 )
Other comprehensive income (loss), currency translation adjustments, net of applicable tax	—	—	—	—	(3,128 )	—	(3,128 )
Other comprehensive income (loss), pension liability adjustment	—	—	—	—	60	—	60
Purchase of restricted stock from employees	(129 )	—	—	—	—	(480 )	(480 )
Stock-based compensation	466	—	1,953	—	—	—	1,953
Balance at September 30, 2013	33,358	\$33	\$475,325	\$(406,126 )	\$ 17,468	\$(853 )	\$85,847

See accompanying notes to condensed consolidated financial statements.

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HUDSON GLOBAL, 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 United States of America (“U.S.”) generally accepted accounting principles (“U.S. 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 Global, Inc. and its subsidiaries (the “Company”) filed in its Annual Report on Form 10-K for the year ended December 31, 2012.

The preparation of financial statements in conformity with U.S. 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 the Company’s 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. The Condensed Consolidated Financial Statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. All significant intra-entity balances and transactions between and among the Company and its subsidiaries have been eliminated in consolidation.

Certain prior year amounts have been reclassified to conform to the current period presentation.

NOTE 2 – DESCRIPTION OF BUSINESS

The Company is comprised of the operations, assets and liabilities of the three Hudson regional businesses of Hudson Americas, Hudson Asia Pacific, and Hudson Europe (“Hudson regional businesses” or “Hudson”). The Company provides specialized professional-level recruitment and related talent solutions worldwide. The Company’s core service offerings include Permanent Recruitment, Contract Consulting, Legal eDiscovery, Recruitment Process Outsourcing (“RPO”) and Talent Management Solutions.

The Company operates in 20 countries with three reportable geographic business segments: Hudson Americas, Hudson Asia Pacific, and Hudson Europe. See Note 16 for further details regarding the reportable segments.

Corporate expenses are reported separately from the reportable segments and pertain to certain functions, such as executive management, corporate governance, human resources, accounting, tax, marketing, information technology and treasury. A portion of these expenses are attributed to the reportable segments for providing the above services to them and have been allocated to the segments as management service fees and are included in the segments’ non-operating other income (expense).

The Company’s core service offerings include those services described below.

**Permanent Recruitment:** Offered on both a retained and contingent basis, Hudson’s Permanent Recruitment services leverage its consultants, psychologists and other professionals in the development and delivery of its proprietary methods to identify, select and engage the best-fit talent for critical client roles.

**Contract Consulting:** In Contract Consulting, Hudson provides a range of project management, interim management and professional contract staffing services. These services draw upon a combination of specialized recruiting and project management competencies to deliver a wide range of solutions. Hudson-employed professionals – either individually or as a team – are placed with client organizations for a defined period of time based on a client’s specific business need.

**Legal eDiscovery:** Hudson’s Legal eDiscovery services are composed of eDiscovery solutions, managed document review (encompassing logistical deployment, project management, process design and productivity management), and contract attorney staffing. The most comprehensive of these is the Company’s full-service eDiscovery solution,



providing an integrated system of discovery management and review technology deployment for both corporate and law firm clients.

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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

RPO: Hudson RPO delivers outsourced recruitment solutions tailored to the individual needs of mid- to large-cap multinational companies. Hudson RPO delivery teams utilize state-of-the-art recruitment process methodologies and project management expertise in their flexible, turnkey solutions to meet clients' ongoing business needs. Hudson RPO services include complete recruitment outsourcing, project-based outsourcing, contingent workforce solutions and recruitment consulting.

Talent Management Solutions: Featuring embedded proprietary talent assessment and selection methodologies, Hudson's Talent Management capability encompasses services such as talent assessment (utilizing a variety of competency, attitude and experiential testing), interview training, executive coaching, employee development and outplacement.

NOTE 3 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, "Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, an amendment to FASB Accounting Standards Codification Topic 740, Income Taxes" ("FASB ASC Topic 740"). This update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The Company does not expect that its adoption of this ASU will have a material impact on the Company's Consolidated Financial Statements.

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity" ("ASU 2013-05"). ASU 2013-05 provides clarification regarding whether Subtopic 810-10, Consolidation - Overall, or Subtopic 830-30, Foreign Currency Matters - Translation of Financial Statements, applies to the release of cumulative translation adjustments into net income when a reporting entity either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in a subsidiary or group of assets that constitute a business within a foreign entity. ASU 2013-05 is effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. The Company does not expect that its adoption of ASU 2013-05 will have a material impact on the Company's Consolidated Financial Statements.

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

## NOTE 4 – REVENUE, DIRECT COSTS AND GROSS MARGIN

The Company's revenue, direct costs and gross margin were as follows:

	Three Months Ended			September 30, 2012		
	September 30, 2013			September 30, 2012		
	Temporary Contracting	Other	Total	Temporary Contracting	Other	Total
Revenue	\$126,321	\$37,266	\$163,587	\$142,418	\$45,455	\$187,873
Direct costs (1)	105,262	2,529	107,791	117,419	2,788	120,207
Gross margin	\$21,059	\$34,737	\$55,796	\$24,999	\$42,667	\$67,666

  

	Nine Months Ended			September 30, 2012		
	September 30, 2013			September 30, 2012		
	Temporary Contracting	Other	Total	Temporary Contracting	Other	Total
Revenue	\$383,157	\$117,467	\$500,624	\$442,484	\$150,817	\$593,301
Direct costs (1)	319,245	8,403	327,648	364,675	10,684	375,359
Gross margin	\$63,912	\$109,064	\$172,976	\$77,809	\$140,133	\$217,942

Direct costs include the direct staffing costs of salaries, payroll taxes, employee benefits, travel expenses, rent and insurance costs for the Company's contractors and reimbursed out-of-pocket expenses and other direct costs. Other than reimbursed out-of-pocket expenses, there are no other direct costs associated with the Other category, which (1) includes the search, permanent recruitment and other human resource solutions' revenue. Gross margin represents revenue less direct costs. The region where services are provided, the mix of contracting and permanent recruitment, and the functional nature of the staffing services provided can affect gross margin. The salaries, commissions, payroll taxes and employee benefits related to recruitment professionals are included in selling, general and administrative expenses.

## NOTE 5 – STOCK-BASED COMPENSATION

## Incentive Compensation Plan

The Company maintains the Hudson Global, Inc. 2009 Incentive Stock and Awards Plan, as amended and restated on April 26, 2012 (the "ISAP"), pursuant to which it can issue equity-based compensation incentives to eligible participants. The ISAP permits the granting of stock options, restricted stock and restricted stock units, and other types of equity-based awards. The Compensation Committee of the Company's Board of Directors (the "Compensation Committee") will establish such conditions as it deems appropriate on the granting or vesting of stock options, restricted stock, restricted stock units and other types of equity-based awards. The Company grants primarily restricted stock to its employees, although the Company has recently also granted restricted stock units to certain of its employees. A restricted stock unit is equivalent to one share of the Company's common stock and is payable only in common stock of the Company issued under the ISAP.

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

The Compensation Committee administers the ISAP and may designate any of the following as a participant under the ISAP: any officer or other employee of the Company or its affiliates or individuals engaged to become an officer or employee; consultants or other independent contractors who provide services to the Company or its affiliates; and non-employee directors of the Company. As of September 30, 2013, there were 2,115,185 shares of the Company's common stock available for future issuance under the ISAP.

A summary of the quantity and vesting conditions for restricted stock and restricted stock unit awards granted to the Company's employees for the nine months ended September 30, 2013 was as follows:

Vesting conditions	Number of Shares of Restricted Stock Granted	Number of Restricted Stock Units Granted	Total
Performance and service conditions (1) (2)	540,721	65,200	605,921
Vest one-third on each of the first three anniversaries of the grant date with service conditions only	21,500	—	21,500
Vest 50% on each of the second and third anniversaries of the grant date with service conditions only	30,000	—	30,000
Vest 100% on the second anniversary of the grant date with service conditions only	160,000	—	160,000
Vest 100% on the third anniversary of the grant date with service conditions only	90,000	—	90,000
Immediately vested	1,100	—	1,100
Total shares of stock award granted	843,321	65,200	908,521

(1) The performance vesting conditions with respect to the restricted stock and restricted stock unit awards may be satisfied as follows:

50% of the shares of restricted stock or restricted stock units may be earned on the basis of performance as (a) measured by a "Take-out Ratio," defined as the percentage of the direct, front line costs incurred for the year ending December 31, 2013 divided by the gross margin for the year ending December 31, 2013;

25% of the shares of restricted stock or restricted stock units may be earned on the basis of performance as (b) measured by an employee engagement score for the year ending December 31, 2013 based on an employee survey to be conducted by a human resources consulting firm;

25% of the shares of restricted stock or restricted stock units may be earned on the basis of performance as (c) measured by "Cash Efficiency," defined as (1) cash flow from operations for the year ending December 31, 2013 divided by (2) gross margin minus selling, general and administrative expenses for the year ending December 31, 2013.

(2) To the extent shares of restricted stock or restricted stock units are earned based on the performance vesting conditions, such shares or share units will vest on the basis of service as follows:

(a) 33% of the shares or share units will vest on the later of the first anniversary of the grant date or the determination that the performance conditions have been satisfied;

(b) 33% of the shares or share units will vest on the second anniversary of the grant date;

(c) 34% of the shares or share units will vest on the third anniversary of the grant date; provided that, in each case, the grantee remains employed by the Company from the grant date through the applicable service vesting date.

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

The Company also maintains the Director Deferred Share Plan (the "Director Plan") pursuant to which it can issue restricted stock units to its non-employee directors. A restricted stock unit is equivalent to one share of the Company's common stock and is payable only in common stock issued under the ISAP upon a director ceasing service as a member of the Board of Directors of the Company. During the nine months ended September 30, 2013, the Company granted 102,200 restricted stock units to its non-employee directors pursuant to the Director Plan. The restricted stock units vest immediately upon grant and are credited to each of the non-employee director's retirement accounts under the Director Plan.

For the three and nine months ended September 30, 2013 and 2012, the Company's stock-based compensation expense related to stock options, restricted stock and restricted stock units was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock options	\$59	\$149	\$296	\$542
Restricted stock	328	305	1,226	1,299
Restricted stock units	34	52	431	545
Total	\$421	\$506	\$1,953	\$2,386

## Stock Options

As of September 30, 2013, the Company had approximately \$144 of unrecognized stock-based compensation expense related to outstanding unvested stock options. The Company expects to recognize that cost over a weighted average service period of 0.62 years.

Changes in the Company's stock options for the nine months ended September 30, 2013 and 2012 were as follows:

	Nine Months Ended September 30, 2013		2012	
	Number of Options	Weighted Average Exercise Price per Share	Number of Options	Weighted Average Exercise Price per Share
Options outstanding at January 1,	1,238,650	\$11.21	1,396,350	\$11.36
Expired/forfeited	(200,200 )	8.13	(59,700 )	12.62
Options outstanding at September 30,	1,038,450	11.81	1,336,650	11.31
Options exercisable at September 30,	838,450	\$13.39	924,150	\$14.04

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

## Restricted Stock

As of September 30, 2013, the Company had approximately \$1,803 of unrecognized stock-based compensation expense related to outstanding unvested restricted stock. The Company expects to recognize that cost over a weighted average service period of 1.79 years.

Changes in the Company's restricted stock for the nine months ended September 30, 2013 and 2012 were as follows:

	Nine Months Ended September 30, 2013		2012	
	Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value	Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value
Unvested restricted stock at January 1,	1,028,916	\$4.87	1,166,082	\$5.12
Granted	843,321	2.40	638,230	4.59
Vested	(387,825 )	5.10	(429,950 )	4.90
Forfeited	(442,214 )	4.20	(156,568 )	5.37
Unvested restricted stock at September 30,	1,042,198	\$3.08	1,217,794	\$4.88

## Restricted Stock Units

As of September 30, 2013, the Company had approximately \$191 of unrecognized stock-based compensation expense related to outstanding unvested restricted stock units. The Company expects to recognize that cost over a weighted average service period of 1.6 years.

Changes in the Company's restricted stock units for the nine months ended September 30, 2013 and 2012 were as follows:

	Nine Months Ended September 30, 2013		2012	
	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value
Unvested restricted stock units at January 1,	100,000	\$5.18	100,000	\$5.18
Granted	167,400	2.88	76,023	5.13
Vested	(152,200 )	3.84	(76,023 )	5.13
Forfeited	(5,000 )	2.42	—	—
Unvested restricted stock units at September 30,	110,200	\$3.67	100,000	\$5.18

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

## Defined Contribution Plan and Non-cash Employer-matching contributions

The Company maintains the Hudson Global, Inc. 401(k) Savings Plan (the "401(k) plan"). The 401(k) plan allows eligible employees to contribute up to 15% of their earnings to the 401(k) plan. The Company has the discretion to match employees' contributions up to 3% of the employees' earnings through a contribution of the Company's common stock to the 401(k) plan. Vesting of the Company's contribution occurs over a five-year period. For the three and nine months ended September 30, 2013 and 2012, the Company's current year expenses and contributions to satisfy the prior years' employer-matching liability for the 401(k) plan were as follows:

(\$ in thousands, except otherwise stated)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Expense recognized for the 401(k) plan	\$110	\$144	\$452	\$511
Contributions to satisfy prior years' employer-matching liability				
Number of shares of the Company's common stock issued (in thousands)	—	—	—	124
Market value per share of the Company's common stock on contribution date (in dollars)	\$—	\$—	\$—	\$5.35
Non-cash contribution made for employer matching liability	\$—	\$—	\$—	\$666
Additional cash contribution made for employer-matching liability	\$—	\$—	\$651	\$—
Total contribution made for employer-matching liability	\$—	\$—	\$651	\$666

## NOTE 6 – INCOME TAXES

Under Accounting Standards Codification ("ASC") 270, "Interim Reporting", and ASC 740-270, "Income Taxes – Intra Period Tax Allocation", the Company is required to adjust its effective tax rate for each quarter to be consistent with the estimated annual effective tax rate. Jurisdictions with a projected loss for the full year where no tax benefit can be recognized are excluded from the calculation of the estimated annual effective tax rate. Applying the provisions of ASC 270 and ASC 740-270 could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.

## Effective Tax Rate

The provision for income taxes for the nine months ended September 30, 2013 was \$6 on a pre-tax loss of \$19,093, compared to a benefit from income taxes of \$3,770 on pre-tax loss of \$8,762 for the same period in 2012. The Company's effective income tax rate was 0.0% and 43.0% for the nine months ended September 30, 2013 and 2012, respectively. The change in the effective tax rate was primarily attributable to the Company's inability to benefit from losses in certain foreign jurisdictions and a reduction of FIN 48 liabilities in the 2012 period in connection with a state tax settlement with the Commonwealth of Pennsylvania.

## Uncertain Tax Positions

As of September 30, 2013 and December 31, 2012, the Company had \$3,956 and \$3,845, respectively, of unrecognized tax benefits, including interest and penalties, which if recognized in the future, would lower the Company's annual effective income tax rate. Accrued interest and penalties were \$761 and \$701 as of September 30, 2013 and December 31, 2012, respectively. Estimated interest and penalties are classified as part of the provision for income taxes in the Company's Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss) and totaled to a provision of \$73 and a benefit of \$881 for the nine months ended September 30, 2013 and 2012, respectively.





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In many cases, the Company's unrecognized tax benefits are related to tax years that remain subject to examination by the relevant tax authorities. Tax years with net operating losses ("NOLs") remain open until such losses expire or until the statutes of limitations for those years when the NOLs are used expire. As of September 30, 2013, the Company's open tax years, which remain subject to examination by the relevant tax authorities, were principally as follows:

	Year
Earliest tax years which remain subject to examination by the relevant tax authorities:	
U.S. Federal	2010
Majority of other U.S. state and local jurisdictions	2009
United Kingdom	2011
Australia	2009
Majority of other foreign jurisdictions	2007

The Company believes that its tax reserves are adequate for all years that remain subject to examination or are currently under examination.

Based on information available as of September 30, 2013, it is reasonably possible that the total amount of unrecognized tax benefits could decrease in the range of \$400 to \$650 over the next 12 months as a result of projected resolutions of global tax examinations and controversies and potential expirations of the applicable statutes of limitations.

## NOTE 7 – EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share ("EPS") is computed by dividing the Company's net income (loss) by the weighted average number of shares outstanding during the period. When the effects are not anti-dilutive, diluted earnings (loss) per share is computed by dividing the Company's net income (loss) by the weighted average number of shares outstanding and the impact of all dilutive potential common shares, primarily stock options "in-the-money" and unvested restricted stock. The dilutive impact of stock options, unvested restricted stock, and unvested restricted stock units is determined by applying the "treasury stock" method. Performance-based restricted stock awards are included in the computation of diluted earnings per share only to the extent that the underlying performance conditions: (i) are satisfied prior to the end of the reporting period; or (ii) would be satisfied if the end of the reporting period were the end of the related performance period and the result would be dilutive under the treasury stock method. Stock awards subject to vesting or exercisability based on the achievement of market conditions are included in the computation of diluted earnings per share only when the market conditions are met.

A reconciliation of the numerators and denominators of the basic and diluted earnings (loss) per share calculations for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Earnings (loss) per share ("EPS"):				
Basic	\$(0.15	) \$(0.07	) \$(0.59	) \$(0.16
Diluted	\$(0.15	) \$(0.07	) \$(0.59	) \$(0.16
EPS numerator - basic and diluted:				
Net income (loss)	\$(5,047	) \$(2,165	) \$(19,099	) \$(4,992
EPS denominator (in thousands):				
Weighted average common stock outstanding - basic	32,600	32,156	32,468	32,024
	—	—	—	—

Common stock equivalents: stock options and other  
stock-based awards (a)

Weighted average number of common stock outstanding - diluted	32,600	32,156	32,468	32,024
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For the periods in which net losses are presented, the diluted weighted average number of shares of common stock outstanding did not differ from the basic weighted average number of shares of common stock outstanding because (a) the effects of any potential common stock equivalents (see Note 5 for further details on outstanding stock options, unvested restricted stock units and unvested restricted stock) were anti-dilutive and therefore not included in the calculation of the denominator of dilutive earnings per share.

The weighted average number of shares outstanding used in the computation of diluted net income (loss) per share for the three and nine months ended September 30, 2013 and 2012 did not include the effect of the following potentially outstanding shares of common stock because the effect would have been anti-dilutive:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Unvested restricted stock	1,042,198	1,217,794	1,042,198	1,217,794
Unvested restricted stock units	110,200	100,000	110,200	100,000
Stock options	1,038,450	1,336,650	1,038,450	1,336,650
Total	2,190,848	2,654,444	2,190,848	2,654,444

## NOTE 8 – RESTRICTED CASH

A summary of the Company's restricted cash included in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012 was as follows:

	September 30, 2013	December 31, 2012
Included under the caption "Other assets":		
Collateral accounts	\$619	\$619
Rental deposits	1,168	1,301
Total amount under the caption "Other assets":	\$1,787	\$1,920
Included under the caption "Prepaid and other":		
Client guarantees	\$65	\$102
Other	145	142
Total amount under the caption "Prepaid and other"	\$210	\$244
Total restricted cash	\$1,997	\$2,164

Collateral accounts primarily include deposits held under a collateral trust agreement, which supports the Company's workers' compensation policy. The rental deposits with banks include amounts held as guarantees for the rent on the Company's offices in the Netherlands and rental deposit from sub-tenants in the United Kingdom ("U.K."). Other includes a deposit for business license in the Switzerland and social tax payment reserves, which were held with banks for employee social tax payments required by law in the Netherlands. The client guarantees were held in banks in Belgium as deposits for various client projects.

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## NOTE 9 – PROPERTY AND EQUIPMENT, NET

As of September 30, 2013 and December 31, 2012, property and equipment, net were as follows:

	September 30, 2013	December 31, 2012
Computer equipment	\$ 10,886	\$ 10,889
Furniture and equipment	7,496	7,840
Capitalized software costs	28,687	28,877
Leasehold improvements	23,399	24,650
	70,468	72,256
Less: accumulated depreciation and amortization	54,079	52,206
Property and equipment, net	\$ 16,389	\$ 20,050

The Company had expenditures of approximately \$1,285 and \$778 for acquired property and equipment, mainly consisting of software, which had not been placed in service as of September 30, 2013 and December 31, 2012, respectively. Depreciation expense is not recorded for such assets until they are placed in service.

## Non-Cash Capital Expenditures

The Company has acquired certain computer equipment under capital lease agreements. The current portion of the capital lease obligations are included under the caption “Accrued expenses and other current liabilities” in the Condensed Consolidated Balance Sheets and the non-current portion of the capital lease obligations are included under the caption “Other non-current liabilities” in the Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012. A summary of the Company’s equipment acquired under capital lease agreements was as follows:

	September 30, 2013	December 31, 2012
Capital lease obligation, current	\$426	\$467
Capital lease obligation, non-current	\$17	\$324

The Company acquired \$61 of property and equipment under capital lease agreements during the nine months ended September 30, 2012. Capital expenditures for the nine months ended September 30, 2012 included \$3,949 of landlord-funded tenant improvements for the Company's leased property in Sydney, Australia.

## NOTE 10 – GOODWILL

The following is a summary of the changes in the carrying value of the Company’s goodwill, which was included under the caption of Other Assets in the accompanying Condensed Consolidated Balance Sheets, for the nine months ended September 30, 2013 and 2012. The goodwill related to the earn-out payment made in 2010 for the Company’s 2007 acquisition of the businesses of Tong Zhi (Beijing) Consulting Service Ltd and Guangzhou Dong Li Consulting Service Ltd.

	Carrying Value	
	2013	2012
Goodwill, January 1,	\$2,020	\$1,992

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Currency translation	36	6
Goodwill, September 30,	\$2,056	\$1,998

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## NOTE 11 – BUSINESS REORGANIZATION EXPENSES

In January 2012, the Company's Chief Executive Officer approved a \$1,000 plan of reorganization ("2012 Plan") to streamline the Company's support operations in each of the Hudson regional businesses to match the aggregated operating segments and to improve support services to the Company's regional and global professional business practices. The 2012 Plan primarily includes costs for actions to reduce support functions to match them to the revised operating structure. In April 2012, the Company's Board of Directors (the "Board") approved an addition to the 2012 Plan of up to \$10,000 for additional actions to accelerate the Company's plans for increased global alignment and redirection of resources from support to client facing activities. For the year ended December 31, 2012, the Company had incurred a total of \$5,453 under the 2012 Plan. In February 2013, the Board approved a further increase of up to \$4,000 for additional actions under the 2012 Plan. For the nine months ended September 30, 2013, restructuring charges associated with these initiatives for the 2012 Plan primarily included employee separation costs for the elimination of 59 positions and a lease termination payment. The headcount reductions identified in this action were completed in the nine months ended September 30, 2013, and the related payments are expected to be principally completed in the first half of 2014. The payments include, but are not limited to, salaries, social pension fund payments, health care and unemployment insurance costs to be paid to or on behalf of the affected employees. The Company's Board approved other reorganization plans in 2009, 2008, and 2006 ("Previous Plans") to streamline the Company's support operations and included actions to reduce support functions to match them to the scale of the business, to exit underutilized properties and to eliminate contracts for certain discontinued services. These actions resulted in costs for lease termination payments, employee termination benefits and contract cancellations. Business reorganization expenses for the three and nine months ended September 30, 2013 and 2012 by plan were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Previous Plans	\$—	\$(6	) \$36	\$1,831
2012 Plan	728	1,526	3,923	5,720
Total	\$728	\$1,520	\$3,959	\$7,551

The following table contains amounts for Changes in Estimate, Additional Charges, and Payments related to prior restructuring plans that were incurred or recovered during the nine months ended September 30, 2013. The amounts for Changes in Estimate and Additional Charges are classified as business reorganization expenses in the Company's Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss). Amounts in the "Payments" column represent primarily the cash payments associated with the reorganization plans. Changes in the accrued business reorganization expenses for the nine months ended September 30, 2013 were as follows:

For The Nine Months Ended	December 31,	Changes in	Additional	Payments	September 30,
September 30, 2013	2012	Estimate	Charges		2013
Lease termination payments	\$2,678	\$15	\$520	\$(1,431	) \$1,782
Employee termination benefits	715	—	3,072	(2,065	) 1,722
Other associated costs	27	—	352	(376	) 3
Total	\$3,420	\$15	\$3,944	\$(3,872	) \$3,507



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## NOTE 12 – COMMITMENTS AND CONTINGENCIES

## Consulting, Employment and Non-compete Agreements

The Company has entered into various consulting, employment and non-compete agreements with certain key management personnel and former owners of acquired businesses. Agreements with key members of management are generally one year in length, on an at-will basis, provide for compensation and severance payments under certain circumstances and are automatically renewed annually unless either party gives sufficient notice of termination. Agreements with certain consultants and former owners of acquired businesses are generally two to five years in length.

## Litigation and Complaints

The Company is subject, from time to time, to various claims, lawsuits, contracts disputes and other complaints from, for example, clients, candidates, suppliers, landlords for both leased and subleased properties, former and current employees, and regulators or tax authorities arising in the ordinary course of business. The Company routinely monitors claims such as these, and records provisions for losses when the claim becomes probable and the amount due is estimable. Although the outcome of these claims cannot be determined, the Company believes that the final resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

For matters that have reached the threshold of probable and estimable, the Company has established reserves for legal, regulatory and other contingent liabilities. The Company's reserves were not significant as of September 30, 2013 and December 31, 2012.

## Asset Retirement Obligations

The Company has certain asset retirement obligations that are primarily the result of legal obligations for the removal of leasehold improvements and restoration of premises to their original condition upon termination of leases. The current portion of asset retirement obligations are included under the caption "Accrued expenses and other current liabilities" in the Condensed Consolidated Balance Sheets. The non-current portion of asset retirement obligations are included under the caption "Other non-current liabilities" in the Condensed Consolidated Balance Sheets. The Company's asset retirement obligations that are included in the Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013	December 31, 2012
Current portion of asset retirement obligations	\$6	\$52
Non-current portion of asset retirement obligations	2,723	2,769
Total asset retirement obligations	\$2,729	\$2,821

## NOTE 13 – CREDIT AGREEMENTS

## Credit Agreement with RBS Citizens Business Capital

On August 5, 2010, the Company and certain of its North American and U.K. subsidiaries ("Loan Parties") entered into a senior secured revolving credit facility with RBS Citizens Business Capital, a division of RBS Asset Finance, Inc. ("RBS"), and on February 22, 2012, June 26, 2012 and December 31, 2012, the Company and certain of its North American and U.K. subsidiaries entered into Amendment No. 1, No. 2 and No. 3, respectively, to the senior secured revolving credit facility with RBS (as amended, the "Revolver Agreement"). The Revolver Agreement provides the Company with the ability to borrow up to \$40,000, including the issuance of letters of credit. The Company may increase the maximum borrowing amount to \$50,000, subject to certain conditions, including lender acceptance. Extensions of credit are based on a percentage of the eligible accounts receivable from the Company's U.K. and North American operations, less required reserves. In connection with the Revolver Agreement, the Company capitalized



approximately \$1,457 of financing costs, which are being amortized over the term of the agreement. The maturity date of the Revolver Agreement is August 5, 2014. Borrowings under the Revolver Agreement are secured by substantially all of the assets of the Company and can be made with an interest rate based on a base rate plus an applicable margin or on the LIBOR rate for the applicable period plus an applicable margin. The applicable margin for each rate is based on the Company's Fixed Charge Coverage Ratio (as defined in the Revolver Agreement) and is determined as follows:

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Level	Fixed Charge Coverage Ratio	Base Rate	LIBOR Revolving
		Revolving Loans	Loans or Letter of Credit Obligations
I	Greater than or equal to 1.25:1.0	1.25	% 2.25 %
II	Less than 1.25:1.0 but greater than or equal to 1.10:1.0	1.50	% 2.50 %
III	Less than 1.10:1.0	1.75	% 2.75 %

The details of the Revolver Agreement as of September 30, 2013 were as follows:

	September 30, 2013
Borrowing base	\$28,368
Less: adjustments to the borrowing base	
Minimum availability	(10,000 )
Outstanding letters of credits	(1,554 )
Adjusted borrowing base	16,814
Less: outstanding borrowing	—
Additional borrowing availability	\$16,814
Interest rates on outstanding borrowing	5.00 %

The Revolver Agreement contains various restrictions and covenants including:

- (1) a requirement to maintain a minimum excess availability of \$10,000 until such time that, for two consecutive fiscal quarters, the Company's Fixed Charge Coverage Ratio is at least 1.2x (such occurrence, a "Trigger Event"), at which time the Company's required minimum excess availability is reduced to \$5,000;
- (2) upon the occurrence of a Trigger Event, maintain a minimum required Fixed Charge Coverage Ratio of 1.1x;
- (3) maintain a minimum EBITDA (as defined in the Revolver Agreement) for the Company's North American and U.K. operations of at least \$1,000;
- (4) a limit on the payment of dividends of not more than \$5,000 per year and subject to certain conditions;
- (5) restrictions on the ability of the Company to make additional borrowings, acquire, merge or otherwise fundamentally change the ownership of the Company or repurchase the Company's stock;
- (6) a limit on investments, and a limit on acquisitions of not more than \$25,000 in cash and \$25,000 in non-cash consideration per year, subject to certain conditions set forth in the Revolver Agreement;
- (7) a limit on dispositions of assets of not more than \$4,000 per year; and
- (8) a limit on the aggregate cumulative amount of cash outflows from Loan Parties to affiliates of the Company that are not Loan Parties not to exceed the aggregate cumulative amount of cash inflows from (i) affiliates that are not Loan Parties to Loan Parties, (ii) equity offerings by the Company and (iii) the proceeds of divestiture or asset

sales, in the case of each of the following periods, by more than \$5,000 for any quarterly compliance testing period beginning after March 1, 2013 or in the aggregate through December 31, 2013 or for any twelve-month period ending as of the end of each fiscal quarter commencing with the twelve-month period ending December 31, 2013.

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The Company was in compliance with all financial covenants under the Revolver Agreement as of September 30, 2013.

**Credit Agreement with Westpac Banking Corporation**

On November 29, 2011, certain Australian and New Zealand subsidiaries of the Company entered into a Facility Agreement, dated November 29, 2011 (the "Facility Agreement"), with Westpac Banking Corporation and Westpac New Zealand Limited (collectively, "Westpac"). On September 30, 2013, certain Australian and New Zealand subsidiaries of the Company entered into a waiver letter (the "Waiver") to waive a financial covenant under the Facility Agreement.

The Facility Agreement provides three tranches: (a) an invoice discounting facility of up to \$18,642 (AUD20,000) ("Tranche A") for an Australian subsidiary of the Company, the availability under which facility is based on an agreed percentage of eligible accounts receivable; (b) an overdraft facility of up to \$2,906 (NZD3,500) ("Tranche B") for a New Zealand subsidiary of the Company; and (c) a financial guarantee facility of up to \$4,661 (AUD5,000) ("Tranche C") for the Australian subsidiary.

The Facility Agreement does not have a stated maturity date and can be terminated by Westpac upon 90 days written notice. Borrowings under Tranche A may be made with an interest rate based on the Invoice Finance 30-day Bank Bill Rate (as defined in the Facility Agreement) plus a margin of 0.75%. Borrowings under Tranche B may be made with an interest rate based on the Commercial Lending Rate (as defined in the Facility Agreement) plus a margin of 0.83%. Each of Tranche A and Tranche B bears a fee, payable monthly, equal to 0.65% of the size of Westpac's commitment under such tranche. Borrowings under Tranche C may be made incurring a fee equal to 1.10% of the face value of the financial guarantee requested. Amounts owing under the Facility Agreement are secured by substantially all of the assets of the Australian subsidiary, its Australian parent company and the New Zealand subsidiary (collectively, the "Obligors") and certain of their subsidiaries.

The details of the Facility Agreement as of September 30, 2013 were as follows:

	September 30, 2013	
Tranche A:		
Borrowing capacity	\$13,770	
Less: outstanding borrowing	—	
Additional borrowing availability	\$13,770	
Interest rates on outstanding borrowing	4.37	%
Tranche B:		
Borrowing capacity	\$2,906	
Less: outstanding borrowing	—	
Additional borrowing availability	\$2,906	
Interest rates on outstanding borrowing	6.03	%
Tranche C:		
Financial guarantee capacity	\$4,661	
Less: outstanding financial guarantee requested	(2,700	)
Additional availability for financial guarantee	\$1,961	
Interest rates on financial guarantee requested	1.10	%

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The Facility Agreement contains various restrictions and covenants applicable to the Obligors and certain of their subsidiaries, including: (a) a requirement that the Obligors maintain (1) a minimum Tangible Net Worth (as defined in the Facility Agreement) as of the last day of each calendar quarter of not less than the higher of 85% of the Tangible Net Worth as of the last day of the previous calendar year and \$16,312 (AUD17,500); (2) at all times, a minimum Fixed Charge Coverage Ratio (as defined in the Facility Agreement) of 1.5x for the trailing twelve-month period, except as provided under the Waiver, which reduces the minimum Fixed Charge Cover Ratio to 1.25x for the testing dates of September 30, 2013 and December 31, 2013; and (3) a maximum Borrowing Base Ratio (as defined in the Facility Agreement) as of the last day of each calendar quarter of not more than 0.8; and (b) a limitation on certain intercompany payments with permitted payments outside the Obligor group restricted to a defined amount derived from the net profits of the Obligors and their subsidiaries. The Company was in compliance with all financial covenants under the Facility Agreement as of September 30, 2013.

**Other Credit Agreements**

The Company also has lending arrangements with local banks through its subsidiaries in the Netherlands, Belgium, Singapore and Mainland China. As of September 30, 2013, the Netherlands subsidiary could borrow up to \$2,174 (€1,607) based on an agreed percentage of accounts receivable related to its operations. The Belgium subsidiary has a \$1,353 (€1,000) overdraft facility. Borrowings under the Belgium and the Netherlands lending arrangements may be made using an interest rate based on the one-month EURIBOR plus a margin, and the interest rate under each of these arrangements was 2.63% as of September 30, 2013. The lending arrangement in the Netherlands expires annually each June, but can be renewed for one-year periods at that time. The lending arrangement in Belgium has no expiration date and can be terminated with a 15-day notice period. In Singapore, the Company's subsidiary can borrow up to \$796 (SGD1,000) for working capital purposes. Interest on borrowings under this overdraft facility is based on the Singapore Prime Rate plus a margin of 1.75%, and it was 6.0% on September 30, 2013. The Singapore overdraft facility expires annually each August, but can be renewed for one-year periods at that time. In People's Republic of China ("China"), the Company's subsidiary can borrow up to \$1,000 for working capital purposes. Interest on borrowings under this overdraft facility is based on the China's six-month rate plus 200 basis points, and it was 7.6% on September 30, 2013. This overdraft facility expires annually each September, but can be renewed for one-year periods at that time. There were no outstanding borrowings under the Belgium, the Netherlands, Singapore and China lending agreements as of September 30, 2013.

The average aggregate monthly outstanding borrowings under the Revolver Agreement, Facility Agreement and the various credit agreements in Belgium, the Netherlands, Singapore and China was \$354 for the nine months ended September 30, 2013. The weighted average interest rate on all outstanding borrowings as of September 30, 2013 was 2.63%.

The Company continues to use the aforementioned credit to support its ongoing global working capital requirements, capital expenditures and other corporate purposes and to support letters of credit. Letters of credit and bank guarantees are used primarily to support office leases.

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## NOTE 14 – ACQUISITION SHELF REGISTRATION

The Company has a shelf registration on file with the SEC to enable it to issue up to 1,350,000 shares of its common stock from time to time in connection with acquisitions of businesses, assets or securities of other companies, whether by purchase, merger or any other form of acquisition or business combination. If any shares are issued using this shelf registration, the Company will not receive any proceeds from these offerings other than the assets, businesses or securities acquired. As of September 30, 2013, all of the shares under the shelf registration were available for issuance.

## NOTE 15 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss), net of tax, consisted of the following:

	September 30, 2013	December 31, 2012
Foreign currency translation adjustments	\$17,698	\$20,826
Unamortized pension plan obligations	(230	) (290
Accumulated other comprehensive income (loss)	\$17,468	\$20,536

## NOTE 16 – SEGMENT AND GEOGRAPHIC DATA

## Segment Reporting

The Company operates in three reportable segments: the Hudson regional businesses of Hudson Americas, Hudson Asia Pacific, and Hudson Europe. Corporate expenses are reported separately from the three reportable segments and pertain to certain functions, such as executive management, corporate governance, human resources, accounting, administration, tax and treasury, the majority of which are attributable to and have been allocated to the reportable segments. Segment information is presented in accordance with ASC 280, “Segments Reporting.” This standard is based on a management approach that requires segmentation based upon the Company’s internal organization and disclosure of revenue and certain expenses based upon internal accounting methods. The Company’s financial reporting systems present various data for management to run the business, including internal profit and loss statements prepared on a basis not consistent with U.S. GAAP. Accounts receivable, net and long-lived assets are the only significant assets separated by segment for internal reporting purposes.

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	Hudson Americas	Hudson Asia Pacific	Hudson Europe	Corporate	Elimination	Total
For The Three Months Ended September 30, 2013						
Revenue, from external customers	\$34,842	\$ 58,274	\$70,471	\$—	\$—	\$163,587
Inter-segment revenue	—	—	36	—	(36 )	—
Total revenue	\$34,842	\$ 58,274	\$70,507	\$—	\$(36 )	\$163,587
Gross margin, from external customers	\$9,073	\$ 21,348	\$25,375	\$—	\$—	\$55,796
Inter-segment gross margin	—	(28 )	28	—	—	—
Total gross margin	\$9,073	\$ 21,320	\$25,403	\$—	\$—	\$55,796
Business reorganization expenses	\$208	\$—	\$152	\$368	\$—	\$728
EBITDA (loss) (a)	\$654	\$(125 )	\$(625 )	\$(3,219 )	\$—	\$(3,315 )
Depreciation and amortization	244	758	366	161	—	1,529
Intercompany interest income (expense), net	—	(559 )	(181 )	740	—	—
Interest income (expense), net	(3 )	(58 )	(1 )	(96 )	—	(158 )
Income (loss) from continuing operations before income taxes	\$407	\$(1,500 )	\$(1,173 )	\$(2,736 )	\$—	\$(5,002 )
For The Nine Months Ended September 30, 2013						
Revenue, from external customers	\$109,391	\$ 177,344	\$213,889	\$—	\$—	\$500,624
Inter-segment revenue	(2 )	—	78	—	(76 )	—
Total revenue	\$109,389	\$ 177,344	\$213,967	\$—	\$(76 )	\$500,624
Gross margin, from external customers	\$26,462	\$ 67,117	\$79,397	\$—	\$—	\$172,976
Inter-segment gross margin	(3 )	(71 )	87	—	(13 )	—
Total gross margin	\$26,459	\$ 67,046	\$79,484	\$—	\$(13 )	\$172,976
Business reorganization expenses	\$516	\$ 102	\$2,579	\$762	\$—	\$3,959
EBITDA (loss) (a)	\$94	\$(772 )	\$(6,234 )	\$(6,890 )	\$—	\$(13,802 )
Depreciation and amortization	745	2,414	1,190	484	—	4,833
Intercompany interest income (expense), net	—	(1,826 )	(398 )	2,224	—	—
Interest income (expense), net	(20 )	(149 )	17	(306 )	—	(458 )
Income (loss) from continuing operations before income taxes	\$(671 )	\$(5,161 )	\$(7,805 )	\$(5,456 )	\$—	\$(19,093 )
As of September 30, 2013						
Accounts receivable, net	\$21,563	\$ 28,883	\$47,871	\$—	\$—	\$98,317
Long-lived assets, net of accumulated depreciation and amortization	\$1,718	\$ 10,193	\$5,049	\$1,488	\$—	\$18,448
Total assets	\$26,255	\$ 65,829	\$75,086	\$7,735	\$—	\$174,905

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

	Hudson Americas	Hudson Asia Pacific	Hudson Europe	Corporate	Inter- segment elimination	Total
For The Three Months Ended September 30, 2012						
Revenue, from external customers	\$39,102	\$ 73,437	\$75,334	\$—	\$—	\$187,873
Inter-segment revenue	—	17	33	—	(50 )	—
Total revenue	\$39,102	\$ 73,454	\$75,367	\$—	\$(50 )	\$187,873
Gross margin, from external customers	\$9,587	\$ 29,852	\$28,227	\$—	\$—	\$67,666
Inter-segment gross margin	(1 )	(1 )	2	—	—	—
Total gross margin	\$9,586	\$ 29,851	\$28,229	\$—	\$—	\$67,666
Business reorganization expenses	\$282	\$ 190	\$1,048	\$—	\$—	\$1,520
EBITDA (loss) (a)	\$(389 )	\$ 3,388	\$(2,165 )	\$(171 )	\$—	\$663
Depreciation and amortization	255	864	392	161	—	1,672
Intercompany interest income (expense), net	—	(747 )	(109 )	856	—	—
Interest income (expense), net	(13 )	(55 )	10	(103 )	—	(161 )
Income (loss) from continuing operations before income taxes	\$(657 )	\$ 1,722	\$(2,656 )	\$421	\$—	\$(1,170 )
For The Nine Months Ended September 30, 2012						
Revenue, from external customers	\$129,758	\$ 224,627	\$238,916	\$—	\$—	\$593,301
Inter-segment revenue	—	47	70	—	(117 )	—
Total revenue	\$129,758	\$ 224,674	\$238,986	\$—	\$(117 )	\$593,301
Gross margin, from external customers	\$33,776	\$ 91,067	\$93,099	\$—	\$—	\$217,942
Inter-segment gross margin	(9 )	(14 )	24	—	(1 )	—
Total gross margin	\$33,767	\$ 91,053	\$93,123	\$—	\$(1 )	\$217,942
Business reorganization expenses	\$1,051	\$ 1,264	\$4,917	\$319	\$—	\$7,551
EBITDA (loss) (a)	\$(122 )	\$ 4,017	\$(5,556 )	\$(1,803 )	\$—	\$(3,464 )
Depreciation and amortization	850	2,351	1,108	479	—	4,788
Intercompany interest income (expense), net	—	(3,264 )	(326 )	3,590	—	—
Interest income (expense), net	(46 )	(197 )	32	(299 )	—	(510 )
Income (loss) from continuing operations before income taxes	\$(1,018 )	\$ (1,795 )	\$(6,958 )	\$1,009	\$—	\$(8,762 )
As of September 30, 2012						
Accounts receivable, net	\$25,570	\$ 38,171	\$51,807	\$—	\$—	\$115,548
Long-lived assets, net of accumulated depreciation and amortization	\$2,164	\$ 13,631	\$4,949	\$2,106	\$—	\$22,850
Total assets	\$30,691	\$ 79,747	\$73,892	\$15,496	\$—	\$199,826

(a) Securities and Exchange Commission ("SEC") Regulation S-K 229.10(e)1(ii)(A) defines EBITDA as earnings before interest, taxes, depreciation and amortization. EBITDA is presented to provide additional information to investors about the Company's operations on a basis consistent with the measures that the Company uses to manage its operations and evaluate its performance. Management also uses this measurement to evaluate working capital requirements. EBITDA should not be considered in isolation or as a substitute for operating income and net income prepared in accordance with U.S. GAAP or as a measure of the Company's profitability.





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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

## Geographic Data Reporting

A summary of revenues for the three and nine months ended September 30, 2013 and 2012 and long-lived assets and net assets by geographic area as of September 30, 2013 and 2012 were as follows:

Information by geographic region	United Kingdom	Australia	United States	Continental Europe	Other Asia Pacific	Other Americas	Total
For The Three Months Ended September 30, 2013							
Revenue (a)	\$47,518	\$41,450	\$34,540	\$22,953	\$16,824	\$302	\$163,587
For The Three Months Ended September 30, 2012							
Revenue (a)	\$52,097	\$55,449	\$38,461	\$23,237	\$17,988	\$641	\$187,873
For The Nine Months Ended September 30, 2013							
Revenue (a)	\$140,281	\$129,680	\$108,615	\$73,608	\$47,664	\$776	\$500,624
For The Nine Months Ended September 30, 2012							
Revenue (a)	\$157,749	\$172,096	\$128,033	\$80,963	\$52,735	\$1,725	\$593,301
As of September 30, 2013							
Long-lived assets, net of accumulated depreciation and amortization (b)	\$3,837	\$6,746	\$3,170	\$1,204	\$3,447	\$44	\$18,448
Net assets	\$22,836	\$25,446	\$17,456	\$6,635	\$13,202	\$272	\$85,847
As of September 30, 2012							
Long-lived assets, net of accumulated depreciation and amortization (b)	\$3,413	\$9,550	\$4,217	\$1,528	\$4,081	\$61	\$22,850
Net assets	\$23,931	\$30,073	\$27,030	\$8,075	\$17,088	\$513	\$106,710

(a) Revenue by geographic region disclosed above is net of any inter-segment revenue and, therefore, represents only revenue from external customers according to the location of the operating subsidiary.

(b) Comprised of property and equipment and intangibles. Corporate assets are included in the United States.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Condensed Consolidated Financial Statements and the notes thereto, included in Item 1 of this Form 10-Q. The reader should also refer to the Consolidated Financial Statements and notes of Hudson Global, Inc. and its subsidiaries (the "Company") filed in its Annual Report on Form 10-K for the year ended December 31, 2012. This MD&A contains forward-looking statements. Please see "FORWARD-LOOKING STATEMENTS" for a discussion of the uncertainties, risks and assumptions associated with these statements. This MD&A also uses the non-generally accepted accounting principle measure of earnings before interest, taxes, depreciation and amortization ("EBITDA"). See Note 16 to the Condensed Consolidated Financial Statements for EBITDA segment reconciliation information.

This MD&A includes the following sections:

- Executive Overview
- Results of Operations
- Liquidity and Capital Resources
- Contingencies
- Recent Accounting Pronouncements

Executive Overview

The Company has expertise in recruiting mid-level professional talent across all management disciplines in a wide range of industries. We match clients and candidates to address client needs on a part time, full time, and interim basis. Part of that expertise is derived from research on hiring trends and clients' current successes and challenges with their staff. This research has helped enhance our understanding about the number of new hires that do not meet our clients' long-term goals, the reasons why, and the resulting costs to our clients. With operations in 20 countries, and relationships with specialized professionals around the globe, the Company brings a unique ability to match talent with opportunities by assessing, recruiting, developing and engaging the best and brightest people for the Company's clients. The Company combines broad geographic presence, world-class talent solutions and a tailored, consultative approach to help businesses and professionals achieve maximum performance. Hudson's focus is to continually upgrade its service offerings, delivery capability and assessment tools to make candidates more successful in achieving its clients' business requirements.

Over the past two years, the Company has continued to shift and refine its focus from a traditional staffing vendor to providing solutions as a trusted business advisor and partner to both clients and candidates. The Company's proprietary frameworks, assessment tools and leadership development programs, coupled with our broad geographic footprint, has allowed us to design and implement regional and global recruitment solutions that greatly enhance the quality of hiring.

The Company's strategic initiatives for the near term include:

- Leveraging the value of our global business as exemplified by the launch of the global practices in Legal eDiscovery and Recruitment Process Outsourcing ("RPO").
- Attracting, developing and retaining the right people to increase productivity and profitability.
- Focusing on selected clients and services to provide higher value recruitment solutions to their businesses.
- Creating a compelling digital presence to help attract both highly-skilled candidates and new clients to grow our business.

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Initiated in 2012 and extended into 2013, the Company took steps to accelerate its strategic initiatives with the announcement and implementation of the 2012 plan of reorganization ("2012 Plan"). The 2012 Plan is focused on:

- Redirecting resources to high-potential strategic businesses, such as RPO and Legal eDiscovery, and growth markets of the world.

- Optimizing operations in under-performing sectors and markets to deliver improved performance, re-engineering of the delivery model, and consolidating operations globally.

- Streamlining back office support areas and business processes, establishing a shared services operation and global centers of excellence, to gain efficiencies of operation.

Current Market Conditions

Economic conditions in most of the world's major markets remain mixed. Conditions in the U.S. continue to improve, but most markets in the Euro-zone remain weak. Lack of access to credit for small and medium sized businesses in Europe has limited investment and unemployment remains high. Slower growth in China has adversely affected the wider region, most notably in Australia. The aggregate effect of these conditions has reduced demand throughout the region and lowered demand for corporate hiring.

These uncertain conditions have lowered business confidence and led to more cautious hiring behavior for employers in many markets. This contributed to the Company's third quarter 2013 revenue decline of 12.9% compared to the same period in 2012. If the current conditions persist, we may continue to experience diminished operating results and see a negative impact on our financial condition. We closely monitor the conditions in our markets and respond, as appropriate, to the environment in which we operate. At this time, we are unable to accurately predict the outcome of these events or changes in general economic conditions and their effect on the demand for our services.

Financial Performance

The following is a summary of the highlights for the three and nine months ended September 30, 2013 and 2012. This summary should be considered in the context of the additional disclosures in this MD&A.

Revenue was \$163.6 million for the three months ended September 30, 2013, compared to \$187.9 million for the same period in 2012, a decrease of \$24.3 million, or 12.9%. On a constant currency basis, the Company's revenue decreased \$18.2 million, or 10.0%. Of this decrease, \$11.0 million was in contracting revenue (down 8.0% compared to the same period in 2012) and \$5.1 million was in permanent recruitment revenue (down 15.1% compared to the same period in 2012).

Revenue was \$500.6 million for the nine months ended September 30, 2013, compared to \$593.3 million for the same period in 2012, a decrease of \$92.7 million, or 15.6%. On a constant currency basis, the Company's revenue decreased \$83.1 million, or 14.2%. Of this decrease, \$51.2 million was in contracting revenue (down 11.8% compared to the same period in 2012) and \$25.4 million was in permanent recruitment revenue (down 22.7% compared to the same period in 2012).

Gross margin was \$55.8 million for the three months ended September 30, 2013, compared to \$67.7 million for the same period in 2012, a decrease of \$11.9 million, or 17.5%. On a constant currency basis, gross margin decreased \$10.1 million, or 15.4%. Of this decrease, \$5.2 million was in permanent recruitment gross margin (down 15.7% compared to the same period in 2012) and \$3.2 million was in contracting gross margin (down 13.1% compared to the same period in 2012).

Gross margin was \$173.0 million for the nine months ended September 30, 2013, compared to \$217.9 million for the same period in 2012, a decrease of \$45.0 million, or 20.6%. On a constant currency basis, gross margin decreased \$42.4 million, or 19.7%. Of this decrease, \$24.8 million was in permanent recruitment gross margin (down 22.6% compared to the same period in 2012) and \$12.7 million was in contracting gross margin (down 16.5% compared to the same period in 2012).



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Selling, general and administrative expenses and other non-operating income (expense) (“SG&A and Non-Op”) were \$58.4 million for the three months ended September 30, 2013, compared to \$65.5 million for the same period in 2012, a decrease of \$7.1 million, or 10.8%. On a constant currency basis, SG&A and Non-Op decreased \$5.7 million, or 8.8%. The decrease in SG&A and Non-Op offset approximately 55.8% of the decline in gross margin for the three months ended September 30, 2013. SG&A and Non-Op, as a percentage of revenue, was 35.7% for the three months ended September 30, 2013, compared to 35.2% for the same period in 2012.

SG&A and Non-Op were \$182.8 million for the nine months ended September 30, 2013, compared to \$213.9 million for the same period in 2012, a decrease of \$31.0 million, or 14.5%. On a constant currency basis, SG&A and Non-Op decreased \$29.2 million, or 13.8%. The decrease in SG&A and Non-Op offset approximately 68.9% of the decline in gross margin for the nine months ended September 30, 2013. SG&A and Non-Op, as a percentage of revenue, was 36.5% for the nine months ended September 30, 2013, compared to 36.3% for the same period in 2012.

Business reorganization expenses were \$0.7 million for the three months ended September 30, 2013, compared to \$1.5 million for the same period in 2012, a decrease of \$0.8 million on both a reported and constant currency basis. Business reorganization expenses were \$4.0 million for the nine months ended September 30, 2013, compared to \$7.6 million for the same period in 2012, a decrease of \$3.6 million on both a reported and constant currency basis.

EBITDA loss was \$3.3 million for the three months ended September 30, 2013, a decrease in EBITDA of \$4.0 million compared to EBITDA of \$0.7 million for the same period in 2012. On a constant currency basis, EBITDA decreased \$3.7 million.

EBITDA loss was \$13.8 million for the nine months ended September 30, 2013, an increase of \$10.3 million compared to EBITDA loss of \$3.5 million for the same period in 2012. On a constant currency basis, EBITDA loss increased \$9.7 million.

Net loss was \$5.0 million for the three months ended September 30, 2013, compared to \$2.2 million for the same period in 2012. On a constant currency basis, net loss increased \$2.8 million.

Net loss was \$19.1 million for the nine months ended September 30, 2013, compared to \$5.0 million for the same period in 2012. On a constant currency basis, net loss increased \$13.7 million.

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## Constant Currency

The Company operates on a global basis, with the majority of its gross margin generated outside of the U.S. Accordingly, fluctuations in foreign currency exchange rates can affect our results of operations. For the discussion of reportable segment results of operations, the Company uses constant currency information. Constant currency compares financial results between periods as if exchange rates had remained constant period-over-period. The Company defines the term “constant currency” to mean that financial data for a previously reported period are translated into U.S. dollars using the same foreign currency exchange rates that were used to translate financial data for the current period. The Company’s management reviews and analyzes business results in constant currency and believes these results better represent the Company’s underlying business trends. Changes in foreign currency exchange rates generally impact only reported earnings.

Changes in revenue, gross margin, SG&A and Non-Op, business reorganization expenses, operating income (loss), net income (loss) and EBITDA (loss) include the effect of changes in foreign currency exchange rates. The tables below summarize the impact of foreign currency exchange adjustments on the Company’s operating results for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013	2012			2013	2012		
\$ in thousands	As reported	As reported	Currency translation	Constant currency	As reported	As reported	Currency translation	Constant currency
Revenue:								