SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934**

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)	(I.R.S. Employer Identification Number)

622 Third Avenue, New York, New York 10017
(Address of Principal Executive Offices)

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

Securities Registered Pursuant to Section 12(b) of the Act: None.

Securities Registered Pursuant to Section 12(g) of the Act: Common Stock, $.001 par value per share
Preferred Share Purchase Rights

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☒

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $312,984,000 as of June 30, 2004.

The number of shares of Common Stock, $.001 par value, outstanding as of March 1, 2005 was 20,609,922.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2005 Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

Hudson Highland Group, Inc. ("the Company" or "we", "us" and "our") is one of the world's largest specialized professional staffing, retained executive search and human capital solutions providers. The Company provides professional staffing services on a permanent, contract and temporary basis, as well as executive search and a range of human capital services to businesses operating in a wide variety of industries. The Company is organized into two business segments, the Hudson businesses ("Hudson") and Highland Partners ("Highland"), which constituted approximately 88% and 12% of the Company's gross margin, respectively, for the year ended December 31, 2004. We help our clients in recruiting employees in a wide variety of positions ranging from mid-level or professional candidates to senior executives.

Hudson. Hudson provides temporary and contract personnel and permanent recruitment services to a wide range of clients through its Hudson Global Resources unit. With respect to temporary and contract personnel, Hudson focuses on providing candidates with professional qualifications, including accounting and finance, legal and technology. The length of temporary assignment can vary widely, but assignments in the professional sectors tend to be longer than those in the general clerical or industrial sectors. With respect to permanent recruitment, Hudson focuses on mid-level professionals typically earning between $50,000 and $150,000 annually and possessing the professional skills and/or profile required by clients. Hudson provides permanent recruitment services on both a retained and contingent basis. In larger markets, Hudson's sales strategy focuses on both clients operating in particular business sectors, such as financial services, healthcare, or technology, and candidates possessing particular professional qualifications, such as accounting and finance, information technology and communications, legal and healthcare. Hudson uses both traditional and interactive methods to select potential candidates for its clients, employing a suite of products that assesses talent and helps predict whether a candidate will be successful in a given role.

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

Hudson operates on a global basis in over 20 countries from over 110 offices with 2004 revenue of approximately 28% in North America, 37% in Europe (including the United Kingdom), and 35% in the Asia Pacific region (primarily Australia and New Zealand).

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

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

Highland, an executive search boutique with global capabilities operates in 15 practice offices in four countries. For the year ended December 31, 2004, approximately 73% of revenue in the Highland business was derived in North America.

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

The Company was historically the combination of 67 acquisitions (the “Constituent Companies”) made between 1999 and 2002, which became the eResourcing and Executive Search divisions (“HH Group”) of Monster Worldwide, Inc. (“Monster”), formerly TMP Worldwide, Inc. Some of the Company’s constituent businesses have operated for more than 20 years. On March 31, 2003 (the “Distribution Date”), Monster distributed all of the outstanding shares of the newly named HH Group to its stockholders of record on March 14, 2003 on a basis of one share of HH Group common stock for each thirteen and one-third shares of Monster common stock so held (the “Distribution”). Since the Distribution, the Company has operated as an independent publicly held company, has added two small acquisitions, and reorganized a number of smaller business units after determining that those businesses were not viable profit centers.

On February 2, 2005, the Board of Directors of the Company declared a two-for-one stock split effected in the form of a 100% stock dividend payable February 25, 2005 to stockholders of record as of February 14, 2005. All share and per share amounts have been restated in this Form 10-K for the stock split.

SALES AND MARKETING

We maintain separate sales and marketing staffs for our Hudson and Highland businesses, with marketing coordinated from corporate headquarters through the senior vice president for marketing and communications. Our sales, marketing and customer service staffs are divided along industry sectors, such as health care, financial services, technology, consumer and retail. In some countries, such as the United States and the United Kingdom, our sales force is also organized according to the specialized professional qualifications of candidates, such as accounting, banking and finance, legal, engineering, scientific and human resource professionals. In some instances, sales personnel are dedicated to sales, but in many other cases we rely on staff within our branch organization to provide both sales and service delivery. We also divide our Hudson sales force between temporary contracting and permanent placement. In addition to focusing on sales of the services of its own organization, each sales professional is accountable for, and given incentive to, cross-sell each other’s products within its existing client base. Our philosophy is to place primary reliance on our field sales force and our branch structure for sales and marketing since we believe that a business service transaction in the human capital industry is best sold on a face-to-face basis.

We use three principal channels for marketing our services and promoting our brand: (1) in the UK, Australia, New Zealand, and other countries where it is an accepted practice, we use client paid advertising for vacant positions; (2) public relations, particularly through the Center for High Performance, which undertakes original research on business management topics that are of particular importance to CEOs and other senior executives, and (3) to a lesser extent, we also use broad-based media (Internet and business publications) and trade publications.

CLIENTS

The Company’s clients include small to large-sized organizations, enterprises, government agencies and educational institutions. No one client accounted for more than 5% of total annual revenue in 2004. At December 31, 2004, there were over 13,000 Hudson clients and over 500 Highland clients.

COMPETITION

The markets for the Company’s services and products are highly competitive and are characterized by pressure to reduce prices, incorporate new capabilities and technologies, attract new clients, attract high-quality specialized employment candidates and accelerate job completion schedules. The Company's industry is intensely competitive and highly fragmented, with few barriers to entry by potential competitors.

The Company faces competition from temporary contracting agencies, executive search and professional staffing agencies, many of which are far larger than us. Many competitors or potential competitors have long operating histories, and some have greater financial, management, technological, development, sales, marketing and other resources than the Company. In addition, the Company's ability to maintain its existing clients and generate new clients depends to a significant degree on the quality of its services, pricing and its reputation among its clients and potential clients.

EMPLOYEES

The Company employs approximately 3,800 people worldwide. In most jurisdictions our employees are not represented by a labor union or a collective bargaining agreement. The Company regards the relationships with its employees as satisfactory.

SEGMENT AND GEOGRAPHIC DATA

Financial information concerning the Company's business segments and geographic areas of operation is included in Note 15 in the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K.

AVAILABLE INFORMATION

We maintain a Web site with the address *www.hhgroup.com*. We are not including the information contained on our Web site as part of, or incorporating it by reference into, this report. We make available free of charge (other than an investor's own Internet access charges) through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission.

RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected.

We have a history of negative cash flows and operating losses that we expect will continue for at least the next year.

We have experienced negative cash flows and operating and net losses since we began operations as an independent company, and we expect to continue to experience negative cash flows and losses for at least the next year. For the year ended December 31, 2004, we used cash in operating activities of $30.9 million and we incurred net losses attributable to common stockholders of $26.8 million. We cannot assure you that we will have positive cash flows or profitable operations. Additionally, if our revenue grows more slowly than we anticipate, or if operating expenses exceed our expectations, we may not become profitable.

In the future, we may not generate sufficient revenue to pay for all of our operating costs or other expenses. Even if we become profitable, we may be unable to sustain our profitability. In either of these cases, our business, financial condition, results of operations and cash flows will be negatively impacted.

The performance of our businesses is difficult to forecast and is cyclical, and a decline in these businesses could have a material adverse effect on our overall business, financial condition and operating results.

The performance of our businesses has fluctuated in the past and can be expected to continue to fluctuate in the future. We provide executive search and mid-market professional staffing services on an assignment-by-assignment basis, which clients can generally terminate at any time, and existing clients may not continue to use our executive search and professional staffing services at historical levels. Like our temporary contracting business, our executive search and professional staffing business is significantly affected by the general level of employment activity in the regions and industries in which we operate, and our executive search and professional staffing business may suffer during employment downturns. When employment activity slows, many of our clients hire fewer employees and may engage in hiring freezes. An employment downturn could cause employers to reduce or postpone their recruiting efforts and, therefore, affect demand for our services. In the current employment environment affecting the United States and European markets, our fees and commissions from our executive search and mid-market professional staffing businesses have been adversely affected.

Our operations will be affected by global employment fluctuations.

As explained above, demand for our services may fluctuate with changes in economic conditions. An employment downturn may result in decreased demand for our services, and thus in a decrease in our revenue, and may adversely affect our financial condition and results of operations. Because we operate from many small offices with fixed overhead, we have only limited flexibility to reduce expenses during employment downturns. Further, we may face increased pricing pressures during employment downturns. For example, during 2001 and 2002, employers across the United States reduced their overall workforce to reflect the slowing demand for their products and services. In turn, our revenue was significantly reduced in the United States. Employment conditions could continue to challenge our revenue and profit growth in 2005, which could have a material adverse effect on our business, financial condition and operating results.

Our credit facility restricts our operating flexibility.

We have a $50.0 million senior secured credit facility. As of December 31, 2004, there were no borrowings under the credit facility although approximately $15.1 million of the facility had been utilized by outstanding letters of credit. Our ability to borrow under the credit facility is tied to a borrowing base of our eligible accounts receivable. If the amount or quality of our accounts receivable deteriorates, our ability to borrow under the credit facility will be directly affected. In addition, our credit facility requires that we satisfy several financial covenants, including complying with targeted levels of adjusted EBITDA. The adjusted EBITDA covenants for fiscal 2005 have not been completed and agreed upon by all parties, which may be at targeted levels that are difficult to achieve. As a result, we cannot assure you that we will be able to borrow under our credit agreement if we need money to fund working capital or other needs. In addition, our credit facility contains various restrictions and covenants that restrict our operating flexibility including:

- prohibitions on payments of dividends and repurchases of stock;
- restrictions on our ability to make additional borrowings, or to consolidate, merge or otherwise fundamentally change the ownership of the Company; and
- limitations on investments, dispositions of assets and guarantees of indebtedness.

These restrictions and covenants could have important consequences for investors, including the following:

- we may have to use a portion of our cash flow from operations for debt service rather than for our operations;
- we may not be able to incur additional debt financing for future working capital or capital expenditures;

- we could be less able to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- we may not be able to sell assets, grant or incur liens on our assets, repay indebtedness, pay dividends, repurchase or redeem capital stock, or engage in mergers or consolidations.

Our ability to comply with these financial requirements and other restrictions may be affected by events beyond our control, and our inability to comply with them could result in a default under our credit facility or other debt instruments. If a default occurs under our credit facility, the lenders under this facility could elect to declare all of the outstanding borrowings, as well as accrued interest and fees, to be due and payable and require us to apply all of our available cash to repay those borrowings. In addition, a default may result in higher rates of interest and the inability to obtain additional borrowings. Further, debt incurred under our credit facility bears interest at variable rates. Any increase in interest expense could reduce the funds available for operations.

We face risks relating to our foreign operations, many of which are inherent in our U.S. operations.

We conduct operations in over 20 foreign countries, including Australia, Belgium, Canada, France, Italy, the Netherlands, New Zealand and the United Kingdom. For the years ended December 31, 2004, 2003 and 2002, approximately 70%, 71% and 67%, respectively, of our revenue was earned outside of the United States.

Our current or future international operations might not succeed for a number of reasons including:

- difficulties in staffing and managing foreign operations;
- competition from local recruiting services;
- operational issues such as longer customer payment cycles and greater difficulties in collecting accounts receivable;
- language and cultural differences;
- seasonal reductions in business activities;
- taxation issues;
- unexpected changes in regulatory requirements;
- issues relating to uncertainties of laws and enforcement relating to the regulation and protection of intellectual property;
- legal uncertainties inherent in transnational operations such as international immigration and employment laws; and
- general political and economic trends.

If we are forced to discontinue any of our international operations, we could incur material costs to close down such operations.

We are also subject to taxation in foreign jurisdictions. In addition, transactions between our foreign subsidiaries and us may be subject to United States and foreign withholding taxes. Applicable tax rates in foreign jurisdictions differ from those of the United States, and change periodically. The extent, if any, to which we will receive credit in the United States for taxes we pay in foreign jurisdictions will depend upon the application of limitations set forth in the Internal Revenue Code, as well as the provisions of any tax treaties, which may exist between the United States and such foreign jurisdictions.

We may not be able to manage our growth.

Our business has historically grown rapidly through a mix of acquisitions and internal growth, but more recently has relied predominantly upon internal growth. This prior growth of our business has placed a significant strain on our management and operations. Our expansion has resulted in substantial growth in the number of our employees. In addition, this growth has resulted in increased responsibility for both existing and new management personnel and incremental strain on our existing operations, financial and management information systems and financial resources, including the need for additional working capital to fund our growth. Our success depends to a significant extent on the ability of our executive officers and other members of senior management to operate effectively both independently and as a group. If we are not able to manage any existing or future growth, our business, financial condition and operating results may be materially adversely affected.

We face risks associated with acquisitions.

We expect that if we continue to grow, it may be, in part, by acquiring businesses. We continue to review potential acquisitions to expand our markets and complement the services we offer to our clients. The success of this strategy depends upon several factors, including:

- our ability to identify and acquire businesses on a cost-effective basis;
- our ability to integrate acquired personnel, operations, products and technologies into our organization effectively; and
- our ability to retain and motivate key personnel and to retain the clients of acquired firms.

We cannot assure you that financing for acquisitions will be available on terms we find acceptable, or at all, or that we will be able to identify or consummate new acquisitions, or manage and integrate our recent or future expansions successfully. Any inability to do so may materially adversely affect our business, financial condition and operating results. Our level of indebtedness may increase in the future if we finance acquisitions with debt, which would cause us to incur additional interest expense and could increase our vulnerability to general adverse economic and industry conditions and limit our ability to obtain additional financing. If we issue shares of our stock as currency in any future acquisitions, then the result of the issuance of such stock could be an increase in the dilution of current shareholder interests, and possible future earnings may be diluted as a result. In addition, we cannot assure you that participants in potential acquisitions will view our stock attractively. Our ability to enter new geographies may be impacted by the same reasons that may limit our ability to make acquisitions.

We rely on our information systems, and if we lose that technology or fail to further develop our technology, our business could be harmed.

Our success depends in large part upon our ability to store, retrieve, process and manage substantial amounts of information, including our client and candidate databases. To achieve our strategic objectives and to remain competitive, we must continue to develop and enhance our information systems. This may require the acquisition of equipment and software and the development, either internally or through independent consultants, of new proprietary software. Our inability to design, develop, implement and utilize, in a cost-effective manner, information systems that provide the capabilities necessary for us to compete effectively, or any interruption or loss of our information processing capabilities, for any reason, could harm our business, results of operations or financial condition.

Our markets are highly competitive.

The markets for our services are highly competitive. They are characterized by pressures to:

- reduce prices;
- incorporate new capabilities and technologies; and
- accelerate job completion schedules.

Furthermore, we face competition from a number of sources. These sources include other executive search firms and professional search, staffing and consulting firms. Several of our competitors have greater financial and marketing resources than we do.

Due to competition, we may experience reduced margins on our products and services, as well as loss of market share and our customers. If we are not able to compete effectively with current or future competitors as a result of these and other factors, our business, financial condition and results of operations could be materially adversely affected.

We have no significant proprietary technology that would preclude or inhibit competitors from entering the mid-market professional staffing and temporary contracting and executive search markets. We cannot assure you that existing or future competitors will not develop or offer services and products that provide significant performance, price, creative or other advantages over our services. In addition, we believe that with continuing development and increased availability of information technology, the industries in which we compete may attract new competitors. Specifically, the advent and increased use of the Internet may attract technology-oriented companies to the executive search industry. We cannot assure you that we will be able to continue to compete effectively against existing or future competitors. Any of these events could have a material adverse effect on our business and operating results.

Our operating results fluctuate seasonally and from quarter to quarter.

Our operating results have fluctuated seasonally and from quarter to quarter in the past and may fluctuate in the future. These fluctuations are a result of a variety of factors, including:

- the timing of recognized holidays and vacations throughout the world;
- mismatches between resource allocation and client demand due to difficulties in predicting client demand in a new market;
- the hiring cycles of employers;
- changes in general economic conditions, such as recessions, that could affect recruiting efforts generally;
- the magnitude and timing of marketing initiatives;
- the attraction and retention of key personnel;
- our ability to manage our anticipated growth and expansion;
- our ability to attract and retain clients;
- the timing of our acquisitions, if any;
- the impact of entering new markets; and
- the investment cost of enhancing existing services.

Foreign currency fluctuations may have a material adverse effect on our operating results.

For the years ended December 31, 2004, 2003 and 2002, approximately 70%, 71% and 67%, respectively, of our revenue was generated outside the United States. The results of our local operations are reported in the applicable foreign currencies and then translated into U.S. dollars at the applicable foreign currency exchange rates for inclusion in our financial statements. In addition, we generally pay operating expenses in the corresponding local currency. We had no hedging or similar foreign currency contracts outstanding at December 31, 2004. Because of devaluations and fluctuations in currency exchange rates or the imposition of limitations on conversion of foreign currencies into U.S. dollars, we are subject to currency translation exposure on the revenue and income of our operations in addition to economic exposure. This risk could have a material adverse effect on our business, financial condition and operating results.

We depend on our highly skilled professionals.

The success of our employment recruiting business depends upon our ability to attract and retain highly skilled professionals who possess the skills and experience necessary to fulfill our clients’ employee search needs. Competition for highly skilled professionals is intense. We compete with professional staffing and executive search agencies for qualified professionals. We and many of our competitors have experienced turnover of qualified professionals. We believe that we have been able to attract and retain highly qualified, effective professionals as a result of our reputation and our performance-based compensation system. These professionals have the potential to earn substantial bonuses based on the amount of revenue they generate by:

- obtaining executive search and permanent placement assignments;
- executing search and placement assignments; and
- assisting other professionals to obtain or complete executive search and permanent placement assignments.

Bonuses and commissions represent a significant proportion of these professionals’ total compensation. Any diminution of our reputation could impair our ability to retain existing or attract additional highly skilled professionals. Any inability to attract and retain highly skilled professionals could have a material adverse effect on our executive search business, financial condition and operating results.

Our employees may depart with existing executive search clients.

The success of our executive search business depends upon the ability of employees to develop and maintain strong, long-term relationships with clients. Usually, one or two employees have primary responsibility for a client relationship. When an employee leaves an executive search firm and joins another, clients that have established relationships with the departing employee may move their business to the employee’s new employer. The loss of one or more clients is more likely to occur if the departing employee enjoys widespread name recognition or has developed a reputation as a specialist in executing searches in a specific industry or management function. Historically, we have not experienced a significant number of departures of executive search partners. However, a failure to retain our most effective executive search partners or maintain the quality of service to which our clients are accustomed could have a material adverse effect on our business, financial condition and operating results. Also, the ability of a departing executive search partner to move business to his or her new employer could have a material adverse effect on our business, financial condition and operating results.

We face risks maintaining our professional reputation and establishing and maintaining our brand name.

Our ability to secure new employee recruiting engagements and to hire qualified professionals is highly dependent upon our overall reputation and brand name recognition as well as the individual reputations of our professionals. We obtain a majority of our new engagements by referrals from existing clients. Therefore, the dissatisfaction of any client could have a disproportionate, adverse impact on our ability to secure new engagements. Any factor that diminishes our reputation or the reputation of any of our personnel could make it more difficult for us to compete successfully for both new engagements and qualified personnel. This could have an adverse effect on our business, financial condition and operating results.

We face restrictions imposed by blocking arrangements.

Either by agreement with clients or for marketing or client relationship purposes, executive search firms frequently refrain, for a specified period of time, from recruiting certain employees of a client, and possibly other entities affiliated with such client, when conducting executive searches on behalf of other clients. This is known as a “blocking” or “off-limits” arrangement. Blocking arrangements generally remain in effect for one or two years following completion of an assignment. The actual duration and scope of any blocking arrangement, including whether it covers all operations of a client and its affiliates or only certain divisions of a client, generally depends on such factors as:

- the length of the client relationship;
- the frequency with which the executive search firm has been engaged to perform executive searches for the client; and
- the number of assignments the executive search firm has generated or expects to generate from the client.

Some of our executive search clients are recognized as industry leaders and/or employ a significant number of qualified executives who are potential candidates for other companies in that client’s industry. Blocking arrangements with a client of this nature, or the awareness by a client’s competitors of such an arrangement, may make it difficult for us to obtain executive search assignments from, or to fulfill executive search assignments for, competitors while employees of that client may not be solicited. As our client base grows, particularly in our targeted business sectors, blocking arrangements increasingly may impede our growth or ability to attract and serve new clients. This could have an adverse effect on our businesses, results of operations and financial condition.

We may be exposed to employment-related claims, legal liability and costs from both clients and employers that could adversely affect our business, financial condition and results of operations, and our insurance coverage may not cover all of our potential liability.

We are in the business of employing people and placing them in the workplaces of other businesses. Risks relating to these activities include:

- claims of misconduct or negligence on the part of our employees;
- claims by our employees of discrimination or harassment directed at them, including claims relating to action of our clients;
- claims related to the employment of illegal aliens or unlicensed personnel;
- claims for payment of workers’ compensation claims and other similar claims;
- claims for violations of wage and hour requirements;
- claims for retroactive entitlement to employee benefits;
- claims of errors and omissions of our temporary employees, particularly in the case of professionals;
- claims by taxing authorities related to our employment of independent contractors and the risk that such contractors could be considered employees for tax purposes;
- claims related to our non-compliance with data protection laws which require the consent of a candidate to transfer resumes and other data; and
- claims by our clients relating to our employees’ misuse of client proprietary information, misappropriation of funds, other criminal activity or torts or other similar claims.

We are also exposed to potential claims with respect to the recruitment process. A client could assert a claim for matters such as breach of a blocking arrangement or recommending a candidate who subsequently proves to be unsuitable for the position filled. Similarly, a client could assert a claim for deceptive trade practices on the grounds that we failed to disclose certain referral information about the candidate or misrepresented material information about the candidate. Further, the current employer of a candidate whom we place could file a claim against us alleging interference with an employment contract. In addition, a candidate could assert an action against us for failure to maintain the confidentiality of the candidate's employment search or for alleged discrimination or other violations of employment law by one of our clients.

We may incur fines and other losses or negative publicity with respect to these problems. In addition, some or all of these claims may give rise to litigation, which could be time-consuming to our management team, costly and could have a negative impact on our business. In some cases, we have agreed to indemnify our clients against some or all of these types of liabilities. We cannot assure you that we will not experience these problems in the future, that our insurance will cover all claims or that our insurance coverage will continue to be available at economically feasible rates.

We depend on our key management personnel.

Our continued success will depend to a significant extent on our senior management, including Jon F. Chait, our Chairman and CEO. The loss of the services of Mr. Chait or one or more key employees could have a material adverse effect on our business, financial condition and operating results. In addition, if one or more key employees join a competitor or form a competing company, the resulting loss of existing or potential clients could have a material adverse effect on our business, financial condition and operating results.

Government regulations may result in the prohibition, regulation or restriction of certain types of employment services we offer or in the imposition of additional licensing or tax requirements that may reduce our future earnings.

In many jurisdictions in which we operate, the temporary staffing industry is heavily regulated. For example, governmental regulations can restrict the length of contracts of temporary employees and the industries in which temporary employees may be used. In some countries, special taxes, fees or costs are imposed in connection with the use of temporary workers. For example, temporary workers in France are entitled to a 10% allowance for the precarious nature of employment, which is eliminated if a full-time position is offered to them within three days. The countries in which we operate may:

- create additional regulations that prohibit or restrict the types of employment services that we currently provide;
- impose new or additional benefit requirements;
- require us to obtain additional licensing to provide staffing services; or
- increase taxes, such as sales or value-added taxes, payable by the providers of staffing services.

Any future regulations that make it more difficult or expensive for us to continue to provide our staffing services may have a material adverse effect on our financial condition, results of operations and liquidity.

We do not intend to pay cash dividends on our common stock in the foreseeable future.

We have never declared or paid dividends on our common stock, and we cannot assure you that any dividends will be paid in the foreseeable future. Any payment of cash dividends will depend upon our financial condition, capital requirements, earning and other factors deemed relevant by our board of directors. In addition, the terms of our credit facility prohibit us from paying dividends and making other distributions. We currently anticipate that we will retain all future earnings, if any, to finance growth and development of our business and do not anticipate paying cash dividends in the foreseeable future. As a result, only appreciation of the price of our common stock will provide a return to our stockholders.

There may be volatility in our stock price.

The market for our common stock has experienced price and volume fluctuations. Factors such as the announcement of variations in our quarterly financial results could cause the market price of our common stock to fluctuate significantly. Further, due to the volatility of the stock market generally, the price of our common stock could fluctuate for reasons unrelated to our operating performance.

The market price of our common stock can be influenced by professional securities analysts' expectations about the ability of our business to grow and to achieve certain profitability targets. If our financial performance in a particular quarter does not meet the expectations of securities analysts, then this may adversely affect the views of those securities analysts concerning our growth potential and future financial performance. If the securities analysts who regularly follow our common stock lower their ratings for our common stock or lower their projections for our future growth or financial performance, then the market price of our common stock is likely to drop significantly.

Provisions in our organizational documents and Delaware law will make it more difficult for someone to acquire control of us.

Our certificate of incorporation and by-laws and the Delaware General Corporation Law contain several provisions that make more difficult an acquisition of control of us in a transaction not approved by our board of directors, including transactions in which stockholders might otherwise receive a premium for their shares over then current prices, and that may limit the ability of stockholders to approve transactions that they may deem to be in their best interests. Our certificate of incorporation and by-laws include provisions:

- dividing our board of directors into three classes to be elected on a staggered basis, one class each year;
- authorizing our board of directors to issue shares of our preferred stock in one or more series without further authorization of our stockholders;
- requiring that stockholders provide advance notice of any stockholder nomination of directors or any proposal of new business to be considered at any meeting of stockholders;
- permitting removal of directors only for cause by a super-majority vote;
- providing that vacancies on our board of directors will be filled by the remaining directors then in office;
- requiring that a supermajority vote be obtained to amend or repeal specified provisions or our certificate of incorporation or by-laws; and
- eliminating the right of stockholders to call a special meeting of stockholders or take action by written consent without a meeting of stockholders.

In addition, Section 203 of the Delaware General Corporation Law generally provides that a corporation may not engage in any business combination with any interested stockholder during the three-year period following the time that the stockholder becomes an interested stockholder, unless a majority of the directors then in office approve either the business combination or the transaction that results in the stockholder becoming an interested stockholder or specified stockholder approval requirements are met.

We agreed in the spin-off from Monster not to engage in certain specified transactions, including a sale of the Company to a third party acquirer, before March 31, 2005. In addition, we have agreed to indemnify Monster for any tax and certain other costs and expenses resulting from any acquisition or other issuance of our common stock that causes the spin-off from which we were created to become taxable to Monster.

In addition, our Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock of the Company payable upon the close of business on February 28, 2005 to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $.001 par value ("Preferred Shares"), of the Company at a price of $60 per one one-hundredth of a Preferred Share, subject to adjustment. These Rights may make the cost of acquiring the Company more expensive and, therefore, make an acquisition more difficult.

ITEM 2. PROPERTIES

All of the Company's operating offices are located in leased premises. Our principal office is currently located at 622 Third Avenue, New York, New York, where we occupy space under a lease with Monster expiring in July 2015.

In the United States, Hudson operates from 41 leased locations with space of approximately 170,000 square feet, Highland operates from 5 leased locations with space of approximately 30,000 square feet and there are 8 leased locations with space of approximately 121,000 square feet, which are shared between the Hudson, Highland and corporate functions.

Outside the U.S., in the 20 additional countries in which the Company is located, Hudson is the primary lessee of 70 locations with approximately 697,000 square feet, Highland leases 2 locations with approximately 19,000 square feet, and Hudson and Highland share approximately 10,000 square feet in 2 locations. All leased space is considered to be adequate for the operation of its business, and no difficulties are foreseen in meeting any future space requirements. The Company owns three vacant buildings in India, with approximately 6,700 square feet, which the Company is currently offering for sale.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings that are incidental to the conduct of its business. The Company is not involved in any pending or threatened legal proceedings that it believes could reasonably be expected to have a material adverse effect on its financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the Company's security holders during the fourth quarter of the fiscal year covered in this report.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information, as of February 25, 2005, regarding the executive officers of Hudson Highland Group, Inc.:

Name	Age	Title
Jon F. Chait	54	Chairman and Chief Executive Officer
Richard W. Pehlke	51	Executive Vice President and Chief Financial Officer
Margaretta Noonan	47	Executive Vice President and Chief Administrative Officer
Richard S. Gray	48	Senior Vice President, Marketing and Communications
Richard A. Harris	46	Senior Vice President and Chief Information Officer
Neil J. Funk	53	Vice President, Internal Audit
Steven B. London	42	Vice President and Global Treasurer
Ralph L. O'Hara	60	Vice President and Global Controller
Latham Williams	52	Vice President, Legal Affairs and Administration, Corporate Secretary

The following biographies describe the business experience of our executive officers:

Jon F. Chait has served as Chairman and Chief Executive Officer since the Company was spun off from Monster Worldwide, Inc. ("Monster") in March 2003. He joined Monster in October 2002 expressly in contemplation of the spin-off. Prior to joining the Company, Mr. Chait was the Chairman of Spring Group, PLC, a provider of workforce management solutions, from May 2000 through June 2002 and Chief Executive Officer from May 2000 to March 2002. From 1998 through 2000, Mr. Chait founded and acted as Chairman and Chief Executive Officer of Magenta Limited, a developer of web-enabled human resource solutions, which was subsequently sold to Spring Group, PLC. Mr. Chait served as the Managing Director—International Operations of Manpower Inc. from 1995 to July 1998, Chief Financial Officer from August 1993 to 1998 and Executive Vice President, Secretary and Director from 1991 to 1998, and Executive Vice President from September 1989 to July 1998 of Manpower International Inc., a provider of temporary employment services. Mr. Chait is also a director of the Marshall and Ilsley Corporation, a bank holding company, and Krueger International Inc., a manufacturer of office furniture.

Richard W. Pehlke has served as a director since April 2003 and as Executive Vice President and Chief Financial Officer since he joined the Company in February 2003. Prior to joining the Company, Mr. Pehlke served as an independent consultant for various companies from 2001 to 2003. From 2000 to 2001, Mr. Pehlke served as the Chief Financial Officer of ONE, Inc., a software implementation and consulting firm. Mr. Pehlke served as Vice President, Treasurer for Ameritech Corporation from 1994 to 1999 and as Vice President, Investor Relations from 1986 to 1993.

Margaretta Noonan has served as Executive Vice President and Chief Administrative Officer since February 2, 2005. Prior to that Ms. Noonan served as Executive Vice President, Human Resources since she joined the Company in January 2003. Prior to joining HH Group, Ms. Noonan served as Senior Vice President, Global Human Resources and corporate officer of Monster Worldwide, Inc. Prior to joining Monster in 1998, Ms. Noonan was Vice President, Human Resources—Stores, for the Lord & Taylor division of May Department Stores Company, a large retail department store, from February 1997 to May 1998 and was Vice President, Human Resources, of Kohl's Corporation, a large retail department store, from November 1992 to February 1997.

Richard S. Gray has served as Senior Vice President, Marketing and Communications since February 2, 2005. Prior to that, Mr. Gray served as Vice President, Marketing and Communications since joining the Company in May 2003. Prior to joining the Company, Mr. Gray was Senior Vice President for Ogilvy Public Relations Worldwide, a large public relations firm, in Chicago, Illinois from September 2002 until May 2003. Before joining Ogilvy Public Relations Worldwide, Mr. Gray was a Vice President, Marketing and Communications for Lante Corporation, an internet consulting boutique, in Chicago, Illinois from November 1998 until November 2001.

Richard A. Harris has served as Senior Vice President and Chief Information Officer since joining the Company in January 2003. Prior to that, Mr. Harris served as the Chief Information Officer of Spring Group, PLC, a U.K. based human capital management company, from March 2001 to December 2002. Prior to joining Spring Group, PLC, Mr. Harris was the interim Chief Information Officer at TRS Staffing Services, a U.K. subsidiary of Fluor Corporation specializing in the technical staffing business, from 1999 to 2000. Mr. Harris also served as Chief Information Officer between 1994 and 1998 at TAC Worldwide, an information technologies staffing company.

Neil J. Funk has served as Vice President, Internal Audit since joining the Company in August 2003. Prior to joining the Company, Mr. Funk was a Senior Manager at Deloitte & Touche LLP, a multi-national auditing and consulting firm, from September 2000 until July 2003. Before joining Deloitte & Touche, Mr. Funk was with Prudential Financial, Inc., a large insurance company, specializing in personal financial planning from February 2000 until September 2000. Before joining Prudential Financial, Inc., Mr. Funk was District Audit Manager for PRG-Schultz, Inc., a recovery audit company, based in Atlanta, Georgia from September 1997 until February 2000.

Steven B. London has served as Vice President and Global Treasurer since joining the Company in April 2003. Prior to joining the Company, Mr. London was European Treasurer for Monster from April 2000 until March 2003. Prior to joining Monster Mr. London was Group Treasurer for SGB Group, plc, a manufacturer and distributor of products and services for building, civil engineering, industrial and event support applications, based in London, England from September 1998 until April 2000.

Ralph L. O’Hara has served as Vice President and Global Controller since joining the Company in June of 2003. Prior to joining the Company, Mr. O’Hara was Chief Financial Officer and Treasurer for The Domestic and Foreign Missionary Society, a major not-for-profit organization also known as the Episcopal Church of the United States, from 2001 until June of 2003. Before joining The Domestic and Foreign Missionary Society, Mr. O’Hara was Controller for GATX Corporation, a specialized finance and leasing company, from 1986 until 2000.

Latham Williams has served as Vice President, Legal Affairs and Administration, Corporate Secretary since joining the Company in January 2003. Prior to joining the Company, Mr. Williams was a Partner, Leader Diversity Practice Group and Co-Leader Global Legal Practice in Monster’s executive search division. Prior to joining Monster in 2001, Mr. Williams was an equity partner with the international law firm of Sidley Austin Brown and Wood from 1993 to 2000, specializing in health care mergers and acquisitions and other insurance arrangements. Before joining Sidley Austin Brown and Wood, Mr. Williams was an equity partner in the Chicago-based law firm of Gardner, Carton & Douglas from 1981 to 1993.

Executive officers are elected by, and serve at the discretion of, the Board of Directors. There are no family relationships between any of our directors or executive officers.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET FOR COMMON STOCK

The Company's common stock is listed for trading on the Nasdaq National Market under the symbol "HHGP". On December 31, 2004, there were approximately 1,460 holders of record of the Company's common stock.

The following is a list by fiscal quarter of the market prices of the stock.

	Market Price	
2004	**High**	**Low**
Fourth quarter	$15.00	$13.065
Third quarter	$15.89	$12.535
Second quarter	$16.205	$12.945
First quarter	$14.13	$10.995
2003		
Fourth quarter	$12.50	$ 9.22
Third quarter	$12.28	$ 8.76
Second quarter	$ 9.52	$ 4.50
First quarter (a)	$ 4.56	$ 4.25

(a) The Distribution of the Company's stock occurred at the close of business March 31, 2003, the market prices indicated for the first quarter were for shares on a "when issued" basis from March 19 through March 31, 2003.

We have never declared or paid cash dividends on our common stock, and we currently do not intend to declare and pay cash dividends on our common stock. Any payment of cash dividends will depend upon our financial condition, capital requirements, earnings and other factors deemed relevant by our Board of Directors. In addition, the terms of our credit facility prohibit us from paying dividends and making other distributions. Subsequent to the year ended December 31, 2004, on February 2, 2005, the Board of Directors of the Company declared a two-for-one stock split effected in the form of a 100% stock dividend payable February 25, 2005 to stockholders of record as of February 14, 2005. All share and per share information included in the table above or elsewhere in this Form 10-K have been restated to reflect the two-for-one stock split.

ISSUER PURCHASES OF EQUITY SECURITIES

During the quarter ended December 31, 2004, the Company made no repurchases of its equity securities.

ITEM 6. SELECTED FINANCIAL DATA

The following table shows selected financial data of the Company and has been derived from, and should be read together with, the consolidated financial statements and corresponding notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in Items 7 and 8 of this Form 10-K. The Company's consolidated financial statements prior to the Distribution reflect the historical financial position, results of operations and cash flows of the HH Group businesses transferred to the Company from Monster as part of the Distribution. The selected financial information included herein for periods prior to the Distribution may not necessarily be indicative of the future performance of the Company as an independent company. The consolidated financial data as of and for the three years ended December 31, 2002, 2001 and 2000 are derived from HH Group audited financial statements.

	Year ended December 31,				
	2004	2003	2002	2001	2000
	(dollars in thousands, except per share data)				
STATEMENT OF OPERATIONS:					
Revenue	$ 1,256,354	$ 1,085,299	$ 1,065,439	$ 1,287,798	$ 1,325,146
Direct costs	786,134	682,270	653,569	716,262	652,916
Gross margin	470,220	403,029	411,870	571,536	672,230
Salaries and related, office and general, and marketing and promotion	469,214	463,108	431,615	523,273	587,255
Depreciation and amortization	20,108	21,299	21,061	33,290	34,555
Business reorganization expenses	3,361	26,823	73,543	—	—
Merger and integration expenses	736	2,663	5,373	43,177	50,995
Goodwill impairment charge	—	202,785	—	—	—
Total operating expenses	493,419	716,678	531,592	599,740	672,805
Operating loss	$ (23,199)	$ (313,649)	$ (119,722)	$ (28,204)	$ (575)
Loss before accounting change	$ (26,775)	$ (328,812)	$ (119,251)	$ (34,195)	$ (16,867)
Net loss	$ (26,775)	$ (328,812)	$ (412,251)	$ (34,195)	$ (16,867)
Basic loss per share before accounting change (a)	$ (1.38)	$ (19.58)	$ (7.14)	$ (2.08)	$ (1.07)
Basic net loss per share (a)	$ (1.38)	$ (19.58)	$ (24.69)	$ (2.08)	$ (1.07)
OTHER FINANCIAL DATA:					
Net cash provided by (used in) operating activities	$ (30,895)	$ (42,629)	$ (110,834)	$ 11,416	$ 23,618
Net cash used in investing activities	$ (10,128)	$ (11,390)	$ (16,589)	$ (118,785)	$ (109,491)
Net cash provided by financing activities	$ 35,278	$ 49,465	$ 112,054	$ 103,115	$ 101,671

	As of December 31,				
	2004	2003	2002	2001	2000
BALANCE SHEET DATA:					
Current assets	$ 232,833	$ 198,416	$ 215,916	$ 246,248	$ 305,581
Total assets	$ 281,378	$ 250,924	$ 467,104	$ 765,986	$ 686,592
Current liabilities	$ 182,794	$ 158,821	$ 133,714	$ 232,080	$ 250,913
Long-term debt, less current portion	$ 2,041	$ 302	$ 1,184	$ 2,917	$ 21,441
Total stockholders' equity	$ 83,734	$ 69,361	$ 316,574	$ 522,680	$ 404,380

(a) For basic loss per share amounts for the periods prior to the Company's spin-off from Monster on March 31, 2003, Monster's weighted average number of shares was multiplied by the distribution ratio of one share of HH Group common stock for every thirteen and one-third shares of Monster common stock. Basic loss per share is computed by dividing the Company's losses 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 earnings by the weighted average number of shares outstanding and the impact of all dilutive potential common shares, primarily stock options. The dilutive impact of stock options is determined by applying the "treasury stock" method.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

Background

We have operated as an independent publicly traded company since April 1, 2003 (the "Distribution Date"), when we were spun-off from Monster Worldwide, Inc. ("Monster"). We are the combination of 67 acquisitions (the "Constituent Companies") made between 1999 and 2002, which became the eResourcing and Executive Search divisions ("HH Group") of Monster. Our businesses are specialized professional staffing, retained executive search and human capital solutions services, that operate in over 20 countries around the world, with our largest operations being in the U.S., the U.K. and Australia. We are organized to operate in two business segments, the Hudson businesses ("Hudson") and Highland Partners ("Highland"), which constituted approximately 88% and 12% of the Company's gross margin, respectively, for the year ended December 31, 2004. For the periods presented in this Form 10-K before the Distribution Date, these businesses were conducted by Monster through the Constituent Companies. For the four years prior to the Distribution Date, the Constituent Companies had a succession of annual operating and net losses, which included significant write-offs of goodwill, business reorganization costs and merger and integration costs associated with businesses acquired under pooling-of-interests accounting. Immediately prior to the Distribution, Monster transferred the assets and liabilities of the Constituent Companies to HH Group at Monster's historical cost. For the nine-month period following the Distribution date, we recorded operating losses of $277.8 million, which included a $202.8 million of goodwill impairment and $20.6 million of business reorganization and merger and integration expenses. Our management's primary focus since the spin-off has been to move the Company to profitability. The Hudson businesses reported operating income in each of the last three quarters of 2004 ($6.8 million, $4.3 million and $7.8 million, for the fourth, third and second quarters, respectively) and Highland's operating loss for the year ($1.9 million) included two quarters with operating income and was a 95% improvement from the loss in 2003. We reported business reorganization expense in 2004 of $3.4 million, a reduction from 2003 of $23.5 million. Business reorganization expense related to those actions will continue to be recorded, as estimates related to the leased office space change to reflect changes in market conditions and costs, which can only be expensed when incurred, are recorded.

Strategic Actions

With the focus of our management being to move the Company to profitability, we are continuing with several initiatives in 2005 that we began in 2004 to meet our long-term strategic goals.

- We continue to build our professional staffing levels in temporary contracting, permanent recruiting, executive search and human capital solutions, especially in regions and businesses that offer higher margins. This has been evidenced by improvements in our key Hudson North America, U.K., Australia and Asian businesses and Highland North America and Australia.
- We continue to work on the rationalization of real estate leasing and location and the integration of financial and management information systems. In 2004, we exited offices in Canada and we initiated other actions that reduced occupancy costs in 2004. In addition, we signed agreements to exit offices in Australia in 2005. We anticipate that these actions will reduce our yearly rental expenses in those locations.
- We continue to review business operations to determine what locations are not in our long-term interest. In 2004, we closed the Highland Switzerland office. In 2003, we closed the other Highland continental European offices. In 2004, we also abandoned Hudson's investment in its German subsidiary. Management teams in certain countries have been realigned, including management and staff reductions, to better match our business mix and improve the potential of those operations.
- We purchased JMT Financial Partners ("JMT") in June of 2004 for common stock with a fair value of $5.3 million. The acquisition was integrated into the Hudson North American operation and was

profitable in 2004. In 2004, we also filed a shelf registration to enable us to issue up to 1,350,000 of our 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.

- We are refocusing and expanding our Hudson Global Resources North American operation. During the course of 2004, we concentrated our efforts on driving growth. We refocused our Accounting and Finance business towards a more consultative business model. This, in addition to the strategic acquisition of JMT, delivered growth in 2004. We also have seen improvements in our Legal and Information Technology (“IT”) practices. Growth from temporary contracting may include short and medium term client contracting such as Sarbanes-Oxley compliance and litigation support that may or may not be repetitive year to year. We continued to exploit our existing real estate holdings to expand the footprints of our major practice groups and will continue to do so in 2005. Our focus also has been on employee training and retention, which drives growth through increased productivity levels.
- We are continuing the repositioning of our Highland business. The strategic direction that we are following with our Highland businesses is to become an executive search boutique with global capabilities, operating at the highest end of the executive search market with a limited number of highly experienced partners. To this end, in 2004, we continued the restructuring of our office network and reduced our headcount by approximately 40, and we continued the consolidation of the business by closing the small two partner office in Zurich (coinciding with the end of the lease) and completing the move of our Toronto office to a new location, with a long-term reduction in run-rate costs. In the Asia Pacific region, we now operate solely in Australia under a common management structure with our Hudson Global Resources business. We believe that the overall impact of these actions will continue the improvements in Highland’s operating performance of 2004 into 2005.

The Company recorded business reorganization expense of $3.4 million, $26.8 million and $73.5 million for the years ended December 31, 2004, 2003 and 2002, respectively. The 2004 expenses primarily related to the completion of the relocation of Highland’s Toronto office and costs net of recoveries associated with various U.S. and Australian office leases. The 2003 reorganization expenses were for the continuation of the process initiated in 2002 to streamline operations and complete the spin-off of the Company, and to initiate new actions to close down or sell a number of smaller business units in Europe and North America that were not meeting our strategic goals. The expenses recognized in 2003 for actions started in 2002 were primarily changes in estimates for the close down of facilities and additional severance.

The Company recorded merger and integration expense of $.7 million, $2.7 million and $5.4 million for the years ended December 31, 2004, 2003 and 2002, respectively. The merger and integration charges were recorded in connection with pooling of interest transactions, completed prior to June 2001, and consist of costs to integrate and/or exit certain aspects of the operations of its pooled entities, particularly in areas where duplicate functions and facilities existed.

During the third quarter of 2003, the Company determined that goodwill should be tested for impairment due to current business conditions and changes in circumstances resulting from the Distribution, which established the Company as an independent entity with a separate market capitalization. As a result of this test and the related fair value examination, the Company recorded a non-cash goodwill impairment charge of $202.8 million. The impairment valuation was based upon a discounted cash flow approach that used estimated future revenue and costs for each business segment as well as appropriate discount rates. The estimates that were used are consistent with the plans and estimates the Company is using to manage the underlying business.

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

Critical Accounting Policies and Items Affecting Comparability

Financial reporting relies on consistent application of company accounting policies that are based on generally accepted accounting principles. Management considers the accounting policies discussed below to be critical to understand HH Group's financial statements and often require management judgment and estimates regarding matters that are inherently uncertain.

Revenue Recognition

Although the Company's revenue recognition policy involves a relatively low level of uncertainty, it does require judgment on complex matters that is subject to multiple sources of authoritative guidance.

Hudson. The Company recognizes revenue for temporary services at the time services are provided and revenue is recorded on a time and materials basis. Temporary contracting revenue is reported gross when the Company acts as principal in the transaction and is at risk for collection. Revenue that does not meet the criteria for gross revenue reporting is reported on a net basis. Revenue generated when the Company permanently places an individual with a client on a contingent basis is recorded at the time of acceptance of employment, net of an allowance for estimated fee reversals. Revenue generated when the Company permanently places an individual with a client on a retained basis is recorded ratably over the period services are rendered, net of an allowance for estimated fee reversals.

Highland. Substantially all professional fee revenue is derived from fees for professional services related to executive recruitment, consulting and related services performed on a retained basis. Fee revenue is generally one-third of the estimated first year compensation and reimbursed expenses, plus a percentage of the fee to cover indirect expenses. Fee revenue from executive recruitment is recognized when such services are earned. The Company generally bills clients in three monthly installments. Fees earned in excess of the initial contract amount are recognized at completion of the engagement. Reimbursed out-of-pocket expenses are included in revenue.

Accounts Receivable

The Company's accounts receivable balances are composed of trade and unbilled receivables. The Company maintains an allowance for doubtful accounts and makes ongoing estimates as to the collectibility of the various receivables. If the Company determines that the allowance for doubtful accounts is not adequate to cover estimated losses, an expense to provide for doubtful accounts is recorded in selling, general and administrative expenses. If an account is determined to be uncollectible, it is written off against the allowance for doubtful accounts. Management's assessment and judgment are vital requirements in assessing the ultimate realization of these receivables, including the current credit-worthiness, financial stability and effect of market conditions on each customer.

Business Reorganization and Merger and Integration Plans

The Company has recorded significant charges and accruals in connection with its business reorganization, merger and integration plans. These reserves include estimates pertaining to employee separation costs and the settlement of contractual obligations resulting from its actions. Although the Company does not anticipate significant changes, the actual costs may differ from these estimates.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "*Accounting for Income Taxes*." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss and tax credit carry-forwards, and tax contingencies. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance against deferred tax assets to the extent that it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Contingencies

The Company is subject to proceedings, lawsuits and other claims related to labor, service and other matters. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. The Company makes a determination of the amount of reserves required, if any, for these contingencies after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

Intangibles

Intangibles represent acquisition costs in excess of the fair value of net tangible assets of businesses purchased and consist primarily of client lists, trademarks and goodwill. With the exception of goodwill, these costs are being amortized over periods ranging from three to five years on a straight-line basis. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over periods ranging from 20 to 30 years. On January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* (“SFAS 142”) and suspended the amortization of goodwill. In accordance with the transitional provisions of SFAS 142, goodwill has not been amortized since January 1, 2002; instead, the Company evaluates its goodwill annually for impairment, or earlier if indicators of potential impairment exist. See Note 4 for the impact of the adoption of SFAS 142 and subsequent impairment charges.

In the third quarter of 2003, the Company recorded a non-cash goodwill impairment charge of $202.8 million. The impairment charge was recorded after the Company completed a goodwill impairment evaluation based on a valuation of the related businesses. The valuation was based upon a discounted cash flow approach that used estimated future revenue and costs for each business segment as well as appropriate discount rates. The estimates that were used are consistent with the plans and estimates the Company uses to manage the underlying business. The goodwill impairment charge wrote off all goodwill related to both of the Company’s business segments. As a result of the adoption of SFAS 142 on January 1, 2002, the Company recorded a non-cash impairment charge of $293.0 million to reduce the carrying value of goodwill. Intangible asset amortization expense for the years ended December 31, 2004, 2003 and 2002 was $.6 million, $.7 million and $.8 million, respectively.

Results of Operations

The following table sets forth the Company's revenue, gross margins, operating loss, net loss, temporary contracting revenue, direct costs of temporary contracting and temporary contracting gross margin for the years ended December 31, 2004, 2003 and 2002 (dollars in thousands).

	For the Year ended December 31,		
	2004	2003	2002
Hudson revenue	$1,194,675	$1,021,256	$ 998,467
Highland revenue	61,679	64,043	66,972
	$1,256,354	$1,085,299	$1,065,439
Hudson gross margin	$ 412,091	$ 342,692	$ 346,705
Highland gross margin	58,129	60,337	65,165
	$ 470,220	$ 403,029	$ 411,870
Hudson operating income (loss)	$ 12,208	$ (246,655)	$ (64,438)
Highland operating loss	(1,874)	(34,956)	(13,645)
Corporate expenses	(33,533)	(32,038)	(41,639)
Operating loss	$ (23,199)	$ (313,649)	$ (119,722)
Net loss	$ (26,775)	$ (328,812)	$ (412,251)
TEMPORARY CONTRACTING DATA (a):			
Temporary contracting revenue	$ 886,971	$ 775,674	$ 771,253
Direct costs of temporary contracting	732,786	644,011	631,501
Temporary contracting gross margin	$ 154,185	$ 131,663	$ 139,752
Gross margin as a percent of revenue	17.4%	17.0%	18.1%

(a) Temporary contracting revenue is a component of Hudson revenue. Temporary contracting gross margin and gross margin as a percent of revenue are shown to provide additional information on the Company's ability to manage its cost structure and provide further comparability relative to the Company's peers. Temporary contracting gross margin is derived by deducting the direct costs of temporary contracting from temporary contracting revenue. The Company's calculation of gross margin may differ from those of other companies.

Constant Currencies

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

The Company believes that these calculations are a useful measure, indicating the actual change in operations. Earnings from subsidiaries are rarely repatriated to the United States, and there are not significant gains or losses on foreign currency transactions between subsidiaries. Therefore, changes in foreign currency exchange rates generally impact only reported earnings and not the Company's economic condition (dollars in thousands).

The Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003

	For the year ended December 31,			
	2004			2003
	As reported	Currency translation	Constant currencies	As reported
Hudson revenue	$ 1,194,675	$ (90,378)	$ 1,104,297	$ 1,021,256
Highland revenue	61,679	(2,574)	59,105	64,043
Revenue	1,256,354	(92,952)	1,163,402	1,085,299
Direct costs	786,134	(58,542)	727,592	682,270
Gross margin	$ 470,220	$ (34,410)	$ 435,810	$ 403,029
Selling, general and administrative expenses (a)	$ 489,322	$ (34,082)	$ 455,240	$ 484,407

(a) Selling, general and administrative expenses include the Consolidated Statements of Operations' captions: salaries and related, office and general, marketing and promotion, and depreciation and amortization.

Revenue for the year ended December 31, 2004 was $1,256.4 million, an increase of $171.1 million, or 15.8%, as compared to revenue of $1,085.3 million for the year ended December 31, 2003. On a constant currencies basis, revenue increased 7.2% comparing 2004 with 2003. This increase was due to higher revenue in the Hudson North American, U.K. and Asia businesses, partially offset by declines in Highland and Hudson Australia businesses.

Hudson revenue was $1,194.7 million for the year ended December 31, 2004, up 17.0% from $1,021.3 million in 2003. On a constant currencies basis, Hudson's 2004 revenue increased 8.1% compared to 2003. This increase reflected the higher revenue from Hudson North America's improved temporary contracting business (+18%), especially legal, accounting and finance and IT, and permanent placement business (+49%), Hudson U.K. temporary contracting (+9%) and permanent placement (+27%) businesses, Hudson Netherlands' higher human resource consulting business (+27%), and Hudson Asia's improved permanent placement business (+51%), offset by decreases in Hudson Australia (-6%) and lower revenue as a result of the abandonment of its German subsidiary in the first quarter of 2004.

Highland revenue of $61.7 million for the year ended December 31, 2004 was down 3.7% from $64.0 million for 2003, reflecting the closure of its continental European operations, partially offset by an increase in the Highland Australian business (+93%) and modest growth in Highland North America (+2%). On a constant currencies basis, Highland revenue decreased 8% comparing 2004 results with 2003, reflecting essentially the same factors noted previously and a decrease in Highland U.K. (-9%).

Direct costs for the year ended December 31, 2004 were $786.1 million compared to $682.3 million for 2003. On a constant currencies basis, direct costs increased 6.6% for 2004 in comparison to 2003. The increase was primarily the result of direct costs for temporary contractors, which rose in tandem with the increased revenue from temporary contracting services, but were lower per dollar of revenue in 2004 (82.6%) when compared to 2003 (83.0%), and increased costs associated with the permanent placement, executive search and consulting business lines.

Gross margin, defined as revenue less direct costs, for the year ended December 31, 2004 was $470.2 million, higher by $67.2 million, or 16.7%, from $403.0 million reported for the year ended December 31, 2003. Gross margin, as a percentage of revenue, was 37.4%, for 2004, an increase from 37.1% for 2003. On a constant currencies basis, gross margin increased by 8.1% for the year ended December 31, 2004 when compared to the year ended December 31, 2003. The increase in gross margin on a constant currencies basis was primarily due to: higher gross margins in Hudson North America from its temporary contracting (+27%) and permanent placement businesses (+48%), Hudson U.K. (+12%), and Hudson Asia (+49%), partially offset by decreases resulting from the closure of Highland Europe and abandonment of the Hudson's German subsidiary.

Selling, general and administrative expenses for the year ended December 31, 2004 were $489.3 million, higher by 1.0% when compared with $484.4 million for 2003. Selling general and administrative expenses were 38.9% and 44.6% as a percentage of revenue for the full years 2004 and 2003, respectively. On a constant currencies basis, the 2004 selling, general and administrative expenses decreased by 6.0% compared to 2003. This decrease was primarily from improved accounts receivable controls and policies resulting in a 2004 net recovery of doubtful accounts ($.7 million) compared to a provision for doubtful accounts in 2003 ($13.5 million) and lower occupancy and marketing costs, offset by an increase in support staff compensation in 2004.

In the third quarter of 2003, the Company determined that goodwill should be tested for impairment due to current business conditions and changes in circumstances resulting from the Distribution, which established the Company as an independent entity with a separate market capitalization. As a result of this test and the related fair value examination, the Company recorded a non-cash goodwill impairment charge of $202.8 million in 2003. The impairment valuation was based upon a discounted cash flow approach that used estimated future revenue and costs for each business segment as well as appropriate discount rates. The estimates that were used were consistent with the plans and estimates the Company was using to manage the underlying business. There were no comparable expenses in 2004.

Business reorganization expense for the year ended December 31, 2004 totaled $3.4 million as compared to $26.8 million in 2003. The 2004 expenses were additional costs and changes in estimates for the continuation of the process to streamline operations that had been previously announced in 2003 and 2002. In 2004, the primary changes were the result of costs related to the relocation of Highland's Toronto office and costs net of recoveries from certain U.S. and Hudson Australia office leases.

Merger and integration expenses reflect costs incurred as a result of pooling-of-interests transactions completed before June 2001 and the integration plans of such companies. For the year ended December 31, 2004, merger and integration costs were $.7 million, a reduction of $1.9 million from the prior year. Merger and integration expenses included lease obligations, office integration costs, and the write-off of fixed assets that will not be used in the future, and severance, professional fees and employee stay bonuses to certain key personnel of the merged companies. The 2004 expenses decreased from the prior year as actions taken related to previous pooling-of-interest business transactions decreased as those actions neared termination, offset by revised estimates on those actions resulting in higher expenses for certain lease obligations.

Operating loss for the year ended December 31, 2004 was $23.2 million compared to an operating loss of $313.6 million for the comparable period in 2003. The decrease in the loss was primarily the result of the absence of the goodwill impairment charge of $202.8 million recorded in 2003, an increase in gross margin of $67.2 million and a reduction in business reorganization expenses of $23.5 million, partially offset by an increase in selling general and administrative expenses of $4.9 million.

Hudson's operating income for the year ended December 31, 2004 was $12.2 million compared to an operating loss of $246.7 million for 2003. The Hudson 2004 results improved as a result of the absence of the 2003 goodwill impairment charge of $195.4 million, lower business reorganization expenses of $14.8 million, a $13.4 million reduction in expenses from a net recovery from doubtful accounts in 2004 compared to a provision for doubtful accounts in 2003, improved operating results in Hudson's Australian, North American, U.K., Asian and New Zealand businesses and the absence of losses resulting from the abandonment of Hudson's German subsidiary, partially offset by increased costs associated with the Hudson development groups, Center for High Performance and North American Human Capital Solutions, and higher losses in Hudson France, compared to 2003.

Highland's operating loss for the year ended December 31, 2004 was $1.9 million compared to an operating loss of $35.0 million for 2003. The 2004 loss was lower than 2003 as a result of lower business reorganization expenses ($8.5 million), the absence of the 2003 goodwill impairment charge in 2004 ($7.4 million), improved operating results (exclusive of goodwill impairment charges, reorganization expenses, and merger and integration expenses) in Highland North America ($7.2 million), Highland U.K. ($4.2 million) and Highland Australia

($1.7 million), and the absence of losses from continental Europe ($4.6 million), partially offset by higher merger and integration expenses ($.6 million).

Corporate expenses for the year ended December 31, 2004 were $33.5 million compared to $32.0 million for 2003, which included an allocation from Monster for the first quarter of 2003. The corporate expenses in 2004 increased primarily as a result of higher professional fees, including costs related to compliance with Sarbanes – Oxley Act of 2002 requirements, and marketing costs, partially offset by a decline in depreciation expense.

Other non-operating expense, including net interest expense, was $1.9 million for the year ended December 31, 2004 and $3.1 million for 2003. The expenses for 2004 included write-offs related to the abandonment of Hudson's German subsidiary. The decrease in 2004 expense compared to 2003 was the result of lower losses on sale and disposition of assets in 2004 ($2.4 million), partially offset by the absence in 2004 of miscellaneous income from the settlement of a prior claim ($1.2 million).

The provision for income taxes for the year ended December 31, 2004 was $1.6 million on a pretax loss of $25.1 million, compared with a provision of $12.0 million on a pretax loss of $316.8 million for the same period of 2003. The change in the Company's tax provision for the year ended December 31, 2004 compared to the same period in 2003 was primarily due to establishment of a valuation allowance in 2003 on certain foreign tax losses, which may not be realizable, and the inability of the Company to realize benefits from its current losses in businesses where the future earnings ability to utilize those losses is not certain. In each period, the effective tax rate differs from the U.S. Federal statutory rate of 35% due to valuation allowance on deferred tax assets, net operating losses retained or utilized by Monster, certain non-deductible expenses such as amortization, business restructuring and spin-off costs, merger costs from pooling of interests transactions, asset impairment charges, and variations from the U.S. tax rate in foreign jurisdictions.

Net loss was $26.8 million for the year ended December 31, 2004 compared with a net loss of $328.8 million for 2003. Basic and diluted loss per share for the year ended December 31, 2004 was a loss of $1.38 per share, compared to a loss of $19.58 per share in the year ended December 31, 2003. Basic average shares outstanding increased in 2004 as result of the issuance of shares from a registered public offering in March 2004, a stock acquisition completed in June 2004 and various employee stock compensation awards that vested or were issued or granted at various time during 2004. For the 2004 and 2003 periods, dilutive earnings per share calculations do not differ from basic earnings per share because the effects of any potential common stock were anti-dilutive and therefore not included in the calculation of dilutive earnings per share.

The Year Ended December 31, 2003 Compared to the Year Ended December 31, 2002

Prior to the Distribution, the HH Group businesses were conducted by Monster, and results for such periods may not necessarily be indicative of the future performance of the Company as an independent company (dollars in thousands).

	For the year ended December 31,			
	2003			2002
	As reported	Currency translation	Constant currencies	As reported
Hudson revenue	$ 1,021,256	$ (98,695)	$ 922,561	$ 998,467
Highland revenue	64,043	(3,129)	60,914	66,972
Revenue	1,085,299	(101,824)	983,475	1,065,439
Direct costs	682,270	(61,921)	620,349	653,569
Gross margin	$ 403,029	$ (39,903)	$ 363,126	$ 411,870
Selling, general and administrative expenses (1)	$ 484,407	$ (43,660)	$ 440,747	$ 452,676

(1) Selling, general and administrative expenses include the Consolidated Statements of Operations' captions: salaries and related, office and general, marketing and promotion, and depreciation and amortization.

The Company's financial results for the year ended December 31, 2003, include the results for the first quarter of 2003, when the Company was a wholly-owned subsidiary of Monster.

Revenue for the year ended December 31, 2003 was $1,085.3 million, an increase of $19.9 million or 1.9%, as compared to revenue of $1,065.4 million for the year ended December 31, 2002. On a constant currencies basis revenue decreased 7.7% comparing 2003 with 2002. This decrease was due to the effects of weak global economic and labor environments, which reduced demand for the Company's services primarily in the U.S. and Asia Pacific temporary contracting markets.

Hudson revenue was $1,021.3 million for the year ended December 31, 2003, up 2.3% from $998.5 million in 2002. On a constant currencies basis, Hudson's 2003 revenue decreased 7.6% compared to 2002. This decrease reflected lower revenue from temporary staffing, largely due to lower demand for domestic information technology ("IT") staffing, lower temporary staffing in Asia Pacific markets, and lower demand for permanent staffing services in all regions.

Highland revenue of $64.0 million for the year ended December 31, 2003 was down 4.4% from $67.0 million for 2002, reflecting the continued adverse impact that the challenging global economy is having on executive level search placements. On a constant currencies basis, Highland revenue decreased 9.0% comparing 2003 results with 2002.

Direct costs for the year ended December 31, 2003 were $682.3 million compared to $653.6 for 2002. On a constant currencies basis, direct costs decreased 5.1% for 2003 results in comparison to the prior year. The decrease was the result of lower requirements for temporary contractors.

Gross margin, defined as revenue less direct costs, for the year ended December 31, 2003 was $403.0 million, lower by $8.9 million, or 2.1%, from $411.9 million reported for the year ended December 31, 2002, as a result of changes in business mix and margin pressure in Hudson Asia Pacific and Hudson Europe. On a constant currencies basis, gross margin decreased by 11.8% for the year ended December 31, 2003 when compared to the year ended December 31, 2002. Gross margin as a percentage of revenue also declined to 37.1% for 2003 results from 38.7% for 2002 results. The decrease in gross margin was primarily due to: lower revenue in temporary staffing, particularly in Hudson Asia Pacific; Hudson North America's lower demand in the domestic IT market; a decline in Hudson's permanent staffing revenue, particularly in Europe; and an increase in direct costs associated with permanent staffing out-of-pocket expenses.

Selling, general and administrative expenses for the year ended December 31, 2003 were $484.4 million, higher by 7.0% when compared with $452.7 million for 2002. Selling general and administrative expenses were 44.6% and 42.5% as a percentage of revenue for full year 2003 and 2002, respectively. On a constant currencies basis, the 2003 selling, general and administrative expenses decreased by 2.6% compared to 2002. A higher provision for doubtful accounts and the reclassification of certain transactions with Monster to selling expenses negatively impacted these expenses for 2003 compared to 2002. This was partially offset by continued cost cutting in reaction to the current economic and labor environment.

In the third quarter of 2003, the Company determined that goodwill should be tested for impairment due to current business conditions and changes in circumstances resulting from the Distribution, which established the Company as an independent entity with a separate market capitalization. As a result of this test and the related fair value examination, the Company recorded a non-cash goodwill impairment charge of $202.8 million. The impairment valuation was based upon a discounted cash flow approach that used estimated future revenue and costs for each business segment as well as appropriate discount rates. The estimates that were used were consistent with the plans and estimates the Company was using to manage the underlying business. The goodwill impairment charge wrote off all goodwill related to both of the Company's business segments.

Business reorganization expense for the year ended December 31, 2003 totaled $26.8 million as compared to $73.5 million in 2002. The 2002 expenses related to the cost of streamlining operations as announced in the second quarter of 2002 and costs accrued for the spin-off of the Company by Monster. The expenses for 2003 were for the continuation of the process to streamline operations and the spin-off of the Company begun in 2002 and for the decision to close down or sell a number of smaller business units in Europe and North America. The expenses recognized in 2003 for actions started in 2002 were primarily changes in estimates for the close down of facilities and additional severance.

For the year ended December 31, 2003, merger and integration costs were $2.7 million, a reduction of $2.7 million from the prior year. The expenses decreased in 2003 because no new pooling-of-interest acquisitions were completed, and actions taken related to previous pooling-of-interest business transactions decreased as those actions neared termination, offset by revised estimates on those actions resulting in higher expenses for certain lease obligations.

Operating loss for the year ended December 31, 2003 was $313.6 million compared to an operating loss of $119.7 million for the comparable period in 2002. The increase in the loss was primarily the result of the goodwill impairment charge of $202.8 million recorded in 2003, higher selling, general and administrative expenses of $31.7 million and lower gross margin of $8.9 million, partially offset by a reduction in business reorganization expenses of $46.7 million.

Hudson’s operating loss for the year ended December 31, 2003 was $246.7 million compared to an operating loss of $64.4 million for 2002. The 2003 loss included a goodwill impairment charge of $195.4 million, higher allowances for doubtful accounts of $7.9 million, and lower business reorganization and merger and integration costs of $35.7 million when compared to 2002 results.

Highland’s operating loss for the year ended December 31, 2003 was $35.0 million compared to an operating loss of $13.6 million for 2002. The full year 2003 loss included higher selling and administrative costs of $13.1 million, a goodwill impairment charge of $7.4 million and reorganization expenses of $10.8 million. The 2002 results included reorganization expenses of $16.3 million.

Corporate expenses for the year ended December 31, 2003 were $32.0 million, compared to the Monster expense allocation of $41.6 million for 2002. For 2003 business reorganization and merger and integration expenses were lower by $9.7 million compared to 2002 results.

Other non-operating expense, including net interest expense, was $3.1 million for the year ended December 31, 2003 and $.5 million for 2002. The increase in expense was from the loss on sale of three non-U.S. subsidiaries during 2003.

The provision for income taxes for the year ended December 31, 2003 was $12.0 million on a pretax loss of $316.8 million, compared with a benefit of $1.0 million on a pretax loss of $120.3 million for 2002. The provision for income taxes in 2003 included an $11.1 million expense for the increased valuation allowances established for deferred tax assets, whose future utilization was not reasonably assured. The Company’s effective tax rate for year ended December 31, 2003 differs significantly from the U.S. Federal statutory rate of 35% (an effective rate is not calculable as there is a provision for a pre-tax loss) as a result of the inability of the Company to recognize benefits from its current losses related to the goodwill impairment charge and current losses from its businesses where the future ability to utilize its loss carry-forwards is not reasonably assured, as well as valuation allowances on previously established deferred tax assets, net operating losses retained or utilized by Monster, certain non-deductible expenses such as amortization, business restructuring and spin-off costs, merger costs from pooling of interests transactions, and variations from the U.S. tax rate in foreign jurisdictions.

Net loss before accounting change was $328.8 million for the year ended December 31, 2003, compared with a loss of $119.3 million for 2002.

In conjunction with the adoption of SFAS 142 as of the beginning of fiscal year 2002, the Company completed the transitional goodwill impairment evaluation for its operating segments. The results of the impairment evaluation indicated that the carrying value of goodwill was not fully supportable. Accordingly, the Company recorded as a cumulative effect of an accounting change a one-time goodwill impairment charge of $293.0 million at January 1, 2002 to reduce the carrying value of goodwill to its estimated fair value.

Net loss was $328.8 million for the year ended December 31, 2003 compared with a net loss of $412.3 million for 2002. Basic and diluted loss per share on loss before accounting change for the year ended December 31, 2003 was a loss of $19.58 per share, compared to a loss of $7.14 per share in the year ended December 31, 2002. Basic and diluted loss per share for the year ended December 31, 2003 was a loss of $19.58 per share, compared to a loss of $24.69 per share in the year ended December 31, 2002. Basic average shares outstanding were essentially unchanged between the two periods. For the 2003 and 2002 periods, dilutive earnings per share calculations do not differ from basic earnings per share because the effects of any potential common stock were anti-dilutive and, therefore, not included in the calculation of dilutive earnings per share.

Liquidity and Capital Resources

The Company received $27.9 million in net proceeds from the issuance of 2,547,770 shares of its common stock in a registered public offering on March 23, 2004. In addition, the Company issued 367,174 shares of its common stock, with a fair value of $5.3 million, to purchase a business in the Hudson segment on June 2, 2004.

The Company's liquidity needs arise primarily from funding working capital requirements and capital investment in information technology and reorganization costs. Prior to the Distribution, HH Group historically relied upon Monster's centralized cash management function and Monster's line of credit facility for its liquidity needs. In connection with the Distribution, Monster provided the Company with cash of $40.0 million upon completion of the Distribution on March 31, 2003, and agreed to reimburse the Company $13.5 million of cash payments due under its accrued integration restructuring and business reorganization plans. The Company received full payment of this reimbursement by June 30, 2004.

The Company filed a shelf registration on October 6, 2004 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.

The Company has a senior secured credit facility for $50 million with Wells Fargo Foothill, Inc., as agent, and certain lenders (the "Foothill Credit Facility"). The maturity date of the Foothill Credit Facility is March 31, 2007. Outstanding loans will bear interest equal to the prime rate plus 0.25% or LIBOR plus 2.00%, at the Company's option. The Foothill Credit Facility is secured by substantially all of the assets of the Company and extensions of credit will be based on a percentage of the accounts receivable of the Company. The Company expects to use such credit, if and when required, to support its ongoing working capital requirements, capital expenditures and other corporate purposes and to support letters of credit. As of December 31, 2004, the credit limit on the Foothill Credit Facility was $50 million. During the year ended December 31, 2004, the Company borrowed and repaid a total of $19.6 million under this credit facility. As of December 31, 2004, there were no borrowings under the credit facility although approximately $15.1 million of the facility had been utilized by outstanding letters of credit leaving $34.9 million available for use under the terms set forth in the Foothill Credit Facility. Letters of credit are used to support most of the Company's capital leases and $5.5 million of its office leases.

The Foothill Credit Facility contains various restrictions and covenants, including (1) prohibitions on payments of dividends and repurchases of the Company's stock; (2) requirements that the Company maintain its adjusted EBITDA and capital expenditures within prescribed levels; (3) restrictions on the ability of the Company to make additional borrowings, or to consolidate, merge or otherwise fundamentally change the ownership of the Company; and (4) limitations on investments, dispositions of assets and guarantees of indebtedness. The adjusted EBITDA and capital expenditure covenants for fiscal 2005 have not been completed and agreed upon by the Company and Wells Fargo Foothill, Inc. These restrictions and covenants, once they are determined, could limit the Company's ability to respond to market conditions, to provide for unanticipated capital investments, to raise additional debt or equity capital, to pay dividends or to take advantage of business opportunities, including future acquisitions.

During the years ended December 31, 2004, 2003 and 2002, the Company used cash in operating activities of $30.9 million, $42.6 million and $110.8 million, respectively. Cash usage decreased in 2004 from 2003 as a result of lower net losses ($302.0 million, including the 2003 non-cash goodwill impairment charge of $202.8 million) and increased current liabilities ($3.3 million). These improvements in cash flow were partially offset by higher accounts receivable from improved revenue growth ($60.1 million), higher net usage for business reorganization and merger and integration expenses ($8.3 million) and a net recovery of doubtful accounts in 2004 versus a provision in 2003 ($14.2 million).

During the years ended December 31, 2004, 2003 and 2002, the Company used cash in investing activities of $10.1 million, $11.4 million and $16.6 million, respectively. This use of cash was primarily related to capital expenditures in the normal course of operations and payments related to businesses purchased in prior years. The decreased use of cash in 2004 compared to 2003 was the result of lower capital expenditures ($1.0 million) and lower payments related to purchases of businesses ($.3 million).

During the years ended December 31, 2004, 2003 and 2002, the Company generated cash from financing activities of $35.3 million, $49.5 million and $112.1 million, respectively. The cash provided from financing activities was lower in 2004 as a result of the absence of Monster cash transfers ($41.3 million) and lower Monster payments ($2.5 million), partially offset by the proceeds from the issuance of common stock ($27.9 million) and proceeds from the exercise of options ($1.8 million).

The Company believes that the cash and cash equivalents on hand at December 31, 2004, supplemented by the Foothill Credit Facility, will provide it with sufficient liquidity to satisfy its working capital needs, capital expenditures, investment requirements and commitments through at least the next twelve months. Cash generated from operating activities is subject to fluctuations in the global economy and unemployment rates.

Future Capital Requirements

The Company’s near-term cash requirements are primarily related to funding operations, a portion of prior year restructuring actions and capital expenditures. The Company has experienced negative cash flow from operations and expects to continue to use cash to meet its operating requirements during fiscal 2005. The Company believes that the cash and cash equivalents on hand at December 31, 2004 supplemented by the existing borrowing facility are sufficient to fund the cash requirements for the next 12 months. However, the Company cannot provide assurance that actual cash requirements will not be greater than currently expected. If sources of liquidity are not available or if the Company cannot generate sufficient cash flow from operations, the Company might be required to obtain additional sources of funds through additional operating improvements, capital market transactions, asset sales or financing from third parties, or a combination thereof. The Company cannot provide assurance that these additional sources of funds will be available or, if available, would have reasonable terms.

Off-Balance Sheet Arrangements. As of December 31, 2004, the Company had no off-balance sheet arrangements.

Contractual Obligations. The Company has entered into various commitments that will affect its cash generation capabilities going forward. Particularly, it has entered into several non-cancelable operating leases for facilities and equipment worldwide. Future contractual obligations as of December 31, 2004 are as follows (dollars in thousands) (commitments based in currencies other than U.S. dollars were translated using exchange rates as of December 31, 2004):

Contractual Obligation (a)	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Operating lease obligations	$ 30,488	$ 42,665	$ 34,478	$ 88,279	$195,910
Capital lease obligations (b)	4,066	1,692	349	—	6,107
Other long term liabilities:					
Reorganization expenses	8,930	5,090	1,498	244	15,762
Merger and integration expenses	1,872	2,269	752	308	5,201
Total	$ 45,356	$ 51,716	$ 37,077	$ 88,831	$222,980

(a) Other long-term liabilities of $2,648, primarily related to mandated employee benefit obligations, do not have readily determinable payment periods and are therefore not included in the schedule.

(b) Capital lease obligations presented here exclude the interest portion of the obligation, which is immaterial.

REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains statements that the Company believes to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Form 10-K, including statements regarding the Company’s future financial condition, results of operations, business operations and business prospects, are forward-looking statements. Words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “predict,” “believe” and similar words, expressions and variations of these words and expressions are intended to identify forward-looking statements. All forward-looking statements are subject to important factors, risks, uncertainties and assumptions, including industry and economic conditions, that could cause actual results to differ materially from those described in the forward-looking statements. Such factors, risks, uncertainties and assumptions include, but are not limited to, (1) the impact of global economic fluctuations on the Company’s temporary contracting operations, (2) the cyclical nature of the Company’s executive search and mid-market professional staffing businesses, (3) the Company’s ability to manage its growth, (4) risks associated with expansion, (5) the Company’s heavy reliance on information systems and the impact of potentially losing or failing to develop technology, (6) competition in the Company’s markets, (7) fluctuations in the Company’s operating results from quarter to quarter, (8) risks relating to the Company’s foreign operations, including foreign currency fluctuations, (9) the Company’s dependence on its highly skilled professionals and key management personnel, (10) the impact of employees departing with existing executive search clients, (11) risks maintaining the Company’s professional reputation and brand name, (12) restrictions imposed by blocking arrangements, (13) the Company’s exposure to employment-related claims from both clients and employers and limits on related insurance coverage, (14) the impact of government regulations, and (15) restrictions on the Company’s operating flexibility due to the terms of its credit facility. These forward-looking statements speak only as of the date of this Form 10-K. The Company assumes no obligation, and expressly disclaims any obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The majority of the Company’s borrowings are in fixed rate capital leases for leasehold improvements, computer software and computer equipment. The carrying amounts of long-term debt approximate fair value, generally due to the short-term nature of the underlying instruments. We do not trade derivative financial instruments for speculative purposes.

The Company also conducts operations in various foreign countries, including Australia, Belgium, Canada, France, the Netherlands, New Zealand and the United Kingdom. For the year ended December 31, 2004, the

Company earned approximately 74% of its gross margin outside the United States and it collected payments in local currency and related operating expenses were paid in such corresponding local currency. Accordingly, the Company is subject to increased risk for exchange rate fluctuations between such local currencies and the U.S. dollar.

The financial statements of the non-U.S. subsidiaries are translated into U.S. dollars using current rates of exchange, with translation gains or losses included in the cumulative translation adjustment account, a component of stockholders' equity. During the year ended December 31, 2004, the Company had a translation gain of $2.7 million, primarily attributable to the weakening of the U.S. dollar against the Australian dollar, the British pound, and the Euro.

The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes. Accordingly, the Company enters into foreign currency forward contracts to minimize the exposure to foreign exchange rate risk related to intercompany loan balances denominated in currencies other than the functional currency. At December 31, 2004, no foreign currency forward contracts were outstanding. The principal currencies hedged during the year ended December 31, 2004 were the Euro, the British pound, and the Australian Dollar.

The Company had no derivative instruments outstanding at December 31, 2004.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 using the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management believes that, as of December 31, 2004, the Company's internal control over financial reporting was effective based on those criteria.

The Company's auditors, BDO Seidman, LLP, have issued an attestation report on management's assessment of the Company's internal control over financial reporting. That attestation report is set forth immediately following the report of BDO Seidman, LLP on the financial statements included herein.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Hudson Highland Group, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hudson Highland Group, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Standards No. 142, Goodwill and Other Intangible Assets.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hudson Highland Group, Inc.'s internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 8, 2005 expressed an unqualified opinion thereon.

/s/ BDO SEIDMAN, LLP

BDO Seidman, LLP
New York, New York
March 8, 2005

Report of Independent Registered Public Accounting Firm

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

We have audited management’s assessment, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 8, that Hudson Highland Group, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of Hudson Highland Group, Inc. is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the internal control over financial reporting of Hudson Highland Group, Inc. based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management’s assessment that Hudson Highland Group, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the COSO. Also, in our opinion, Hudson Highland Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hudson Highland Group, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2004, and our report dated March 8, 2005 expressed an unqualified opinion on those consolidated financial statements.

/s/ BDO SEIDMAN, LLP
BDO Seidman, LLP
New York, New York
March 8, 2005

HUDSON HIGHLAND GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Year Ended December 31, 2004	2003	2002
Revenue	$ 1,256,354	$ 1,085,299	$ 1,065,439
Direct costs (Note 2)	786,134	682,270	653,569
Gross margin	470,220	403,029	411,870
Operating expenses:			
Salaries and related	347,245	318,070	323,753
Office and general	101,318	122,081	97,008
Marketing and promotion	20,651	22,957	10,854
Depreciation and amortization	20,108	21,299	21,061
Business reorganization expenses	3,361	26,823	73,543
Merger and integration expenses	736	2,663	5,373
Goodwill impairment charge	—	202,785	—
Total operating expenses	493,419	716,678	531,592
Operating loss	(23,199)	(313,649)	(119,722)
Other expense:			
Interest expense, net	104	283	322
Other, net	1,834	2,859	224
Loss before provision (benefit) for income taxes and accounting change	(25,137)	(316,791)	(120,268)
Provision (benefit) for income taxes	1,638	12,021	(1,017)
Loss before accounting change	(26,775)	(328,812)	(119,251)
Cumulative effect of accounting change	—	—	(293,000)
Net loss	$ (26,775)	$ (328,812)	$ (412,251)
Basic and diluted loss per share:			
Loss before accounting change	$ (1.38)	$ (19.58)	$ (7.14)
Cumulative effect of accounting change	—	—	(17.55)
Net loss	$ (1.38)	$ (19.58)	$ (24.69)
Weighted average shares outstanding	19,457,000	16,797,000	16,700,000

See accompanying notes to consolidated financial statements.

HUDSON HIGHLAND GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,064	$ 26,137
Accounts receivable, less allowance for doubtful accounts of $5,230 and $6,403, respectively	197,582	149,042
Prepaid and other	14,187	17,719
Due from Monster	—	5,518
Total current assets	232,833	198,416
Property and equipment, net	36,360	38,625
Other assets	6,081	11,703
Intangibles, net	6,104	2,180
Total assets	$ 281,378	$ 250,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 27,023	$ 26,495
Accrued expenses and other current liabilities	140,903	117,370
Accrued business reorganization expenses	8,930	11,543
Accrued merger and integration expenses	1,872	2,960
Current portion of long-term debt	4,066	453
Total current liabilities	182,794	158,821
Accrued business reorganization expenses, non-current	6,832	14,840
Accrued merger and integration expenses, non-current	3,329	4,209
Other long-term liabilities	2,648	3,391
Long-term debt, less current portion	2,041	302
Total liabilities	197,644	181,563
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized; issued 20,612,966 and 17,145,520 shares, respectively	21	17
Additional paid-in capital	353,825	315,122
Accumulated deficit	(311,576)	(284,801)
Accumulated other comprehensive income—translation adjustments	41,694	39,023
Treasury stock, 15,798 and 0 shares, respectively	(230)	—
Total stockholders' equity	83,734	69,361
	$ 281,378	$ 250,924

See accompanying notes to consolidated financial statements.

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HUDSON HIGHLAND GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net loss	$(26,775)	$(328,812)	$(412,251)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	20,108	21,299	21,061
Net loss on disposal of assets	1,330	3,962	9,192
(Credit) provision for doubtful accounts	(683)	13,482	3,323
(Benefit from) provision for deferred income taxes	(1,424)	11,082	(4,343)
Compensation charge on restricted stock issuance	971	467	—
Goodwill impairment charge	—	202,785	—
Net loss on write-off of other assets	—	—	5,054
Cumulative effect of accounting change	—	—	293,000
Changes in assets and liabilities, net of effects from purchases of businesses:			
(Increase) decrease in accounts receivable, net	(39,054)	21,003	125
Decrease in other assets	9,700	2,260	4,998
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	17,083	13,734	(41,574)
(Decrease) increase in accrued business reorganization expenses	(9,900)	(1,404)	25,845
Decrease in accrued merger and integration expenses	(2,251)	(2,487)	(15,264)
Total adjustments	(4,120)	286,183	301,417
Net cash used in operating activities	(30,895)	(42,629)	(110,834)
Cash flows from investing activities:			
Capital expenditures	(9,735)	(10,710)	(8,354)
Payments for acquisitions and intangible assets, net of cash acquired	(393)	(680)	(8,235)
Net cash used in investing activities	(10,128)	(11,390)	(16,589)
Cash flows from financing activities:			
Proceeds from issuance of common stock	27,919	—	—
Borrowings under credit facility	19,550	—	—
Repayments under credit facility	(19,550)	—	—
Net payments on long-term debt	(1,407)	(1,166)	(53,311)
Issuance of common stock—Long Term Incentive Plan option exercises	1,790	—	—
Issuance of common stock—employee stock purchase plans	1,688	1,302	—
Payments received from Monster	5,518	8,012	—
Purchase of restricted stock from employees	(230)	—	—
Net cash transfers received from Monster, prior to Distribution	—	41,317	165,365
Net cash provided by financing activities	35,278	49,465	112,054
Effect of exchange rates on cash and cash equivalents	672	4,783	3,605
Net (decrease) increase in cash and cash equivalents	(5,073)	229	(11,764)
Cash and cash equivalents, beginning of year	26,137	25,908	37,672
Cash and cash equivalents, end of year	$ 21,064	$ 26,137	$ 25,908

See accompanying notes to consolidated financial statements.

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HUDSON HIGHLAND GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common stock		Additional paid-in capital	Treasury stock	Accumulated deficit	Divisional equity	Accumulated other comprehensive income (loss)	Total	Total comprehensive (loss) income
	Shares	Value							
Balance January 1, 2002	—	$—	$ —	$ —	$ —	$ 540,580	$ (17,900)	$ 522,680	
Net loss						(412,251)		(412,251)	$(412,251)
Other comprehensive income, translation adjustments							42,560	42,560	42,560
Cash transfers from Monster						165,365		165,365	
Non-cash equity distributions to Monster						(1,780)		(1,780)	
Balance December 31, 2002	—	—	—	—	—	291,914	24,660	316,574	$(369,691)
Net loss January 1, 2003 to March 31, 2003						(44,011)		(44,011)	$ (44,011)
Cash transfers from Monster						41,317		41,317	
Non-cash equity contributions from Monster						24,150		24,150	
Transfer of divisional equity to common stock and additional paid-in capital	16,763,216	16	313,354			(313,370)			
Net loss April 1, 2003 to December 31, 2003					(284,801)			(284,801)	(284,801)
Other comprehensive income, translation adjustments							14,363	14,363	14,363
Issuance of shares for employee stock purchase plans	197,554	1	1,301					1,302	
Restricted stock issuance and related compensation charge	184,750		467					467	
Balance December 31, 2003	17,145,520	17	315,122	—	(284,801)	—	39,023	69,361	$(314,449)
Net loss					(26,775)			(26,775)	$ (26,775)
Other comprehensive income, translation adjustments							2,671	2,671	2,671
Issuance of shares for 401(k) plan	92,076		1,058					1,058	
Issuance of shares from exercise of stock options	252,074	1	1,789					1,790	
Issuance of shares for employee stock purchase plans	159,590		1,688					1,688	
Issuance of shares	2,547,770	2	27,917					27,919	
Purchase of restricted stock from employees	(15,798)			(230)				(230)	
Issuance of shares for acquisition	367,174	1	5,280					5,281	
Restricted stock issuance and related compensation charge	48,762		971					971	
Balance December 31, 2004	20,597,168	$ 21	$353,825	$ (230)	$(311,576)	$ —	$ 41,694	$ 83,734	$ (24,104)

See accompanying notes to consolidated financial statements.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

Basis of Presentation

Hudson Highland Group, Inc. and its subsidiaries (the “Company”) comprise the operations, assets and liabilities of the Hudson businesses (“Hudson”) and Highland Partners (“Highland”). The Company was historically the combination of 67 acquisitions made between 1999 and 2002, which became the eResourcing and Executive Search divisions (“HH Group”) of Monster Worldwide, Inc. (“Monster”), formerly TMP Worldwide, Inc. Some of the Company’s constituent businesses have operated for more than 20 years. In October 2002, Monster announced a plan to distribute to its stockholders the shares of HH Group, a wholly-owned subsidiary of Monster. Immediately prior to the Distribution, Monster transferred substantially all the assets and liabilities of its eResourcing and Executive Search business segments to HH Group. These assets and liabilities are reflected in HH Group’s financial statements at Monster’s historical cost. On March 31, 2003 (the “Distribution Date”), Monster distributed all of the outstanding shares of the newly named HH Group to its stockholders of record on March 14, 2003 on a basis of one share of HH Group common stock for each thirteen and one-third shares of Monster common stock so held (the “Distribution”). Since the Distribution, the Company has operated as an independent publicly held company, has added two small acquisitions, and reorganized a number of smaller business units after determining that those businesses did not have the size or market capacity to provide future income growth.

The consolidated financial statements have been derived from the financial statements and accounting records of Monster for all periods through the Distribution Date, using the historical results of operations and historical basis of the assets and liabilities of the Company’s business. In connection with the Distribution, the inter-company balances due to Monster were contributed by Monster to equity; accordingly, such balances are reflected as divisional equity for periods prior to March 31, 2003, at which time the amount was reclassified to common stock and additional paid-in capital. Earnings and losses are accumulated in accumulated (deficit) earnings starting April 1, 2003. The terms of the distribution agreement with Monster did not require repayment or distribution of any portion of the divisional equity back to Monster. HH Group’s costs and expenses in the accompanying consolidated financial statements for periods prior to March 31, 2003 included allocations from Monster for executive, legal, accounting, treasury, real estate, information technology and other Monster corporate services and infrastructure costs because specific identification of the expenses is not practicable. The total corporate services allocation to HH Group from Monster was $5,123 and $31,707 for the years ended December 31, 2003 and 2002, respectively. The expense allocations were determined on the basis that Monster and HH Group considered to be reasonable reflections of the utilization of services provided or the benefit received by HH Group using ratios that are primarily based on the Company’s revenue, net of direct costs of temporary contractors, compared to Monster as a whole. Monster also allocated to HH Group certain merger and integration expenses and business reorganization expenses of $137 and $9,932 for the years ended December 31, 2003 and 2002, respectively, which were included in corporate expenses. The financial information included herein prior to March 31, 2003 may not necessarily reflect the financial position and results of operations of the Company in the future or what these amounts would have been had it been a separate, stand-alone entity during the periods presented prior to the Distribution.

Business Segments

The Company is one of the world’s largest specialized professional staffing, retained executive search and human capital solutions firms. The Company provides professional staffing services on a permanent, contract and temporary basis, as well as executive search and a range of human capital services to businesses operating in a wide variety of industries. The Company is organized into two business segments Hudson and Highland, which constituted approximately 88% and 12% of the Company’s gross margin, respectively, for the year ended December 31, 2004.

Hudson. Hudson provides temporary and contract personnel and permanent recruitment services to a wide range of clients through its Hudson Global Resources unit. With respect to temporary and contract personnel, Hudson focuses on providing candidates with professional qualifications, including accounting and finance, legal and technology. The length of temporary assignment can vary widely, but assignments in the professional sectors tend to be longer than those in the general clerical or industrial sectors. With respect to permanent recruitment, Hudson focuses on mid-level professionals typically earning between $50,000 and $150,000 annually and possessing the professional skills and/or profile required by clients. Hudson provides permanent recruitment services on both a retained and contingent basis. In larger markets, Hudson’s sales strategy focuses on both clients operating in particular business sectors, such as financial services, healthcare, or technology, and candidates possessing particular professional qualifications, such as accounting and finance, information technology and communications, legal and healthcare. Hudson uses both traditional and interactive methods to select potential candidates for its clients, employing a suite of products that assesses talent and helps predict whether a candidate will be successful in a given role.

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

Hudson operates on a global basis in over 20 countries from over 110 offices with 2004 revenue of approximately 28% in North America, 37% in Europe (including the United Kingdom), and 35% in the Asia Pacific region (primarily Australia and New Zealand).

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

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

Highland, an executive search boutique with global capabilities operates in 15 practice offices in four countries. For the year ended December 31, 2004, approximately 73% of revenue in the Highland business was derived in North America.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions between and among the Company and its subsidiaries have been eliminated in consolidation. Transactions and balances between the Company and Monster are included in the accompanying consolidated financial statements.

Nature of Business and Credit Risk

The Company's revenue is earned from executive placement services, mid-level employee professional staffing and temporary contracting services. These services are provided to a large number of customers in many different industries. The Company operates principally throughout North America, the United Kingdom, Continental Europe and the Asia Pacific region (primarily Australia).

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily cash and accounts receivable. The Company performs continuing credit evaluations of its customers and does not require collateral. The Company has not experienced significant losses related to receivables from individual customers or groups of customers in any particular industry or geographic area.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments.

The carrying amount reported for long-term debt approximates fair value generally due to the short-term nature of the underlying instruments.

Foreign Currency Risk Management

The Company periodically enters into forward contracts to reduce exposure to exchanges rate risk related to short-term intercompany loans denominated in currencies other than the functional currency. The Company does not apply hedge accounting and all gains and losses are included in other expense. The Company does not trade derivative financial instruments for speculative purposes. Prior to the Distribution Date the Company historically participated in Monster's centralized treasury function.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include, among others, allocations of costs to the Company by Monster, allowances for doubtful accounts, net realizable values for long-lived assets, and the recoverability of deferred tax assets. Actual results could differ from these estimates.

Revenue Recognition

Although the Company's revenue recognition policy involves a relatively low level of uncertainty, it does require judgment on complex matters that is subject to multiple sources of authoritative guidance.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

Hudson. The Company recognizes revenue for temporary services at the time services are provided and revenue is recorded on a time and materials basis. Temporary contracting revenue is reported gross when the Company acts as the principal in the transaction and is at risk for collection. Revenues that do not meet the criteria for gross revenue reporting are reported on a net basis. Revenue generated when the Company permanently places an individual with a client on a contingent basis is recorded at the time of acceptance of employment, net of an allowance for estimated fee reversals. Revenue generated when the Company permanently places an individual with a client on a retained basis is recorded ratably over the period services are rendered, net of an allowance for estimated fee reversals.

Highland. Substantially all professional fee revenue is derived from fees for professional services related to executive recruitment, consulting and related services performed on a retained basis. Fee revenue is generally one-third of the estimated first year compensation and reimbursed expenses, plus a percentage of the fee to cover indirect expenses. Fee revenue from executive recruitment is recognized when such services are earned. The Company generally bills clients in three monthly installments. Fees earned in excess of the initial contract amount are recognized at completion of the engagement. Reimbursed out-of-pocket expenses are included in revenue.

Revenue, direct costs and gross margin of the Company were as follows:

	Year ended December 31, 2004			Year ended December 31, 2003			Year ended December 31, 2002		
	Temporary	Other	Total	Temporary	Other	Total	Temporary	Other	Total
Revenue	$ 886,971	$ 369,383	$ 1,256,354	$ 775,674	$ 309,625	$ 1,085,299	$ 771,253	$ 294,186	$ 1,065,439
Direct costs	732,786	53,348	786,134	644,011	38,259	682,270	631,501	22,068	653,569
Gross margin	$ 154,185	$ 316,035	$ 470,220	$ 131,663	$ 271,366	$ 403,029	$ 139,752	$ 272,118	$ 411,870

Direct Costs and Gross Margin

Direct costs include the direct staffing costs of salaries, payroll taxes, employee benefits, travel expenses and insurance costs for the Company’s temporary contractors and reimbursed out-of-pocket expense and other direct costs. Other than reimbursed out-of-pocket expenses, there are no other direct costs associated with the Other category, which includes search, permanent placement and other human resource solutions’ revenue. Gross margin represents revenue less direct costs. The region where services are provided, the mix of temporary and permanent placements, and the functional nature of the staffing services provided can affect gross margin.

Operating Expenses

Salaries and related expenses include the salaries, commissions, payroll taxes and employee benefits related to recruitment professionals, executive level employees, administrative staff and other employees of the Company who are not temporary contractors. Office and general expenses include occupancy, equipment leasing and maintenance, utilities, travel expenses, professional fees and provision for doubtful accounts. The Company expenses the costs of advertising as incurred.

Accounts Receivable

The Company’s accounts receivable balances are composed of trade and unbilled receivables. The Company maintains an allowance for doubtful accounts and makes ongoing estimates as to the ability to collect on the various receivables. If the Company determines that the allowance for doubtful accounts is not adequate to cover

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

estimated losses, an expense to provide for doubtful accounts is recorded in office and general expenses. If an account is determined to be uncollectible, it is written off against the allowance for doubtful accounts. Management's assessment and judgment are vital requirements in assessing the ultimate realization of these receivables, including the current credit-worthiness, financial stability and effect of market conditions on each customer.

Cash and Cash Equivalents

Cash and cash equivalents, which consist primarily of commercial paper and time deposits, are stated at cost, which approximates fair value. For financial statement presentation purposes, the Company considers all highly liquid investments having an original maturity of three months or less as cash equivalents. At December 31, 2004 and 2003, outstanding checks in excess of cash account balances were $3,929 and $5,625, respectively and are included in accounts payable on the accompanying balance sheet.

The Company participated in Monster's cash management program until the Distribution Date, and Monster substantially funded the Company's cash requirements until the Distribution Date.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed primarily using the straight-line method over the following estimated useful lives:

	Years
Furniture and equipment	3 – 7
Capitalized software costs	2 – 5
Computer equipment	3 – 4
Transportation equipment	4 – 5

Leasehold improvements are amortized over the shorter of their estimated useful lives or the lease term. The amortization periods of material leasehold improvements are made at the inception of the lease term.

Capitalized Software Costs

Capitalized software costs consist of costs to purchase and develop software for internal use. The Company capitalizes certain incurred software development costs in accordance with, the American Institute of Certified Public Accountants ("AICPA") Statement of Position No. 98-1, *Accounting for the Cost of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1"). Costs incurred during the application-development stage for software bought and further customized by outside vendors for the Company's use and software developed by a vendor for the Company's proprietary use have been capitalized. Costs incurred for the Company's own personnel who are directly associated with software development are capitalized as appropriate. Capitalized software costs are included in property and equipment.

Intangibles

Intangibles represent acquisition costs in excess of the fair value of net tangible assets of businesses purchased and consist primarily of client lists, trademarks and goodwill. With the exception of goodwill, these costs are being amortized over periods ranging from three to five years on a straight-line basis. On January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142") and suspended

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

the amortization of goodwill. In accordance with the transitional provisions of SFAS 142, goodwill has not been amortized since January 1, 2002; instead, the Company evaluates its goodwill annually for impairment, or earlier if indicators of potential impairment exist. See Note 4 for the impact of the adoption of SFAS 142 and subsequent impairment charges.

Long-Lived Assets

Long-lived assets, such as intangibles (except for goodwill), and property and equipment, are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of these assets and its eventual disposition are less than its carrying amount. Impairment, if any, is assessed using discounted cash flows.

Foreign Currency Translation

The financial position and results of operations of the Company's foreign subsidiaries are determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Statements of Operations accounts are translated at the average rate of exchange prevailing during each period. Translation adjustments arising from the use of differing exchange rates from period to period are included in the other comprehensive income / (loss) account in stockholders' equity. Gains and losses resulting from other foreign currency transactions are included in other income (expense).

Comprehensive (Loss) Income

Comprehensive (loss) income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. The Company's other comprehensive (loss) income is solely comprised of foreign currency translation adjustments, which relate to investments that are permanent in nature. To the extent that such amounts relate to investments that are permanent in nature, no adjustments for income taxes are made.

(Loss) Earnings Per Share

Basic (loss) earnings per share is computed by dividing the Company's (losses) earnings 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 earnings by the weighted average number of shares outstanding and the impact of all dilutive potential common shares, primarily stock options. The dilutive impact of stock options is determined by applying the "treasury stock" method. For periods in which a loss is presented, dilutive earnings per share calculations do not differ from basic earnings per share because the effects of any potential common stock were anti-dilutive and, therefore, not included in the calculation of dilutive earnings per share. For the years ended December 31, 2004 and 2003, the effect of approximately 930,000 and 860,000, respectively, of outstanding stock options and other common stock equivalents were excluded from the calculation of diluted loss per share because the effect was anti-dilutive. For the year ended December 31, 2002 there were no Hudson Highland Group, Inc. common stock equivalents outstanding. To determine the shares outstanding for the Company for the periods prior to the Distribution, Monster's weighted average number of shares is multiplied by the distribution ratio of one share of HH Group common stock for every thirteen and one-third shares of Monster common stock.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

Earnings (loss) per share calculations for each quarter include the weighted average effect for the quarter; therefore, the sum of quarterly earnings (loss) per share amounts may not equal year-to-date earnings (losses) per share amounts, which reflect the weighted average effect on a year-to-date basis.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "*Accounting for Income Taxes*" ("SFAS 109"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss and tax credit carry-forwards, and tax contingencies. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance against deferred tax assets to the extent that it is more likely than not that some portion, or all of, the deferred tax assets will not be realized.

For the periods prior to the Distribution, the Company was not a separate taxable entity for federal, state or local income tax purposes and its operating results were included in Monster's tax returns. The Company calculated its income taxes under the separate return method and accounted for deferred tax assets and liabilities under the asset and liability method described above. Tax benefits absorbed by Monster prior to the Distribution Date were charged as a reduction to divisional equity.

As a result of the Company's inability to recognize a current tax benefit from the exercise of stock options, no credits have been recorded to additional paid-in capital for the benefit from stock option exercises for all periods presented.

Stock-Based Compensation

The Company accounts for employee stock-based compensation in accordance with APB No. 25. Under APB No. 25, no compensation expense is recognized in connection with the awarding of stock option grants to employees provided that, as of the grant date, all terms associated with the award are fixed and the quoted market price of the stock is equal to or less than the amount an employee must pay to acquire the stock. Any options issued with an exercise price below the quoted market price on the date of the approved grant have a related compensation expense, which is recognized in the accompanying financial statements. The Company adopted the disclosure only provisions of SFAS 123 and SFAS 148, which require certain financial statement disclosures, including pro forma operating results as if the Company had prepared its consolidated financial statements in accordance with the fair value based method of accounting for stock-based compensation.

The Company currently uses the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of traded options that have no restrictions and are fully transferable and negotiable in a free trading market. Black-Scholes does not consider the employment, transfer or vesting restrictions that are inherent in the Company's employee options. Use of an option valuation model, as required by SFAS 123, includes highly subjective assumptions based on long-term predictions, including the expected stock price volatility and average life of each option grant.

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

	Year ended December 31,		
	2004	2003	2002
Risk free interest rate	4.0%	4.0%	4.2%
Volatility	55.0%	65.0%	73.5%
Expected life (years)	5.0	5.0	7.5
Dividends	—	—	—
Weighted average fair value of options granted during the period	$7.21	$4.36	$6.51

For purposes of pro forma disclosures, the options' estimated fair value is assumed to be amortized to expense over the options' vesting periods. The pro forma effects of stock-based compensation expense for the year ended December 31, 2002 and for the first quarter of 2003, are related entirely to options in Monster stock granted to employees of Monster prior to March 31, 2003 who transferred to the Company at the time of the Distribution. The pro forma effects of recognizing compensation expense under the fair value method on the Company's operating results and per share data are as shown below. As a result of the Company's inability to recognize current tax benefits on reported net losses, total stock-based compensation expense is shown without tax benefits for all periods presented:

	Year ended December 31,		
	2004	2003	2002
Reported net loss	$(26,775)	$(328,812)	$(412,251)
Add: Total stock-based employee compensation expense determined under fair value based method for all awards	(3,510)	(3,714)	(48,675)
Pro forma net loss	$(30,285)	$(332,526)	$(460,926)
Basic and diluted loss per share:			
As reported net loss	$ (1.38)	$ (19.58)	$ (24.69)
Pro forma net loss	$ (1.56)	$ (19.80)	$ (27.60)

Effect of Recently Issued Accounting Standards

In October 2004, the Financial Accounting Standards Board (the "FASB") issued Staff Position ("FSP") No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 ("FSP 109-2"). FSP 109-2 provides guidance under SFAS 109, with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. The Company plans to evaluate the effects of the repatriation provision to determine how it will apply this provision.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment. Statement 123(R)* ("SFAS 123R"). SFAS 123R replaces SFAS 123 and supersedes APB No. 25. SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, SFAS 123 permitted entities the option of continuing to apply the guidance in APB No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123R requires the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. The statement applies to all awards granted, modified, repurchased or cancelled after July 1, 2005, and unvested portions of previously issued and outstanding awards.

The effective date of SFAS 123R is the first reporting period beginning after June 15, 2005, which is third quarter 2005 for calendar year companies, although early adoption is allowed. SFAS 123R permits companies to adopt its requirements using either a “modified prospective” method, or a “modified retrospective” method. Under the “modified prospective” method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the “modified retrospective” method, the requirements are the same as under the “modified prospective” method, but also permits entities to restate financial statements of previous periods based on proforma disclosures made in accordance with SFAS 123.

The Company currently expects to adopt SFAS 123R effective July 1, 2005; however, the Company has not yet determined which of the aforementioned adoption methods it will use. Based upon the stock options granted through February 2, 2005, estimates of employee contributions to the Employee Stock Purchase Plan and subject to a complete management review, the Company expects the adoption of SFAS 123R would reduce pre-tax income by approximately $1,000 in each of the third and fourth quarters of 2005. As a result of the Company’s inability to recognize current tax benefits on reported net losses, tax benefits are not expected to be recorded in 2005. The Company has not changed any of the stock compensation plans as a result of the impending adoption of SFAS 123R but maintains the right to amend, suspend or terminate any plan at any time. See Note 10 for further details on the Company’s stock-based compensation plans.

On December 16, 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* (“SFAS 153”). The amendments made by SFAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company currently expects to adopt SFAS 153 effective on July 1, 2005 and does not expect that the adoption will have an effect on its consolidated financial statements.

Reclassifications

In the current financial statement presentation, changes have been made from presentations in prior Securities and Exchange Commission filings and new account descriptions are being used. Certain prior period amounts have been reclassified to conform to the Company's 2004 financial statement presentation; these reclassifications do not change total revenue, total expenses, net loss, total assets, total liabilities or stockholders' equity.

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3. PROPERTY AND EQUIPMENT

Property and equipment, net consisted of the following:

	December 31,	
	2004	2003
Computer equipment	$ 31,634	$ 34,307
Furniture and equipment	23,497	28,294
Capitalized software costs	29,645	26,542
Leasehold and building improvements	25,723	21,608
Transportation equipment	1,295	1,274
	111,794	112,025
Less: Accumulated depreciation and amortization	75,434	73,400
Property and equipment, net	$ 36,360	$ 38,625

Leasehold improvements included assets classified under capital leases at December 31, 2004 with a cost of $4,152 and accumulated amortization of $1,416. Capitalized software costs included software under capital leases, not yet put into service, at December 31, 2004 with a cost of $2,722 and accumulated amortization of $0. Computer equipment included equipment classified under capital leases at December 31, 2004 and 2003 with a cost of $153 and $1,194, respectively, and accumulated amortization of $25 and $665, respectively.

4. GOODWILL AND INTANGIBLES—IMPAIRMENT CHARGE AND ACCOUNTING CHANGE

SFAS 142 requires that goodwill and indefinite-lived intangible assets no longer be amortized but be tested for impairment on an annual basis, or more frequently if circumstances warrant. The provisions of SFAS 142 also require the completion of a transitional impairment test in the year of adoption, with any impairment identified upon initial implementation treated as a cumulative effect of a change in accounting principle.

In the third quarter of 2003, the Company determined that under the requirements of SFAS 142, goodwill should be tested for impairment due to business conditions and changes in circumstances resulting from the Distribution, which established the Company as an independent entity with a separate market capitalization. As a result of this test and the related fair value examination, the Company recorded a non-cash goodwill impairment charge of $202,785, in operating expenses. The impairment valuation was based upon a discounted cash flow approach that used estimated future revenue and costs for each business segment as well as appropriate discount rates. The estimates that were used are consistent with the plans and estimates the Company was using to manage the underlying business. The 2003 goodwill impairment charge wrote off all goodwill related to both of the Company's business segments that was recorded at that time.

In the first quarter of 2002, the Company adopted SFAS 142 and completed the transitional goodwill impairment review. The results of that impairment review indicated that the carrying value of goodwill was not fully recoverable. The impairment review was based on similar criteria used above and resulted in the Company recording a non-cash impairment charge of $293,000 to reduce the carrying value of its goodwill. The impairment charge was reflected as a cumulative effect of accounting change. Additions in 2004 reflect acquisitions made during the year, as described in Note 6.

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A summary of changes in the Company's goodwill by business segment follows:

	December 31, 2003	Additions and adjustments	Impairments	Currency translation	December 31, 2004
Hudson	$ —	$ 4,567	$ —	$ —	$ 4,567
Highland	—	—	—	—	—
	$ —	$ 4,567	$ —	$ —	$ 4,567

	December 31, 2002	Additions and adjustments	Impairments	Currency translation	December 31, 2003
Hudson	$ 193,509	$ —	$ (195,404)	$ 1,895	$ —
Highland	7,251	—	(7,381)	130	—
	$ 200,760	$ —	$ (202,785)	$ 2,025	$ —

	December 31, 2001	Additions and adjustments	Impairments	Currency translation	December 31, 2002
Hudson	$ 432,871	$ (3,928)	$ (274,000)	$ 38,566	$ 193,509
Highland	25,790	—	(19,000)	461	7,251
	$ 458,661	$ —	$ (293,000)	$ 39,027	$ 200,760

As of December 31, 2004 and 2003, intangible assets consisted of the following:

	December 31, 2004		December 31, 2003	
	Gross carrying amount	Accumulated amortization	Gross Carrying amount	Accumulated amortization
Goodwill	$4,567	$ —	$ —	$ —
Amortizable intangible assets:				
Client lists and other amortizable intangibles	4,244	(2,706)	4,240	(2,060)
Total intangible assets	$8,810	$ (2,706)	$ 4,240	$ (2,060)

Amortization of intangible assets was $646, $712 and $754, for the years ended December 31, 2004, 2003 and 2002, respectively. Estimated intangible asset amortization expense for 2005 is $500 and $345 for each of the following three years.

5. BUSINESS REORGANIZATION EXPENSES

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

Monster, which consist primarily of workforce reduction, office consolidation costs and related write-offs, professional fees and other special charges.

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

As a result of the reorganization initiatives, the Company recorded business reorganization expenses of $ 3,361, $26,823 and $73,543, classified as a component of operating expenses, for the years ended December 31, 2004, 2003 and 2002, respectively.

Consolidation of Excess Facilities

During the year ended December 31, 2002, the Company recorded charges of $34,311 relating to consolidation of excess facilities. Consolidation of excess facilities included: $24,930 relating to future lease obligations, non-cancelable lease costs and other contractual arrangements with third parties net of estimated sublease income, and $9,381 for fixed asset write-offs related to property and equipment that was disposed of or removed from operations including leasehold improvements, computer equipment, software and furniture and fixtures. During the year ended December 31, 2004, the Company recorded expense of $2,492 for changes in estimates and finalization of Highland’s Canadian subleases and the signed modification of a Hudson Australian lease and other changes in estimates due to market fluctuations. During the year ended December 31, 2003, the Company recorded expense of $6,951 for changes in estimate on facilities involved in the 2002 actions, primarily due to lower estimated sublease income and the inability to sublease certain locations. Additional charges of $7,284 were recorded in 2003 to close additional locations that were in excess of the space required by the Company’s operations. As of December 31, 2004 the remaining accrual related to approximately 40 locations and will be paid over the remaining lease terms, which have various expiration dates up until 2010, except one with a 2020 expiration date. The estimated payments for 2005 are $6,062.

Workforce Reduction

During the year ended December 31, 2002, the Company incurred business reorganization costs to reduce its global workforce by approximately 1,000 employees. As a result, the Company recorded a workforce reduction charge of $30,664 for the year ended December 31, 2002, primarily relating to severance and fringe benefits. During the year ended December 31, 2003, charges of $1,505 were incurred for the continuation of the 2002 actions and $8,744 was incurred for additional reductions in the workforce of approximately 220 employees. During the year ended December 31, 2004, a credit of $201 was recorded for changes in estimates to the prior years programs. As of December 31, 2004, the workforce reduction accrual related to settlements and termination payments for approximately 12 former employees, which are all payable in 2005.

Professional Fees and Other Charges

Professional fees of $1,070 for the year ended December 31, 2004 were primarily related to services required to close the Hudson Australian lease modification. Professional fees and other charges were $2,339 and $8,568 in the years ended December 31, 2003 and 2002, respectively. This accrual at December 31, 2004 was included in current liabilities.

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Amounts under the "Utilization" caption of the following tables are primarily the cash payments associated with the plans. Business reorganization expense activities and liability balances were as follows:

Year ended December 31, 2004	December 31, 2003	Changes in estimate	Additional charges	Utilization	December 31, 2004
Consolidation of excess facilities	$ 18,340	$ 2,492	$ —	$ (7,938)	$ 12,894
Workforce reduction	5,337	(201)	—	(4,473)	663
Professional fees and other	2,706	1,070	—	(1,571)	2,205
Total	$ 26,383	$ 3,361	$ —	$(13,982)	$ 15,762

Year ended December 31, 2003	December 31, 2002	Changes in estimate	Additional charges	Utilization	December 31, 2003
Consolidation of excess facilities	$ 15,048	$ 6,951	$ 7,284	$(10,943)	$ 18,340
Workforce reduction	8,375	1,505	8,744	(13,287)	5,337
Professional fees and other	2,422	706	1,633	(2,055)	2,706
Total	$ 25,845	$ 9,162	$ 17,661	$(26,285)	$ 26,383

Year ended December 31, 2002	December 31, 2001	Total charge	Non-cash charges	Cash payments	December 31, 2002
Consolidation of excess facilities	$ —	$ 34,311	$ (9,381)	$ (9,882)	$ 15,048
Workforce reduction	—	30,664	(2,073)	(20,216)	8,375
Professional fees and other	—	8,568	(2,091)	(4,055)	2,422
Total	$ —	$ 73,543	$(13,545)	$(34,153)	$ 25,845

The following table presents a summary of plan activity related to business reorganization costs by plan period.

Year ended December 31, 2004	December 31, 2003	Changes in estimate	Additional charges	Utilization	December 31, 2004
Second Quarter 2002 Plan	$ 4,717	$ 1,011	$ —	$ (2,666)	$ 3,062
Fourth Quarter 2002 Plan	8,523	2,683	—	(3,285)	7,921
Fourth Quarter 2003 Plan	13,143	(333)	—	(8,031)	4,779
Total	$ 26,383	$ 3,361	$ —	$(13,982)	$ 15,762

Year ended December 31, 2003	December 31, 2002	Changes in estimate	Additional charges	Utilization	December 31, 2003
Second Quarter 2002 Plan	$ 14,908	$ 180	$ —	$(10,371)	$ 4,717
Fourth Quarter 2002 Plan	10,937	8,982	—	(11,396)	8,523
Fourth Quarter 2003 Plan	—	—	17,661	(4,518)	13,143
Total	$ 25,845	$ 9,162	$ 17,661	$(26,285)	$ 26,383

Year ended December 31, 2002	December 31, 2001	Total charge	Changes in estimate	Utilization	December 31, 2002
Second Quarter 2002 Plan	$ —	$ 52,943	$ (634)	$(37,401)	$ 14,908
Fourth Quarter 2002 Plan	—	21,234	—	(10,297)	10,937
Total	$ —	$ 74,177	$ (634)	$(47,698)	$ 25,845

6. BUSINESS COMBINATIONS—MERGER AND INTEGRATION EXPENSES

Acquisitions Accounted for Using the Purchase Method

On June 2, 2004, the Company purchased one business through the issuance of 367,174 shares of its common stock, with a fair value of $5,281. The results of this business have been included in the Hudson segment of the consolidated financial statements since that date. The Company recorded the preliminary allocation of the purchase price to the estimated fair value of the net assets acquired ($1,258 in assets, $544 in liabilities) with the excess of $4,567 allocated to goodwill, which may be deductible for tax purposes. The purchase agreement provides for contingent payouts to the sellers over the next three years, based upon future minimum annual and cumulative earnings thresholds. If and when such payments come due, the amounts paid will be added to the recorded value of goodwill.

During the year ended December 31, 2003, the Company purchased one business for $350 paid in 2003 and $350 paid in 2004. The Company recorded $700 in other amortizable intangibles and $350 in current liabilities for the acquisition. No tangible assets were purchased with this acquisition and no liabilities were assumed. There were no purchase acquisitions during the year ended December 31, 2002.

The acquisitions discussed above for the years ended December 31, 2004 and 2003 were not material to the Company's operations, financial position or cash flows.

Merger and Integration Expenses Incurred with Pooling of Interests Transactions

In connection with pooling of interests transactions completed prior to June 30, 2001, the Company expensed merger and integration costs of $736 for the year ended December 31, 2004, consisting of expenses related to changes in the estimated sublease income in the U.K., partially offset by favorable variances in similar costs in New Zealand.

The Company expensed merger and integration costs of $2,663 for the year ended December 31, 2003, consisting primarily of additional charges related to changes in the estimated costs of assumed leases from acquisitions.

The Company expensed merger and integration costs of $5,373 for the year ended December 31, 2002, consisting of $6,162 of integration costs, offset by reversed accrued merger costs of $789.

Accrued Merger and Integration Expenses

In connection with the acquisitions and mergers made in 2001 and 2000, the Company formulated plans to integrate the operations of such companies. Such plans involved the closure of certain offices of the acquired and merged companies and the termination of certain management and employees. The objectives of the plans were to eliminate redundant facilities and personnel, and to create a single brand in the related markets in which the Company operates.

Amounts reflected in the "Expense" column in the following tables represent changes in estimates to established plans subsequent to finalization. In connection with the finalization of plans relating to acquisitions accounted for using the purchase method, additions to restructuring reserves within one year of the date of acquisition are generally treated as additional purchase price; costs incurred resulting from plan revisions made after the first year are charged to operations in the period in which they occur. Reductions to restructuring

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reserves established in connection with purchase business combinations were recorded as a reduction in goodwill in 2002. Amounts under the "Utilization" caption of the following tables are primarily the cash payments associated with the plans.

Accrued integration expense activities and liability balances consisted of:

Year ended December 31, 2004	December 31, 2003	Adjustments to Goodwill	Adjustments to Expenses	Utilization	December 31, 2004
Assumed lease obligations on closed facilities	$ 6,709	$ —	$ 736	$ (2,244)	$ 5,201
Consolidation of acquired facilities	460	—	—	(460)	—
Total	$ 7,169	$ —	$ 736	$ (2,704)	$ 5,201

Year ended December 31, 2003	December 31, 2002	Adjustments to Goodwill	Adjustments to Expenses	Utilization	December 31, 2003
Assumed lease obligations on closed facilities	$ 7,983	$ —	$ 2,693	$ (3,967)	$ 6,709
Consolidation of acquired facilities	1,607	—	(30)	(1,117)	460
Severance, relocation and other employee costs	36	—	—	(36)	—
Total	$ 9,626	$ —	$ 2,663	$ (5,120)	$ 7,169

Year ended December 31, 2002	December 31, 2001	Adjustments to Goodwill	Adjustments to Expenses	Utilization	December 31, 2002
Assumed lease obligations on closed facilities	$ 7,377	$ 531	$ 6,966	$ (6,891)	$ 7,983
Consolidation of acquired facilities	10,426	(2,954)	(1,047)	(4,818)	1,607
Severance, relocation and other employee costs	7,052	(4,160)	243	(3,099)	36
Total	$ 24,855	$(6,583)	$ 6,162	$(14,808)	$ 9,626

Costs associated with assumed lease obligations on closed facilities relate to leased office locations of acquired companies that were either under-utilized prior to the acquisition date or closed by the Company in connection with acquisition-related restructuring plans. The amount is based on the present value of minimum future lease obligations, net of estimated sublease income. The estimated payments for 2005 are $1,872, with the remaining balance paid over the terms of the eight leases that end in 2015.

Costs associated with the consolidation of existing offices of acquired companies relate to termination costs of contracts relating to billing systems, external reporting systems and other contractual arrangements with third parties.

Estimated severance payments, employee relocation expenses and other employee costs relate to severance of terminated employees at closed locations, costs associated with employees transferred to continuing offices and other related costs. For the year ended December 31, 2002 severance expense related to approximately 110 employees. As of December 31, 2004, there were no remaining accruals for these employees.

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The following tables present a summary of activity relating to the Company's integration plans for acquisitions made in prior years by the year of acquisition.

Year ended December 31, 2004	December 31, 2003	Expenses	Utilization	December 31, 2004
2000 Plans	$ 2,453	$ 595	$ (641)	$ 2,407
2001 Plans	2,293	(80)	(1,413)	800
2002 Plans	2,423	221	(650)	1,994
Total	$ 7,169	$ 736	$ (2,704)	$ 5,201

Year ended December 31, 2003	December 31, 2002	Expenses	Utilization	December 31, 2003
2000 Plans	$ 3,079	$ (6)	$ (620)	$ 2,453
2001 Plans	3,291	883	(1,881)	2,293
2002 Plans	3,256	1,786	(2,619)	2,423
Total	$ 9,626	$ 2,663	$ (5,120)	$ 7,169

7. SUPPLEMENTAL CASH FLOW INFORMATION

For the year ended December 31, 2004, the Company paid $1,498 for interest and paid $1,195 for income taxes. The Company also issued 367,174 shares of common stock, with a fair value of $5,281 to purchase a business in its Hudson segment, and issued 92,076 shares of its common stock with a value of $1,058 to satisfy the 2003 contribution liability to the 401(k) Savings Plan. The Company also entered into capital lease obligations for furniture and fixtures and telecommunications equipment with a fair value of $3,920, of which $3,767 was related to a renegotiation of an existing operating lease that upon initiation of the new lease was converted to a capital lease. The Company also entered into a capital lease obligation for a financial and operational application software package with a fair value of $2,722, which for financial reporting purposes is being treated as a capital lease.

For the periods from the Distribution Date to December 31, 2003, the Company paid $2,312 for interest and $60 for income taxes. Prior to the Distribution Date all required cash payments for interest and income taxes were made by Monster on behalf of the Company and do not necessarily reflect what the Company would have paid had it been a stand-alone company and thus, the amounts have not been provided.

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	December 31,	
	2004	2003
Salaries, commissions and benefits	$ 69,836	$ 48,671
Sales, use and income taxes	27,098	24,780
Fees for professional services	7,340	2,275
Rent	3,038	4,464
Other	33,591	37,180
	$ 140,903	$ 117,370

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9. LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31, 2004	December 31, 2003
Capitalized lease obligations, payable with interest from 6.0% to 9.0%, in varying installments through 2009	$6,107	$731
Acquisition note payable, non-interest bearing, interest imputed at 5.1%, due in 2004	—	17
Note payable, in varying monthly installments maturing through 2004 with interest at 17%	—	7
	6,107	755
Less: Current portion	4,066	453
	$2,041	$302

As of December 31, 2004, long-term debt matures as follows: $4,066 in 2005, $1,470 in 2006, $222 in 2007, $238 in 2008 and $111 in 2009. Certain of the leases can be paid prior to the scheduled maturity. Capital lease obligations presented here exclude the interest portion of the obligation, which is immaterial.

10. STOCK COMPENSATION PLANS

The Company adopted all the stock compensation plans and savings plans listed below subsequent to the Distribution.

The Company maintains the Hudson Highland Group, Inc. Long Term Incentive Plan (the “LTIP”) pursuant to which it granted 267,100 and 1,579,712 stock options to purchase shares of the Company’s common stock to certain key employees during the years ended December 31, 2004 and 2003, respectively. Options outstanding have vesting periods of three to four years. Options with three-year lives vest 50% on the first anniversary of the date of grant and 25% on each of the two succeeding anniversaries of the date of grant. Options with four-year lives vest 25% on each of the four anniversary dates. All options granted in 2004 had four-year vesting periods. Options exercisable within one year from December 31, 2004 totaled 720,106. No options related to the common stock of Monster were converted at the Distribution into options to purchase the Company’s stock.

The Company granted 250,000 options to purchase shares of the Company’s common stock under the LTIP to five non-employee members of the Board of Directors in 2003. These options had an immediate vesting of 40% of the options granted with the remaining options vesting evenly over the next three years. All options granted were outstanding as of December 31, 2004. Options exercisable within one year from December 31, 2004 totaled 200,000.

The Company granted 50,000 shares of restricted stock, with four-year lives under the LTIP to certain key employees during 2004. The Company also granted 5,600 restricted shares, which vested at the grant date, to 37 employees as performance awards during 2004. The Company also granted 184,750 shares of restricted stock under the LTIP to certain key employees during 2003, which generally vest over three- and four-year periods from the date of grant. During 2004, 94,224 shares vested and 51,314 shares are scheduled to vest during 2005. Restricted stock with three-year lives vests 50% on the first anniversary of the date of grant and 25% on each of the two succeeding anniversaries of the date of grant. Restricted stock with four-year lives vests 25% on each of

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the four anniversary dates. These shares are provided at no cost to the employee. Accordingly, the value of the restricted stock at the date of grant is amortized over the related vesting period. Restricted stock granted in 2004 had an average market value of $13.32 and amortization expense for the year ended December 31, 2004 was $971. During the year ended December 31, 2004, 7,500 unvested shares of restricted stock were canceled and 13,500 shares had accelerated vesting. Restricted stock granted in 2003 had an average market value of $8.23 and amortization expense for the year ended December 31, 2003 was $467. Restricted stock is being recorded as a charge to compensation expense and additional paid-in capital as it is amortized.

Stock option activity for the two years ended December 31, 2004 follows:

	LTIP shares available for grant	Number of options outstanding	Weighted average option exercise price per share
April 1, 2003 shares reserved	2,000,000	—	—
Options granted	(1,829,712)	1,829,712	$ 7.34
Restricted shares granted	(184,750)	—	—
Options forfeited/canceled	55,112	(55,112)	6.87
As of December 31, 2003	40,650	1,774,600	7.36
Additional shares reserved, April 30, 2004	1,000,000	—	—
Options granted	(267,100)	267,100	13.66
Restricted shares granted	(55,600)	—	—
Options exercised	—	(252,074)	6.58
Options forfeited/canceled	146,760	(146,760)	7.94
Options expired	—	(1,000)	6.83
Restricted shares forfeited/canceled	7,500	—	—
As of December 31, 2004	872,210	1,641,866	$ 8.37

The following table summarizes stock options information at December 31, 2004:

	Options outstanding				Options exercisable		
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Aggregate intrinsic value	Number exercisable	Weighted-average exercise price	Aggregate intrinsic value
$6.83	1,193,066	8.3 years	$ 6.83	$ 9,032	420,194	$ 6.83	$ 3,180
$9.16 to $9.44	37,750	8.5 years	$ 9.30	193	18,750	$ 9.30	96
$10.55 to $11.65	156,750	8.8 years	$ 11.20	501	67,624	$ 11.27	212
$12.34 to $13.74	98,700	9.2 years	$ 12.56	182	—	—	—
$14.06 to $15.22	155,600	9.6 years	$ 14.47	18	—	—	—
	1,641,866	8.5 years	$ 8.37	$ 9,926	506,568	$ 7.51	$ 3,488

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value based on the Company’s closing stock price of $14.40 as of December 31, 2004, that would have been received by the option holders had all option holders exercised their options as of that date. All options that were exercisable as of December 31, 2004 were in-the-money options.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

Subsequent to December 31, 2004, the Company granted 784,800 options with an exercise price of $13.25 to certain key employees. The Company also granted an additional 222,200 with an exercise price of $13.25 to certain key employees that are subject to stockholder approval under the LTIP. These options either vest evenly over four years or with 50% vesting after the third and fourth year. Under APB No. 25, if the stockholders approve the amendment to increase authorized shares, those options may result in compensation expense if on the date of stockholder approval the Company's stock price exceeds the exercise price. On February 9, 2005, the Company also granted 4,000 shares of restricted stock, which vested immediately, to 40 employees as performance awards.

The Company 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. ESPP purchase dates are generally every six months ended June 30 and December 31, but for 2003 the dates were August 31 and December 31. In accordance with APB No. 25, the ESPP is a non-compensatory plan and no expenses were recorded for the ESPP. Pro forma expenses included for SFAS 123 purposes were $491 and $402 for 2004 and 2003, respectively. The Company issued 154,968 and 195,286 shares of common stock pursuant to the ESPP at an average price of $10.26 and $6.66 per share in 2004 and 2003, respectively. As of the December 31, 2004, the Company has 961,850 shares reserved for future share issuances under the ESPP and SIP (as defined below).

The Company's United Kingdom subsidiary maintains the Hudson Global Resources Share Incentive Plan (the "SIP"), a stock purchase plan for its employees, whereby eligible employees may purchase shares on the open market at the end of each month, and the Company matches the employee purchases with a contribution of shares equal to 50% of the number of employee shares purchased. The Company issued 4,622 and 2,268 shares of common stock pursuant to the SIP in 2004 and 2003, respectively. Shares are issued under the SIP from the ESPP share reserve.

The Company maintains the Hudson Highland Group, Inc. 401(k) Savings Plan (the "401(k)"). The 401(k) plan allows eligible employees to contribute up to 15% of their earnings to the 401(k) plan. The Company matches contributions up to 3% through a contribution of the Company's common stock for 2004 contributions and 2% for 2003 contributions. Vesting of the Company's contribution occurs over a five-year period. Expense for the years ended December 31, 2004 and 2003 for the 401(k) plan was $1,607 and $1,085, respectively. In March of 2004, the Company issued 92,076 shares of its common stock with a value of $1,058 to satisfy the 2003 contribution liability to the 401(k) Savings Plan. The 2004 401(k) plan matching shares will be issued in the first quarter of 2005.

(in thousands, except share and per share amounts)

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11. PROVISION (BENEFIT) FOR INCOME TAXES

The components of loss before the provision (benefit) for income taxes and accounting change were as follows:

	Year ended December 31,		
	2004	2003	2002
Domestic	$(36,089)	$(115,264)	$ (59,645)
Foreign	10,952	(201,527)	(60,623)
Loss before provision (benefit) for income taxes and accounting change	$(25,137)	$(316,791)	$(120,268)

The provision (benefit) for income taxes was as follows:

	Year ended December 31,		
	2004	2003	2002
Current tax provision (benefit):			
U.S. Federal	$(1,288)	$ —	$ —
State and local	690	36	300
Foreign	3,660	903	3,026
Total current	3,062	939	3,326
Deferred tax provision (benefit)			
U.S. Federal	—	—	—
State and local	—	—	—
Foreign	(1,424)	11,082	(4,343)
Total deferred	(1,424)	11,082	(4,343)
Total provision (benefit)	$ 1,638	$12,021	$(1,017)

The tax effects of temporary differences that gave rise to the Company’s deferred tax assets (liabilities) were as follows:

	December 31,	
	2004	2003
Current deferred tax assets:		
Allowance for doubtful accounts	$ 1,012	$ 457
Accrued expenses and other liabilities	3,456	2,495
Accrued compensation liabilities	4,549	—
Total current deferred tax asset	9,017	2,952
Non-current deferred tax assets (liabilities):		
Property and equipment	(2,240)	(2,940)
Intangibles	25,575	29,126
Deferred compensation	446	—
Tax loss carry-forwards	95,400	71,800
Total non-current deferred tax asset	119,181	97,986
Valuation allowance	(122,907)	(97,293)
Net deferred tax assets	$ 5,291	$ 3,645

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

Net deferred tax assets were included in other current assets and other long-term assets. Through March 31, 2003 the Company was included in the United States Federal and certain state consolidated tax filings with Monster. The tax provisions and deferred tax assets and liabilities of the Company were calculated as if the Company were a separate entity.

At December 31, 2004, the Company had net operating loss carry-forwards for U.S. Federal tax purposes of approximately $148,100, including approximately $27,400 of tax losses that were not absorbed by Monster on its consolidated U.S. Federal tax returns through the Distribution Date, which expire through 2024. These losses included pre-acquisition losses of certain acquired companies and are subject to an annual limitation on the amount that can be utilized. In addition, the Company had net operating loss carry-forwards in the United Kingdom and all other countries of approximately $53,000 and $87,600, respectively. The Company has concluded that, based on expected future results and the future reversals of existing taxable temporary differences, there was no reasonable assurance that the entire amount related to tax benefits can be utilized. Accordingly, a valuation allowance was established.

In connection with the cumulative effect of accounting change for goodwill in 2002, the Company recorded a deferred tax asset of $14,000 against which a full valuation allowance was provided.

The provision for income taxes differed from the amount computed using the Federal statutory income tax rate as follows:

	Year ended December 31,		
	2004	2003	2002
Benefit at Federal statutory rate	$(8,798)	$(110,877)	$(42,093)
State income taxes, net of Federal income tax effect	690	36	300
Change in valuation allowance (a)	9,836	43,269	10,037
Nondeductible expenses (b)	1,854	3,413	4,772
Effect of foreign operations	(656)	8,680	(2,550)
Prior periods Federal income tax adjustment	(1,288)	—	—
Goodwill impairment	—	65,000	—
Net operating losses retained/utilized by Monster	—	2,500	28,517
Income tax provision (benefit)	$ 1,638	$ 12,021	$ (1,017)

(a) The increase in the valuation allowance reflected in the tax effects of temporary differences for 2004 was $25,614, which included an increase of $7,500 from a recalculation of tax loss carry-forwards at December 31, 2003 and an increase of $8,278 from the effect of temporary differences in the Asia Pacific region.
(b) Primarily due to nondeductible meals and entertainment expenses, 2003 reorganization expenses and merger and integration expenses.

No provision was made for U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries. Such earnings have been and will continue to be reinvested but could become subject to additional tax if they were remitted as dividends, or were loaned to the Company or a U.S. affiliate, or if the Company should sell its stock in the foreign subsidiaries. It is not practicable to determine the amount of additional tax, if any, that might be payable on the undistributed foreign earnings. The provision for income taxes in 2003 included an $11,082 expense for the increased valuation allowances established for deferred tax assets, whose future utilization was not reasonably assured, partially offset by higher deferred tax benefits from tax loss carry-forwards.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

12. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases facilities and equipment under operating leases that expire at various dates through 2027. Some of the operating leases provide for increasing rents over the terms of the leases; total rent expense under these leases is recognized ratably over the lease terms. Future minimum lease commitments under non-cancelable operating leases at December 31, 2004, were as follows:

2005	$ 30,488
2006	22,948
2007	19,717
2008	17,891
2009	16,587
Thereafter	88,279
	$ 195,910

Rent and related expenses under operating leases for facilities and equipment were $31,912, $36,503 and $34,883 for the years ended December 31, 2004, 2003 and 2002, respectively. Operating lease obligations after 2009 relate to building leases. Commitments based in currencies other than U.S. dollars were translated using exchanges rates as of December 31, 2004.

Consulting, Employment and Non-compete Agreements

The Company has entered into various consulting, employment and non-compete agreements with certain key management personnel, executive search consultants and former owners of acquired businesses. Agreements with key members of management are generally one year in length, on an at will basis, and 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

The Company is subject to various claims from lawsuits, taxing authorities and other complaints arising in the ordinary course of business. The Company records provisions for losses when the claim becomes probable and the amount due is estimable. Although the outcome of these claims cannot be determined, it is the opinion of management 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.

Risks and Uncertainties

The Company has a history of operating losses and has operated as an independent company only since the Distribution Date. Prior to the Distribution Date, the Company’s operations were historically financed by Monster as separate segments of Monster’s broader corporate organization rather than as a separate stand-alone company. Monster assisted the Company by providing financing, particularly for acquisitions, as well as providing corporate functions such as identifying and negotiating acquisitions, legal and tax functions. Following the Distribution, Monster has no obligation to provide assistance to the Company other than the interim and transitional services provided by Monster pursuant to the transition services agreement described in Note 13.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

13. RELATED PARTY TRANSACTIONS

Distribution Business Agreements

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

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

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

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

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

Monster Funding of HH Group Obligations

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

Other Commercial Arrangements

The Company and Monster entered into a three-year commercial contract, which ends in March 2006, involving the utilization of Monster.com services for targeting, sourcing, screening and tracking prospective job candidates around the world. The Company and Monster may from time to time also negotiate and purchase other services from the other, pursuant to customary terms and conditions. There is no contractual commitment that requires the Company to use Monster services in preference to other competitors.

Non-Cash Transfers

Monster transferred to the Company non-cash assets and liabilities in 2003 prior to the Distribution Date. The approximate value recorded for the transfers by account were: due from Monster Worldwide, Inc. $13,530, property and equipment $7,600, intangibles $1,500, accrued expenses and other current liabilities $2,900, and other liabilities $600.

14. FINANCIAL INSTRUMENTS

Credit Facility

The Company has a senior secured credit facility for $50,000 with Wells Fargo Foothill, Inc., as agent, and certain lenders (the “Foothill Credit Facility”). The maturity date of the Foothill Credit Facility is March 31, 2007. Outstanding loans will bear interest equal to the prime rate plus 0.25% or LIBOR plus 2.00%, at the Company’s option. The Foothill Credit Facility is secured by substantially all of the assets of the Company and extensions of credit will be based on a percentage of the accounts receivable of the Company. The Company expects to use such credit, if and when required, to support its ongoing working capital requirements, capital expenditures and other corporate purposes and to support letters of credit. During the year ended December 31, 2004, the Company borrowed and repaid a total of $19,550 under this credit facility. As of December 31, 2004, no borrowings were outstanding.

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

Outstanding Letters of Credit

The Company had letters of credit outstanding at December 31, 2004 of $15,100 leaving $34,900 of the credit facility available for use on the terms set forth in the Foothill Credit Facility. These letters of credit have various maturity dates through 2015 and are primarily used to secure operating and capital lease financing and insurance coverage.

Shelf Registration Statement Filing

The Company filed a shelf registration on October 6, 2004 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. The registration statement replaced the Company’s existing acquisition shelf registration statement filed on April 22, 2004 under which 332,826 shares of its common stock remained available for issuance.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

Derivatives Held for Purposes Other Than Trading

The Company periodically enters into forward contracts to minimize the exposure to foreign exchange rate risk related to intercompany loan balances denominated in currencies other than the functional currency. The fair values for all derivatives are recorded in other assets or other liabilities in the consolidated balance sheets. The Company had no outstanding derivatives as of December 31, 2004.

15. SEGMENT AND GEOGRAPHIC DATA

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

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

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

	Years ended December 31, 2004	2003	2002
Information by business segment			
Revenue			
Hudson	$1,194,675	$1,021,256	$ 998,467
Highland	61,679	64,043	66,972
	$1,256,354	$1,085,299	$1,065,439
Gross margin			
Hudson	$ 412,091	$ 342,692	$ 346,705
Highland	58,129	60,337	65,165
	$ 470,220	$ 403,029	$ 411,870
Goodwill impairment			
Hudson	$ —	$ 195,404	$ —
Highland	—	7,381	—
	$ —	$ 202,785	$ —
Business reorganization expenses			
Hudson	$ 1,016	$ 15,777	$ 47,366
Highland	2,345	10,829	16,347
Corporate	—	217	9,830
	$ 3,361	$ 26,823	$ 73,543
Depreciation and amortization			
Hudson	$ 16,243	$ 14,071	$ 11,622
Highland	1,805	4,234	2,535
Corporate	2,060	2,994	6,904
	$ 20,108	$ 21,299	$ 21,061
Operating income (loss)			
Hudson	$ 12,208	$ (246,655)	$ (64,438)
Highland	(1,874)	(34,956)	(13,645)
	10,334	(281,611)	(78,083)
Corporate expenses	(33,533)	(32,038)	(41,639)
Interest and other expense, net	(1,938)	(3,142)	(546)
Loss before provision (benefit) for income taxes and accounting change	$ (25,137)	$ (316,791)	$ (120,268)

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

	As of December 31,		
	2004	2003	2002
Information by business segment			
Accounts receivable, net			
Hudson	$ 189,417	$ 139,588	$ 156,711
Highland	8,165	9,454	14,380
	$ 197,582	$ 149,042	$ 171,091
Long-lived assets, net of accumulated depreciation and amortization			
Hudson	$ 34,075	$ 29,904	$ 223,665
Highland	2,347	3,996	12,378
Corporate (a)	6,042	6,905	—
	$ 42,464	$ 40,805	$ 236,043

(a) Corporate long-lived assets were transferred from Monster on the Distribution Date. No allocation of long-lived assets was made prior to the distribution date by Monster.

	United States	Australia	United Kingdom	Continental Europe	Other (b)	Total
Information by geographic region						
Year ended December 31, 2004:						
Revenue (c)	$ 373,329	$ 332,029	$ 352,563	$ 102,371	$ 96,062	$ 1,256,354
Long-lived assets, net (d)	$ 21,287	$ 9,970	$ 5,836	$ 3,417	$ 1,954	$ 42,464
Year ended December 31, 2003:						
Revenue (c)	$ 317,595	$ 310,525	$ 282,075	$ 97,794	$ 77,310	$ 1,085,299
Long-lived assets, net (d)	$ 17,869	$ 8,843	$ 7,282	$ 4,202	$ 2,609	$ 40,805
Year ended December 31, 2002:						
Revenue (c)	$ 346,673	$ 286,508	$ 253,928	$ 96,810	$ 81,520	$ 1,065,439
Long-lived assets, net (d)	$ 84,621	$ 9,038	$ 63,707	$ 66,190	$ 12,487	$ 236,043

(b) Includes the Americas other than the United States and Asia Pacific other than Australia.
(c) Revenue is generally recorded on a geographic basis according to the location of the operating subsidiary.
(d) Comprised of property and equipment and intangibles. Corporate assets are included in the United States.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

16. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

	First quarter	Second quarter	Third quarter	Fourth quarter
Year ended December 31, 2004:				
Revenue	$ 289,804	$ 307,431	$ 315,029	$ 344,090
Gross margin	$ 106,391	$ 118,489	$ 116,414	$ 128,926
Operating income (loss)	$ (16,307)	$ 680	$ (6,748)	$ (824)
Net income (loss)	$ (18,708)	$ 217	$ (6,947)	$ (1,337)
Basic earnings (loss) per share	$ (1.09)	$ .01	$ (.34)	$ (.07)
Diluted earnings (loss) per share (a)	$ (1.09)	$ .01	$ (.34)	$ (.07)
Basic weighted average shares outstanding for quarter (b)	17,231,000	19,901,000	20,306,000	20,371,000
Diluted weighted average shares outstanding for quarter (b)	17,231,000	20,872,000	20,306,000	20,371,000

	First quarter	Second quarter	Third quarter	Fourth quarter
Year ended December 31, 2003:				
Revenue	$ 259,189	$ 269,283	$ 272,181	$ 284,646
Gross margin	$ 97,532	$ 103,718	$ 98,222	$ 103,557
Goodwill impairment charge	$ —	$ —	$ 202,785	$ —
Operating loss	$ (35,822)	$ (16,705)	$ (225,625)	$ (35,497)
Net loss	$ (44,011)	$ (15,090)	$ (226,274)	$ (43,437)
Basic and diluted loss per share (a)	$ (2.63)	$ (.90)	$ (13.46)	$ (2.57)
Basic and diluted average shares outstanding for quarter	16,718,000	16,764,000	16,810,000	16,896,000

(a) Diluted earnings (loss) per share reflect the potential dilution from the assumed exercise of all dilutive potential common shares, primarily stock options. For the first, third and fourth quarters in 2004, the effect of approximately 1,000,000, 918,000 and 830,000, respectively, of outstanding stock options and other common stock equivalents was excluded from the calculation of diluted loss per share because the effect was anti-dilutive. For the first, second, third and fourth quarters in 2003, the effect of approximately 0, 572,000, 666,000 and 860,000, respectively, of outstanding stock options and other common stock equivalents was excluded from the calculation of diluted loss per share because the effect was anti-dilutive.

(b) Weighted average shares outstanding increased primarily due to the Company’s issuance of 2,547,770 shares of common stock in a registered public offering on March 23, 2004 and of 367,174 shares of common stock to purchase a business on June 2, 2004.

Earnings (loss) per share calculations for each quarter include the weighted average effect for the quarter; therefore, the sum of quarterly loss per share amounts may not equal year-to-date loss per share amounts, which reflect the weighted average effect on a year-to-date basis.

HUDSON HIGHLAND GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(in thousands, except share and per share amounts)

17. SUBSEQUENT EVENTS

On February 2, 2005, the Board of Directors of the Company declared a two-for-one stock split effected in the form of a 100% stock dividend payable February 25, 2005 to stockholders of record as of February 14, 2005. This stock split resulted in the issuance of approximately 10,300,000 additional shares of common stock and was accounted for by the transfer of approximately $10 from additional paid-in capital to common stock and the restatement of all share and per share amounts in this Form 10-K for the stock split.

Also, on February 2, 2005, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a “Right”) for each outstanding share of common stock of the Company. The dividend is payable upon the close of business on February 28, 2005 to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $.001 par value (“Preferred Shares”), of the Company, at a price of $60 per one one-hundredth of a Preferred Share, subject to adjustment. The exercise price was established giving effect to the two-for-one stock split of the Company’s common stock discussed above. If any person becomes a 15% or more stockholder of the Company, then each Right (subject to certain limitations) will entitle its holder to purchase, at the Right’s then current exercise price, a number of shares of common stock of the Company or of the acquirer having a market value at the time of twice the Right’s per share exercise price. The Company’s Board of Directors may redeem the Rights for $.001 per Right at any time prior to the time when the Rights become exercisable. Unless the Rights are redeemed, exchanged or terminated earlier, they will expire on February 28, 2015.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chairman and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, has conducted an evaluation of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, the Company's Chairman and Chief Executive Officer and its Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

Management's Annual Report on Internal Control Over Financial Reporting

The report of management required under this Item 9A is contained in Item 8 of this Annual Report on Form 10-K under the caption "Management's Annual Report on Internal Control Over Financial Reporting" on page 33.

Report of Independent Registered Public Accounting Firm

The attestation report under this Item 9A is contained in Item 8 of this Annual Report on Form 10-K under the caption "Report of Independent Registered Public Accounting Firm" on page 35.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to Instruction G(3) to Form 10-K, the information included under the captions "Election of Directors," "Board of Directors and Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement, which is expected to be filed pursuant to Regulation 14A within 120 days following the end of the fiscal year covered by this report (the "Proxy Statement"), is hereby incorporated by reference. The information required by Item 10 with respect to our Executive Officers is included in Part I of this Annual Report on Form 10-K.

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees and a Code of Ethics for the Chief Executive Officer and the Senior Financial and Accounting Officers. We have posted a copy of the Code of Business Conduct and Ethics and the Code of Ethics on our Web site at www.hhgroup.com. The

Code of Business Conduct and Ethics and Code of Ethics are also available in print to any stockholder who requests them in writing from the Corporate Secretary at 622 Third Avenue, New York, New York 10017. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, or waivers from, our Code of Ethics by posting such information on our Web site at www.hhgroup.com. We are not including the information contained on our Web site as part of, or incorporating it by reference into, this report.

ITEM 11. EXECUTIVE COMPENSATION

Pursuant to Instruction G(3) to Form 10-K, the information required in Item 11 is incorporated by reference from the Proxy Statement under the captions "Board of Directors and Corporate Governance—Director Compensation" and "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Pursuant to Instruction G(3) to Form 10-K, the information required in Item 12 is incorporated by reference from the Proxy Statement under the caption "Principal Stockholders."

Equity Compensation Plan Information

The following table presents information on the Company's existing equity incentive plans as of December 31, 2004.

	Number of shares to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in Column A)(1)
	A	B	C
Equity Compensation Plans approved by stockholders:			
Long Term Incentive Plan	1,641,866	$ 8.37	872,210
Employee Stock Purchase Plan	—	—	961,848
Equity Compensation Plans not approved by stockholders:	—	—	—
Total	1,641,866	$ 8.37	1,834,058

(1) Excludes 55,626 shares of restricted common stock vesting over a three-year retention period and 94,000 shares of restricted common stock vesting over a four-year vesting period, previously issued under the Hudson Highland Group, Inc. Long Term Incentive Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Pursuant to Instruction G(3) to Form 10-K, the information required in Item 14 is incorporated by reference from the Proxy Statement under the caption "Ratification of the Appointment of BDO Seidman, LLP as Independent Registered Public Accountants."

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

(a) 1. Financial statements—The following financial statements and the report of independent registered public accounting firm are contained in Item 8.

2. Financial statement schedules

Schedule II—Valuation and qualifying accounts and reserves.

All other schedules are omitted since the required information is not present, or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and the notes thereto.

3. Exhibits—The exhibits listed in the accompanying index to exhibits are filed as part of this Annual Report on Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

The audits referred to in our report dated March 8, 2005, relating to the consolidated financial statements of Hudson Highland Group, Inc., which is contained in Item 8 of this Form 10-K, included the audits of the consolidated financial statement schedule listed in the accompanying index. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statement schedule based upon our audits.

In our opinion, the consolidated financial statement schedule presents fairly, in all material respects, the information set forth therein.

/s/ BDO SEIDMAN, LLP
BDO Seidman, LLP

New York, New York
March 8, 2005

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

Column A	Column B	Column C Additions		Column D	Column E
Descriptions	Balance at Beginning of Period	Charged to Costs/Expenses (Recoveries)	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for Doubtful Accounts					
Year ended December 31, 2002	$ 11,119	3,323	—	4,161	$ 10,281
Year ended December 31, 2003	$ 10,281	13,482	—	17,360	$ 6,403
Year ended December 31, 2004	$ 6,403	(683)	—	490	$ 5,230

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this Eleventh of March 2005.

HUDSON HIGHLAND GROUP, INC.

By /S/ JON F. CHAIT

Jon F. Chait
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ JON F. CHAIT **Jon F. Chait**	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	March 11, 2005
/S/ RICHARD W. PEHLKE **Richard W. Pehlke**	Executive Vice President and Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 11, 2005
/S/ RALPH L. O'HARA **Ralph L. O'Hara**	Vice President, Global Controller (Principal Accounting Officer)	March 11, 2005
/S/ JOHN J. HALEY **John J. Haley**	Director	March 11, 2005
/S/ JENNIFER LAING **Jennifer Laing**	Director	March 11, 2005
/S/ NICHOLAS G. MOORE **Nicholas G. Moore**	Director	March 11, 2005
/S/ DAVID G. OFFENSEND **David G. Offensend**	Director	March 11, 2005
/S/ RENÉ SCHUSTER **René Schuster**	Director	March 11, 2005

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
(3.1)	Amended and Restated Certificate of Incorporation of Hudson Highland Group, Inc. (incorporated by reference to Exhibit 3.1 to Hudson Highland Group, Inc.'s Registration Statement on Form 10 filed March 14, 2003 (file No. 0-50129)).
(3.2)	Certificate of Designations of the Board of Directors Establishing the Series and Fixing the Relative Rights and Preferences of Series A Junior Participating Preferred Stock. (incorporated by reference to Exhibit 3.1 to Hudson Highland Group, Inc.'s Current Report on Form 8-K filed February 3, 2005 (file No. 0-50129)).
(3.3)	Amended and Restated By-laws of Hudson Highland Group, Inc. (incorporated by reference to Exhibit 3.1 to Hudson Highland Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (file No. 0-50129)).
(4.1)	Amended Restated Loan and Security Agreement, dated as of June 25, 2003, by and among the Registrant and each of its subsidiaries that are signatories thereto, as Borrowers, the lenders that are signatories thereto, as the Lenders, and Wells Fargo Foothill, Inc. as the Arranger and Administrative Agent (incorporated by reference to Exhibit 4.1 to Hudson Highland Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (file No. 0-50129)).
(4.2)	Amendment No. 1 to Amended and Restated Loan Security Agreement, dated as of September 30, 2003, between the Registrant and Wells Fargo Foothill, Inc. (incorporated by reference to Exhibit 4 to Hudson Highland Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (file No. 0-50129)).
(4.3)	Amendment No. 2 to and Consent Under Amended and Restated Loan and Security Agreement, dated as of December 29, 2003, between the Registrant and Wells Fargo Foothill, Inc. (incorporated by reference to Exhibit 4 to Hudson Highland Group, Inc.'s Current Report on Form 8-K filed January 16, 2004 (file No. 0-50129)).
(4.4)	Amendment No. 3, Consent and Joinder to Amended and Restated Loan Security Agreement, Dated March 2, 2004, between Hudson Highland Group, Inc. and Wells Fargo Foothill, Inc. (incorporated by reference to Exhibit 4.3 to Hudson Highland Group, Inc.'s Annual Report on Form 10-K filed March 10, 2004 (file No. 0-50129)).
(4.5)	Amendment No. 4, Consent and Joinder to Amended and Restated Loan and Security Agreement, dated as of July 27, 2004, among Hudson Highland Group, Inc., the Borrowers (as defined therein), the Joining Guarantors (as defined therein), Wells Fargo Foothill, Inc. and the lenders identified therein (incorporated by reference to Exhibit 4 to Hudson Highland Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (file No. 0-50129)).
(4.6)	Rights Agreement, dated as of February 2, 2005, between Hudson Highland Group, Inc. and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 8-A of Hudson Highland Group, Inc. February 3, 2005 (file No. 0-50129)).
(10.1)*	Hudson Highland Group, Inc. Long Term Incentive Plan, as amended February 18, 2004 and approved by shareholders April 30, 2004 (incorporated by reference to Annex B to the Hudson Highland Group, Inc.'s proxy statement for its 2004 annual meeting of shareholders filed with the SEC on March 22, 2004 (file No. 0-50129)).
(10.2)*	Hudson Highland Group, Inc. Board of Directors Stock Option Agreement (incorporated by reference to Exhibit 10.1 to Hudson Highland Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (file No. 0-50129)).

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Exhibit Number	Exhibit Description
(10.3)*	Hudson Highland Group, Inc. Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to Hudson Highland Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (file No. 0-50129)).
(10.4)*	Hudson Highland Group, Inc. Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Hudson Highland Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (file No. 0-50129)).
(10.5)*	Employment Agreement, dated March 7, 2003, between Richard W. Pehlke and TMP Worldwide Inc. (incorporated by reference to Exhibit 10.4 to Hudson Highland Group, Inc.'s Annual Report on Form 10-K filed March 10, 2004 (file No. 0-50129)).
(10.6)*	Employment Agreement, dated November 27, 2002, between Richard Harris and TMP Worldwide Inc. (incorporated by reference to Exhibit 10.5 to Hudson Highland Group, Inc.'s Annual Report on Form 10-K filed March 10, 2004 (file No. 0-50129)).
(10.7)*	Letter, dated May 6, 2003, between Rick Gray and Hudson Highland Group, Inc. (incorporated by reference to Exhibit 10.7 to Hudson Highland Group, Inc.'s Annual Report on Form 10-K filed March 10, 2004 (file No. 0-50129)).
(10.8)*	Letter, dated March 25, 2003, between Steven B. London and Hudson Highland Group, Inc. (incorporated by reference to Exhibit 10.8 to Hudson Highland Group, Inc.'s Annual Report on Form 10-K filed March 10, 2004 (file No. 0-50129)).
(10.9)*	Summary of Hudson Highland Group, Inc. 2005 Incentive Compensation Program (incorporated by reference to Exhibit 10.1 to Hudson Highland Group, Inc.'s Current Report on Form 8-K filed January 21, 2005 (file No. 0-50129)).
(10.10)*	Executive Employment Agreement, dated August 2, 2004, between Margaretta R. Noonan and Hudson Highland Group, Inc.
(10.11)*	Executive Employment Agreement, dated August 4, 2004, between Neil Funk and Hudson Highland Group, Inc.
(10.12)*	Executive Employment Agreement, dated August 4, 2004, between Ralph O'Hara and Hudson Highland Group, Inc.
(10.13)*	Executive Employment Agreement, dated August 4, 2004, between Latham Williams and Hudson Highland Group, Inc.
(10.14)*	Hudson Highland Group, Inc. 2004 Nonqualified Deferred Compensation Plan
(10.15)*	Summary of Hudson Highland Group, Inc. Compensation for Non-employee Members of the Board of Directors
(21)	Subsidiaries of Hudson Highland Group, Inc.
(23)	Consent of BDO Seidman, LLP.
(31.1)	Certification by Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
(31.2)	Certification by the Executive Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
(32.1)	Certification of the Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
(32.2)	Certification of the Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

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Exhibit Number	Exhibit Description
(99.1)	Proxy Statement for the 2005 Annual Meeting of Stockholders [To be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after December 31, 2004; except to the extent specifically incorporated by reference, the Proxy Statement for the 2004 Annual Meeting of Stockholders shall not be deemed to be filed with the Securities and Exchange Commission as part of this Annual Report on Form 10-K.]

* A management contract or compensatory plan or arrangement.

Exhibit 10.10

HUDSON HIGHLAND GROUP EXECUTIVE EMPLOYMENT AGREEMENT

This employment agreement (the "Agreement") is by and between Hudson Highland Group, Inc. (the "Company") and Margaretta R. Noonan (the "Executive").

WHEREAS, the Company wishes to continue to employ the Executive and the Executive wishes to continue to be employed in accordance with the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the conditions and mutual covenants contained in this Agreement, the parties agree as follows:

1. Employment. The Company will employ the Executive and the Executive accepts employment as the Executive Vice President, Global Human Resources. The Executive will perform duties normally associated with such position and/or other duties as may be assigned from time to time during the Term as defined in Section 2 below. The Executive shall perform such duties in a manner consistent with applicable laws and regulations and any code of ethics, compliance manual, employee handbook or other policies and procedures adopted by the Company from time to time and subject to any written directives issued by the Company from time to time.

2. Term of Employment. The Executive's employment under this Agreement will commence on January 1, 2004 (the "Commencement Date") and will continue for a period of one (1) year thereafter, subject to earlier termination as provided in Section 7 (the "Term"). This Agreement and the Term will be automatically renewed and extended for periods of one (1) year unless the Company or the Executive provides written notice no less than thirty (30) days prior to the expiration of the then-current Term of its or the Executive's desire not to renew this Agreement.

3. Scope of Responsibilities and Duties. The Executive agrees to devote the Executive's full business time, attention, efforts and energies in performance of the Executive's duties and responsibilities hereunder. While employed by the Company, the Executive may not engage in any employment other than for the Company, in any conflicting business activities, or have any financial interest, directly or indirectly, in any business competing with the Company or otherwise engaged in the business of the Company or its affiliates. The foregoing does not prevent the Executive from passively investing in publicly traded securities; provided such investments do not require services on the part of the Executive which would in any way impair the performance of the Executive's duties pursuant to this Agreement.

4. Compensation and Benefits. The Company will provide the Executive with the following compensation and benefits during the Term:

(a) The Company will pay the Executive a salary of $250,000 on an annualized basis, payable in accordance with the payroll practices of the Company in effect from time to time, and less such taxes and other deductions required by applicable law or authorized by the Executive (the "Base Salary").

(b) The Executive will be entitled to accrue paid vacation at the rate of the greater of (i) four (4) weeks per year, or (ii) the vacation allowance as provided under the Company's vacation plan that applies to similarly situated employees working at the office location at which the Executive is based. In addition, the Company will provide the Executive with other benefits of employment offered, from time to time to similarly situated employees at the office location at which the Executive is based.

(c) The Executive will receive an annual bonus as provided under the Company's Senior Management Bonus Plan as is effect from time to time.

5. Additional Agreements. This Agreement and the Executive's employment hereunder is contingent upon the Executive's execution of the General Release and Waiver, which is attached as Attachment A and forms a part of this Agreement. The Executive's employment hereunder is further contingent upon the Executive's simultaneous execution of the Confidentiality, Non-Solicitation and Work Product Assignment Agreement and Mutual Agreement to Arbitrate Claims, which is attached as Attachment B and forms a part of this Agreement.

6. Representations and Warranties. The Executive represents and warrants as follows:

(a) All information, oral and written (including, but not limited to information contained on the Executive's resume), provided by the Executive during the recruiting and employment process is accurate and true to the best of the Executive's knowledge, and such information does not include any misleading or untrue statement or omit to state any fact necessary to make the information provided not misleading.

(b) The Executive has never been the subject of any investigation or subject to any disciplinary action by any governmental agency, industry self-regulatory body or other employer.

(c) The execution, delivery and performance of this Agreement by the Executive and the Executive's employment hereunder are not in violation of:

(i) the terms, including any non-competition, non-disclosure, non-solicitation or confidentiality provisions, of any written or oral agreement, arrangement or understanding to which the Executive is a party or by which the Executive is bound; or

(ii) any United States federal or state statute, rule, regulation, or other law, or any judgment, decree or order applicable or binding upon the Executive.

7. Termination. This Agreement and the Executive's employment may be terminated prior to the expiration of the Term as follows:

(a) Death. If the Executive dies during the Term, this Agreement shall automatically terminate and the Company shall have no further obligation to the

Executive or the Executive’s estate, except to pay the Executive’s estate that portion of the Base Salary earned through the date on which the Executive’s death occurs.

(b) Disability. If the Executive is unable to perform the Executive’s essential job duties and responsibilities due to mental or physical disability for a total of twelve (12) weeks, whether consecutive or not, during any rolling twelve (12) month period, the Company may terminate the Executive’s employment and this Agreement upon five (5) days’ written notice to the Executive. For purposes of this Agreement, the Executive will be considered disabled when the Company, with the advice of a qualified physician, determines that the Executive is physically or mentally incapable (excluding infrequent and temporary absences due to ordinary illness) of performing the Executive’s essential job duties. The Executive shall cooperate with the Company in obtaining the advice of a qualified physician regarding the Executive’s condition. In the event of termination pursuant to this Section 7(b), the Company will be relieved of all obligations under this Agreement, provided that the Company will pay to the Executive that portion of the Base Salary under Section 4(a) which has been earned through the date on which such termination occurs.

(c) Discharge without Cause. The Company may terminate the Executive and this Agreement at any time during the Term for any reason, without Cause (as defined in Section 7(e) below) upon thirty (30) days’ written notice to the Executive. Upon such termination, the Company will have no further liability to the Executive other than to provide the Executive with (i) that portion of the Base Salary under Section 4(a) earned through the date of the termination, (ii) severance pay in an amount equal to the Executive’s then-current Base Salary, less applicable deductions, for a period of twelve (12) months following such termination, (the “Severance Period”), and (iii) the Company’s portion of the premium for continued coverage under the Company’s group health and dental insurance plan during the Severance Period, provided the Executive applies and remains eligible for such continuation coverage under applicable law, and provided further that the Executive authorizes the Company to deduct the Executive’s portion of such premiums from the severance payments. It is understood that the period the Company makes such payments will run concurrently with the period of continuation coverage for which the Executive may be eligible under applicable law. The Executive’s receipt of the severance payments and premium payments by the Company set forth in this paragraph (7) are conditioned upon the Executive executing a comprehensive release and waiver agreement and covenant not to sue as provided by the Company at the time of termination. Severance payments will be made in equal installments on dates corresponding with the Company’s regular pay dates during the Severance Period.

(d) Termination for Cause. The Company may terminate the Executive’s employment and this Agreement at any time during the Term for Cause as defined below. In such case, this Agreement and the Executive’s employment shall terminate immediately and the Company shall have no further obligation to the Executive, except that the Company shall pay to the Executive that portion of the Base Salary under Section 4(a) earned through the date on which such termination occurs.

(e) Definition of Cause. For purposes of this Agreement, Cause shall be defined as:

(i) the willful or negligent failure of the Executive to perform the Executive's duties and obligations in any material respect (other than any failure resulting from Executive's disability), which failure is not cured within fifteen (15) days after receipt of written notice thereof, provided that there shall be no obligation to provide any additional written notice if the Executive's failure to perform is repeated and the Executive has previously received one (1) or more written notices;

(ii) acts of dishonesty or willful misconduct by the Executive with respect to the Company;

(iii) conviction of a felony or violation of any law involving moral turpitude, dishonesty, disloyalty or fraud, or a pleading of guilty or *nolo contendere* to such charge;

(iv) repeated refusal to perform the reasonable and legal instructions of the Executive's supervisors; or

(v) any material breach of this Agreement or Attachment A.

(f) Resignation. The Executive may voluntarily resign from employment at any time during the Term upon 3 months' written notice and in compliance with the provisions of Attachment B. In such event, the Company shall be relieved of all its obligations under this Agreement, except that the Company shall pay to the Executive that portion of the Base Salary under Section 4(a) earned through the date on which such resignation is effective.

(g) The Executive remains obligated to comply with the Executive's obligations and duties pursuant to Attachment B despite the termination of this Agreement and the Executive's employment for any reason.

(h) During employment and after the termination of this Agreement and the Executive's employment for any reason, the Executive agrees to cooperate fully with and at the request of the Company in the defense or prosecution of any legal matter or claim in which the Company, any of its affiliates, or any of their past or present employees, agents, officers, directors, attorneys, successors or assigns, may be or become involved and which arises or arose during the Executive's employment. The Executive will be reimbursed for any reasonable out-of-pocket expenses incurred thereby.

(i) During and after the termination of this Agreement and the Executive's employment for any reason, the Executive agrees that, except as may be required by the lawful order of a court or agency of competent jurisdiction, he will not take any action or make any statement or disclosure, written or oral, that is intended or reasonably likely to disparage the Company or any of its affiliates, or any of their past or present employees, officers or directors.

8. Severability. Whenever possible, each portion, provision or section of this Agreement will be interpreted in such a way as to be effective and valid under applicable law, but if any portion, provision or section of this Agreement is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other portions, provisions or sections. Rather, this Agreement will be reformed, construed and enforced as if such invalid, illegal or unenforceable portion, provision or section had never been contained herein.

9. Complete Agreement. This Agreement, including Attachments A and B, contains the complete agreement and understanding between the parties and supersedes and preempts any prior understanding, agreement or representation by or between the parties, written or oral.

10. Additional Rights and Causes of Action. This Agreement, including Attachments A and B, is in addition to and does not in any way waive or detract from any rights or causes of action the Company may have relating to Confidential Information or other protectable information or interests under statutory or common law or under any other agreement.

11. Governing Law. Notwithstanding principles of conflicts of law of any jurisdiction to the contrary, all terms and provisions to this Agreement are to be construed and governed by the laws of the State of New York without regard to the laws of any other jurisdiction in which the Executive resides or performs any duties hereunder or where any violation of this Agreement occurs.

12. Successors and Assigns. This Agreement will inure to the benefit of and be enforceable by the Company and its successors and assigns. The Executive may not assign the Executive's rights or delegate the Executive's obligations hereunder.

13. Waivers. The waiver by either the Executive or the Company of a breach by the other party of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by the breaching party.

THE COMPANY AND THE EXECUTIVE ACKNOWLEDGE THAT (A) EACH HAS CAREFULLY READ THIS AGREEMENT, (B) EACH UNDERSTANDS ITS TERMS, (C) ALL UNDERSTANDINGS AND AGREEMENTS BETWEEN THE COMPANY AND THE EXECUTIVE RELATING TO THE SUBJECTS COVERED IN THE AGREEMENT ARE CONTAINED IN IT, AND (D) EACH HAS ENTERED INTO THIS AGREEMENT VOLUNTARILY AND NOT IN RELIANCE ON ANY PROMISES OR REPRESENTATIONS BY THE OTHER, OTHER THAN THOSE CONTAINED IN THIS AGREEMENT ITSELF.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

	Hudson Highland Group, Inc.
/S/ MARGARETTA R. NOONAN	By: /S/ JON F. CHAIT
Signature of Executive	Signature of Authorized Representative
Margaretta R. Noonan	Its: Chairman and Chief Executive Officer
Print Name	Title of Representative
August 4, 2004	August 4, 2004
Date	Date

EXHIBIT 10.11

HUDSON HIGHLAND GROUP EXECUTIVE EMPLOYMENT AGREEMENT

This employment agreement (the "Agreement") is by and between Hudson Highland Group, Inc. (the "Company") and Neil Funk (the "Executive").

WHEREAS, the Company wishes to continue to employ the Executive and the Executive wishes to continue to be employed in accordance with the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the conditions and mutual covenants contained in this Agreement, the parties agree as follows:

1. Employment. The Company will employ the Executive and the Executive accepts employment as the Vice President, Internal Audit. The Executive will perform duties normally associated with such position and/or other duties as may be assigned from time to time during the Term as defined in Section 2 below. The Executive shall perform such duties in a manner consistent with applicable laws and regulations and any code of ethics, compliance manual, employee handbook or other policies and procedures adopted by the Company from time to time and subject to any written directives issued by the Company from time to time.

2. Term of Employment. The Executive's employment under this Agreement will commence on January 1, 2004 (the "Commencement Date") and will continue for a period of one (1) year thereafter, subject to earlier termination as provided in Section 7 (the "Term"). This Agreement and the Term will be automatically renewed and extended for periods of one (1) year unless the Company or the Executive provides written notice no less than thirty (30) days prior to the expiration of the then-current Term of its or the Executive's desire not to renew this Agreement.

3. Scope of Responsibilities and Duties. The Executive agrees to devote the Executive's full business time, attention, efforts and energies in performance of the Executive's duties and responsibilities hereunder. While employed by the Company, the Executive may not engage in any employment other than for the Company, in any conflicting business activities, or have any financial interest, directly or indirectly, in any business competing with the Company or otherwise engaged in the business of the Company or its affiliates. The foregoing does not prevent the Executive from passively investing in publicly traded securities; provided such investments do not require services on the part of the Executive which would in any way impair the performance of the Executive's duties pursuant to this Agreement.

4. Compensation and Benefits. The Company will provide the Executive with the following compensation and benefits during the Term:

(a) The Company will pay the Executive a salary of $175,000 on an annualized basis, payable in accordance with the payroll practices of the Company in effect from time to time, and less such taxes and other deductions required by applicable law or authorized by the Executive (the "Base Salary").

(b) The Executive will be entitled to accrue paid vacation at the rate of the greater of (i) four (4) weeks per year, or (ii) the vacation allowance as provided under the Company's vacation plan that applies to similarly situated employees working at the office location at which the Executive is based. In addition, the Company will provide the Executive with other benefits of employment offered, from time to time to similarly situated employees at the office location at which the Executive is based.

(c) The Executive will receive an annual bonus as provided under the Company's Senior Management Bonus Plan as is effect from time to time.

5. Additional Agreements. This Agreement and the Executive's employment hereunder is contingent upon the Executive's execution of the General Release and Waiver, which is attached as Attachment A and forms a part of this Agreement. The Executive's employment hereunder is further contingent upon the Executive's simultaneous execution of the Confidentiality, Non-Solicitation and Work Product Assignment Agreement and Mutual Agreement to Arbitrate Claims, which is attached as Attachment B and forms a part of this Agreement.

6. Representations and Warranties. The Executive represents and warrants as follows:

(a) All information, oral and written (including, but not limited to information contained on the Executive's resume), provided by the Executive during the recruiting and employment process is accurate and true to the best of the Executive's knowledge, and such information does not include any misleading or untrue statement or omit to state any fact necessary to make the information provided not misleading.

(b) The Executive has never been the subject of any investigation or subject to any disciplinary action by any governmental agency, industry self-regulatory body or other employer.

(c) The execution, delivery and performance of this Agreement by the Executive and the Executive's employment hereunder are not in violation of:

(i) the terms, including any non-competition, non-disclosure, non-solicitation or confidentiality provisions, of any written or oral agreement, arrangement or understanding to which the Executive is a party or by which the Executive is bound; or

(ii) any United States federal or state statute, rule, regulation, or other law, or any judgment, decree or order applicable or binding upon the Executive.

7. Termination. This Agreement and the Executive's employment may be terminated prior to the expiration of the Term as follows:

(a) Death. If the Executive dies during the Term, this Agreement shall automatically terminate and the Company shall have no further obligation to the

Executive or the Executive’s estate, except to pay the Executive’s estate that portion of the Base Salary earned through the date on which the Executive’s death occurs.

(b) Disability. If the Executive is unable to perform the Executive’s essential job duties and responsibilities due to mental or physical disability for a total of twelve (12) weeks, whether consecutive or not, during any rolling twelve (12) month period, the Company may terminate the Executive’s employment and this Agreement upon five (5) days’ written notice to the Executive. For purposes of this Agreement, the Executive will be considered disabled when the Company, with the advice of a qualified physician, determines that the Executive is physically or mentally incapable (excluding infrequent and temporary absences due to ordinary illness) of performing the Executive’s essential job duties. The Executive shall cooperate with the Company in obtaining the advice of a qualified physician regarding the Executive’s condition. In the event of termination pursuant to this Section 7(b), the Company will be relieved of all obligations under this Agreement, provided that the Company will pay to the Executive that portion of the Base Salary under Section 4(a) which has been earned through the date on which such termination occurs.

(c) Discharge without Cause. The Company may terminate the Executive and this Agreement at any time during the Term for any reason, without Cause (as defined in Section 7(e) below) upon thirty (30) days’ written notice to the Executive. Upon such termination, the Company will have no further liability to the Executive other than to provide the Executive with (i) that portion of the Base Salary under Section 4(a) earned through the date of the termination, (ii) severance pay in an amount equal to the Executive’s then-current Base Salary, less applicable deductions, for a period of twelve (12)months following such termination, (the “Severance Period”), and (iii) the Company’s portion of the premium for continued coverage under the Company’s group health and dental insurance plan during the Severance Period, provided the Executive applies and remains eligible for such continuation coverage under applicable law, and provided further that the Executive authorizes the Company to deduct the Executive’s portion of such premiums from the severance payments. It is understood that the period the Company makes such payments will run concurrently with the period of continuation coverage for which the Executive may be eligible under applicable law. The Executive’s receipt of the severance payments and premium payments by the Company set forth in this paragraph (7) are conditioned upon the Executive executing a comprehensive release and waiver agreement and covenant not to sue as provided by the Company at the time of termination. Severance payments will be made in equal installments on dates corresponding with the Company’s regular pay dates during the Severance Period.

(d) Termination for Cause. The Company may terminate the Executive’s employment and this Agreement at any time during the Term for Cause as defined below. In such case, this Agreement and the Executive’s employment shall terminate immediately and the Company shall have no further obligation to the Executive, except that the Company shall pay to the Executive that portion of the Base Salary under Section 4(a) earned through the date on which such termination occurs.

(e) Definition of Cause. For purposes of this Agreement, Cause shall be defined as:

(i) the willful or negligent failure of the Executive to perform the Executive's duties and obligations in any material respect (other than any failure resulting from Executive's disability), which failure is not cured within fifteen (15) days after receipt of written notice thereof, provided that there shall be no obligation to provide any additional written notice if the Executive's failure to perform is repeated and the Executive has previously received one (1) or more written notices;

(ii) acts of dishonesty or willful misconduct by the Executive with respect to the Company;

(iii) conviction of a felony or violation of any law involving moral turpitude, dishonesty, disloyalty or fraud, or a pleading of guilty or *nolo contendere* to such charge;

(iv) repeated refusal to perform the reasonable and legal instructions of the Executive's supervisors; or

(v) any material breach of this Agreement or Attachment A.

(f) Resignation. The Executive may voluntarily resign from employment at any time during the Term upon 3 months' written notice and in compliance with the provisions of Attachment B. In such event, the Company shall be relieved of all its obligations under this Agreement, except that the Company shall pay to the Executive that portion of the Base Salary under Section 4(a) earned through the date on which such resignation is effective.

(g) The Executive remains obligated to comply with the Executive's obligations and duties pursuant to Attachment B despite the termination of this Agreement and the Executive's employment for any reason.

(h) During employment and after the termination of this Agreement and the Executive's employment for any reason, the Executive agrees to cooperate fully with and at the request of the Company in the defense or prosecution of any legal matter or claim in which the Company, any of its affiliates, or any of their past or present employees, agents, officers, directors, attorneys, successors or assigns, may be or become involved and which arises or arose during the Executive's employment. The Executive will be reimbursed for any reasonable out-of-pocket expenses incurred thereby.

(i) During and after the termination of this Agreement and the Executive's employment for any reason, the Executive agrees that, except as may be required by the lawful order of a court or agency of competent jurisdiction, he will not take any action or make any statement or disclosure, written or oral, that is intended or reasonably likely to disparage the Company or any of its affiliates, or any of their past or present employees, officers or directors.

8. Severability. Whenever possible, each portion, provision or section of this Agreement will be interpreted in such a way as to be effective and valid under applicable law, but if any portion, provision or section of this Agreement is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other portions, provisions or sections. Rather, this Agreement will be reformed, construed and enforced as if such invalid, illegal or unenforceable portion, provision or section had never been contained herein.

9. Complete Agreement. This Agreement, including Attachments A and B, contains the complete agreement and understanding between the parties and supersedes and preempts any prior understanding, agreement or representation by or between the parties, written or oral.

10. Additional Rights and Causes of Action. This Agreement, including Attachments A and B, is in addition to and does not in any way waive or detract from any rights or causes of action the Company may have relating to Confidential Information or other protectable information or interests under statutory or common law or under any other agreement.

11. Governing Law. Notwithstanding principles of conflicts of law of any jurisdiction to the contrary, all terms and provisions to this Agreement are to be construed and governed by the laws of the State of New York without regard to the laws of any other jurisdiction in which the Executive resides or performs any duties hereunder or where any violation of this Agreement occurs.

12. Successors and Assigns. This Agreement will inure to the benefit of and be enforceable by the Company and its successors and assigns. The Executive may not assign the Executive's rights or delegate the Executive's obligations hereunder.

13. Waivers. The waiver by either the Executive or the Company of a breach by the other party of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by the breaching party.

THE COMPANY AND THE EXECUTIVE ACKNOWLEDGE THAT (A) EACH HAS CAREFULLY READ THIS AGREEMENT, (B) EACH UNDERSTANDS ITS TERMS, (C) ALL UNDERSTANDINGS AND AGREEMENTS BETWEEN THE COMPANY AND THE EXECUTIVE RELATING TO THE SUBJECTS COVERED IN THE AGREEMENT ARE CONTAINED IN IT, AND (D) EACH HAS ENTERED INTO THIS AGREEMENT VOLUNTARILY AND NOT IN RELIANCE ON ANY PROMISES OR REPRESENTATIONS BY THE OTHER, OTHER THAN THOSE CONTAINED IN THIS AGREEMENT ITSELF.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

	Hudson Highland Group, Inc.
/S/ NEIL FUNK	By: /S/ MARGARETTA R. NOONAN
Signature of Executive	Signature of Authorized Representative
Neil Funk	Its: Executive Vice President, Global Human Resources
Print Name	Title of Representative
August 4, 2004	August 4, 2004
Date	Date

EXHIBIT 10.12

HUDSON HIGHLAND GROUP EXECUTIVE EMPLOYMENT AGREEMENT

This employment agreement (the "Agreement") is by and between Hudson Highland Group, Inc. (the "Company") and Ralph O'Hara (the "Executive").

WHEREAS, the Company wishes to continue to employ the Executive and the Executive wishes to continue to be employed in accordance with the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the conditions and mutual covenants contained in this Agreement, the parties agree as follows:

1. Employment. The Company will employ the Executive and the Executive accepts employment as Vice President, Controller. The Executive will perform duties normally associated with such position and/or other duties as may be assigned from time to time during the Term as defined in Section 2 below. The Executive shall perform such duties in a manner consistent with applicable laws and regulations and any code of ethics, compliance manual, employee handbook or other policies and procedures adopted by the Company from time to time and subject to any written directives issued by the Company from time to time.

2. Term of Employment. The Executive's employment under this Agreement will commence on January 1, 2004 (the "Commencement Date") and will continue for a period of one (1) year thereafter, subject to earlier termination as provided in Section 7 (the "Term"). This Agreement and the Term will be automatically renewed and extended for periods of one (1) year unless the Company or the Executive provides written notice no less than thirty (30) days prior to the expiration of the then-current Term of its or the Executive's desire not to renew this Agreement.

3. Scope of Responsibilities and Duties. The Executive agrees to devote the Executive's full business time, attention, efforts and energies in performance of the Executive's duties and responsibilities hereunder. While employed by the Company, the Executive may not engage in any employment other than for the Company, in any conflicting business activities, or have any financial interest, directly or indirectly, in any business competing with the Company or otherwise engaged in the business of the Company or its affiliates. The foregoing does not prevent the Executive from passively investing in publicly traded securities; provided such investments do not require services on the part of the Executive which would in any way impair the performance of the Executive's duties pursuant to this Agreement.

4. Compensation and Benefits. The Company will provide the Executive with the following compensation and benefits during the Term:

(a) The Company will pay the Executive a salary of $225,000 on an annualized basis, payable in accordance with the payroll practices of the Company in effect from time to time, and less such taxes and other deductions required by applicable law or authorized by the Executive (the "Base Salary").

(b) The Executive will be entitled to accrue paid vacation at the rate of the greater of (i) four (4) weeks per year, or (ii) the vacation allowance as provided under the Company's vacation plan that applies to similarly situated employees working at the office location at which the Executive is based. In addition, the Company will provide the Executive with other benefits of employment offered, from time to time to similarly situated employees at the office location at which the Executive is based.

(c) The Executive will receive an annual bonus as provided under the Company's Senior Management Bonus Plan as is effect from time to time.

5. Additional Agreements. This Agreement and the Executive's employment hereunder is contingent upon the Executive's execution of the General Release and Waiver, which is attached as Attachment A and forms a part of this Agreement. The Executive's employment hereunder is further contingent upon the Executive's simultaneous execution of the Confidentiality, Non-Solicitation and Work Product Assignment Agreement and Mutual Agreement to Arbitrate Claims, which is attached as Attachment B and forms a part of this Agreement.

6. Representations and Warranties. The Executive represents and warrants as follows:

(a) All information, oral and written (including, but not limited to information contained on the Executive's resume), provided by the Executive during the recruiting and employment process is accurate and true to the best of the Executive's knowledge, and such information does not include any misleading or untrue statement or omit to state any fact necessary to make the information provided not misleading.

(b) The Executive has never been the subject of any investigation or subject to any disciplinary action by any governmental agency, industry self-regulatory body or other employer.

(c) The execution, delivery and performance of this Agreement by the Executive and the Executive's employment hereunder are not in violation of:

(i) the terms, including any non-competition, non-disclosure, non-solicitation or confidentiality provisions, of any written or oral agreement, arrangement or understanding to which the Executive is a party or by which the Executive is bound; or

(ii) any United States federal or state statute, rule, regulation, or other law, or any judgment, decree or order applicable or binding upon the Executive.

7. Termination. This Agreement and the Executive's employment may be terminated prior to the expiration of the Term as follows:

(a) Death. If the Executive dies during the Term, this Agreement shall automatically terminate and the Company shall have no further obligation to the

Executive or the Executive's estate, except to pay the Executive's estate that portion of the Base Salary earned through the date on which the Executive's death occurs.

(b) Disability. If the Executive is unable to perform the Executive's essential job duties and responsibilities due to mental or physical disability for a total of twelve (12) weeks, whether consecutive or not, during any rolling twelve (12) month period, the Company may terminate the Executive's employment and this Agreement upon five (5) days' written notice to the Executive. For purposes of this Agreement, the Executive will be considered disabled when the Company, with the advice of a qualified physician, determines that the Executive is physically or mentally incapable (excluding infrequent and temporary absences due to ordinary illness) of performing the Executive's essential job duties. The Executive shall cooperate with the Company in obtaining the advice of a qualified physician regarding the Executive's condition. In the event of termination pursuant to this Section 7(b), the Company will be relieved of all obligations under this Agreement, provided that the Company will pay to the Executive that portion of the Base Salary under Section 4(a) which has been earned through the date on which such termination occurs.

(c) Discharge without Cause. The Company may terminate the Executive and this Agreement at any time during the Term for any reason, without Cause (as defined in Section 7(e) below) upon thirty (30) days' written notice to the Executive. Upon such termination, the Company will have no further liability to the Executive other than to provide the Executive with (i) that portion of the Base Salary under Section 4(a) earned through the date of the termination, (ii) severance pay in an amount equal to the Executive's then-current Base Salary, less applicable deductions, for a period of twelve (12)months following such termination, (the "Severance Period"), and (iii) the Company's portion of the premium for continued coverage under the Company's group health and dental insurance plan during the Severance Period, provided the Executive applies and remains eligible for such continuation coverage under applicable law, and provided further that the Executive authorizes the Company to deduct the Executive's portion of such premiums from the severance payments. It is understood that the period the Company makes such payments will run concurrently with the period of continuation coverage for which the Executive may be eligible under applicable law. The Executive's receipt of the severance payments and premium payments by the Company set forth in this paragraph (7) are conditioned upon the Executive executing a comprehensive release and waiver agreement and covenant not to sue as provided by the Company at the time of termination. Severance payments will be made in equal installments on dates corresponding with the Company's regular pay dates during the Severance Period.

(d) Termination for Cause. The Company may terminate the Executive's employment and this Agreement at any time during the Term for Cause as defined below. In such case, this Agreement and the Executive's employment shall terminate immediately and the Company shall have no further obligation to the Executive, except that the Company shall pay to the Executive that portion of the Base Salary under Section 4(a) earned through the date on which such termination occurs.

(e) Definition of Cause. For purposes of this Agreement, Cause shall be defined as:

(i) the willful or negligent failure of the Executive to perform the Executive's duties and obligations in any material respect (other than any failure resulting from Executive's disability), which failure is not cured within fifteen (15) days after receipt of written notice thereof, provided that there shall be no obligation to provide any additional written notice if the Executive's failure to perform is repeated and the Executive has previously received one (1) or more written notices;

(ii) acts of dishonesty or willful misconduct by the Executive with respect to the Company;

(iii) conviction of a felony or violation of any law involving moral turpitude, dishonesty, disloyalty or fraud, or a pleading of guilty or *nolo contendere* to such charge;

(iv) repeated refusal to perform the reasonable and legal instructions of the Executive's supervisors; or

(v) any material breach of this Agreement or Attachment A.

(f) Resignation. The Executive may voluntarily resign from employment at any time during the Term upon 3 months' written notice and in compliance with the provisions of Attachment B. In such event, the Company shall be relieved of all its obligations under this Agreement, except that the Company shall pay to the Executive that portion of the Base Salary under Section 4(a) earned through the date on which such resignation is effective.

(g) The Executive remains obligated to comply with the Executive's obligations and duties pursuant to Attachment B despite the termination of this Agreement and the Executive's employment for any reason.

(h) During employment and after the termination of this Agreement and the Executive's employment for any reason, the Executive agrees to cooperate fully with and at the request of the Company in the defense or prosecution of any legal matter or claim in which the Company, any of its affiliates, or any of their past or present employees, agents, officers, directors, attorneys, successors or assigns, may be or become involved and which arises or arose during the Executive's employment. The Executive will be reimbursed for any reasonable out-of-pocket expenses incurred thereby.

(i) During and after the termination of this Agreement and the Executive's employment for any reason, the Executive agrees that, except as may be required by the lawful order of a court or agency of competent jurisdiction, he will not take any action or make any statement or disclosure, written or oral, that is intended or reasonably likely to disparage the Company or any of its affiliates, or any of their past or present employees, officers or directors.

8. Severability. Whenever possible, each portion, provision or section of this Agreement will be interpreted in such a way as to be effective and valid under applicable law, but if any portion, provision or section of this Agreement is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other portions, provisions or sections. Rather, this Agreement will be reformed, construed and enforced as if such invalid, illegal or unenforceable portion, provision or section had never been contained herein.

9. Complete Agreement. This Agreement, including Attachments A and B, contains the complete agreement and understanding between the parties and supersedes and preempts any prior understanding, agreement or representation by or between the parties, written or oral.

10. Additional Rights and Causes of Action. This Agreement, including Attachments A and B, is in addition to and does not in any way waive or detract from any rights or causes of action the Company may have relating to Confidential Information or other protectable information or interests under statutory or common law or under any other agreement.

11. Governing Law. Notwithstanding principles of conflicts of law of any jurisdiction to the contrary, all terms and provisions to this Agreement are to be construed and governed by the laws of the State of New York without regard to the laws of any other jurisdiction in which the Executive resides or performs any duties hereunder or where any violation of this Agreement occurs.

12. Successors and Assigns. This Agreement will inure to the benefit of and be enforceable by the Company and its successors and assigns. The Executive may not assign the Executive's rights or delegate the Executive's obligations hereunder.

13. Waivers. The waiver by either the Executive or the Company of a breach by the other party of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by the breaching party.

THE COMPANY AND THE EXECUTIVE ACKNOWLEDGE THAT (A) EACH HAS CAREFULLY READ THIS AGREEMENT, (B) EACH UNDERSTANDS ITS TERMS, (C) ALL UNDERSTANDINGS AND AGREEMENTS BETWEEN THE COMPANY AND THE EXECUTIVE RELATING TO THE SUBJECTS COVERED IN THE AGREEMENT ARE CONTAINED IN IT, AND (D) EACH HAS ENTERED INTO THIS AGREEMENT VOLUNTARILY AND NOT IN RELIANCE ON ANY PROMISES OR REPRESENTATIONS BY THE OTHER, OTHER THAN THOSE CONTAINED IN THIS AGREEMENT ITSELF.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

	Hudson Highland Group, Inc.
/S/ RALPH O'HARA	By: /S/ MARGARETTA R. NOONAN
Signature of Executive	Signature of Authorized Representative
Ralph O'Hara	Its: Executive Vice President, Global Human Resources
Print Name	Title of Representative
August 4, 2004	August 4, 2004
Date	Date

EXHIBIT 10.13

HUDSON HIGHLAND GROUP EXECUTIVE EMPLOYMENT AGREEMENT

This employment agreement (the "Agreement") is by and between Hudson Highland Group, Inc. (the "Company") and Latham Williams (the "Executive").

WHEREAS, the Company wishes to continue to employ the Executive and the Executive wishes to continue to be employed in accordance with the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the conditions and mutual covenants contained in this Agreement, the parties agree as follows:

1. Employment. The Company will employ the Executive and the Executive accepts employment as the Vice President, Legal Affairs and Administration and Corporate Secretary. The Executive will perform duties normally associated with such position and/or other duties as may be assigned from time to time during the Term as defined in Section 2 below. The Executive shall perform such duties in a manner consistent with applicable laws and regulations and any code of ethics, compliance manual, employee handbook or other policies and procedures adopted by the Company from time to time and subject to any written directives issued by the Company from time to time.

2. Term of Employment. The Executive's employment under this Agreement will commence on January 1, 2004 (the "Commencement Date") and will continue for a period of one (1) year thereafter, subject to earlier termination as provided in Section 7 (the "Term"). This Agreement and the Term will be automatically renewed and extended for periods of one (1) year unless the Company or the Executive provides written notice no less than thirty (30) days prior to the expiration of the then-current Term of its or the Executive's desire not to renew this Agreement.

3. Scope of Responsibilities and Duties. The Executive agrees to devote the Executive's full business time, attention, efforts and energies in performance of the Executive's duties and responsibilities hereunder. While employed by the Company, the Executive may not engage in any employment other than for the Company, in any conflicting business activities, or have any financial interest, directly or indirectly, in any business competing with the Company or otherwise engaged in the business of the Company or its affiliates. The foregoing does not prevent the Executive from passively investing in publicly traded securities; provided such investments do not require services on the part of the Executive which would in any way impair the performance of the Executive's duties pursuant to this Agreement.

4. Compensation and Benefits. The Company will provide the Executive with the following compensation and benefits during the Term:

(a) The Company will pay the Executive a salary of $265,000 on an annualized basis, payable in accordance with the payroll practices of the Company in effect from time to time, and less such taxes and other deductions required by applicable law or authorized by the Executive (the "Base Salary").

(b) The Executive will be entitled to accrue paid vacation at the rate of the greater of (i) four (4) weeks per year, or (ii) the vacation allowance as provided under the Company's vacation plan that applies to similarly situated employees working at the office location at which the Executive is based. In addition, the Company will provide the Executive with other benefits of employment offered, from time to time to similarly situated employees at the office location at which the Executive is based.

(c) The Executive will receive an annual bonus as provided under the Company's Senior Management Bonus Plan as is effect from time to time.

5. Additional Agreements. This Agreement and the Executive's employment hereunder is contingent upon the Executive's execution of the General Release and Waiver, which is attached as Attachment A and forms a part of this Agreement. The Executive's employment hereunder is further contingent upon the Executive's simultaneous execution of the Confidentiality, Non-Solicitation and Work Product Assignment Agreement and Mutual Agreement to Arbitrate Claims, which is attached as Attachment B and forms a part of this Agreement.

6. Representations and Warranties. The Executive represents and warrants as follows:

(a) All information, oral and written (including, but not limited to information contained on the Executive's resume), provided by the Executive during the recruiting and employment process is accurate and true to the best of the Executive's knowledge, and such information does not include any misleading or untrue statement or omit to state any fact necessary to make the information provided not misleading.

(b) The Executive has never been the subject of any investigation or subject to any disciplinary action by any governmental agency, industry self-regulatory body or other employer.

(c) The execution, delivery and performance of this Agreement by the Executive and the Executive's employment hereunder are not in violation of:

(i) the terms, including any non-competition, non-disclosure, non-solicitation or confidentiality provisions, of any written or oral agreement, arrangement or understanding to which the Executive is a party or by which the Executive is bound; or

(ii) any United States federal or state statute, rule, regulation, or other law, or any judgment, decree or order applicable or binding upon the Executive.

7. Termination. This Agreement and the Executive's employment may be terminated prior to the expiration of the Term as follows:

(a) Death. If the Executive dies during the Term, this Agreement shall automatically terminate and the Company shall have no further obligation to the

Executive or the Executive's estate, except to pay the Executive's estate that portion of the Base Salary earned through the date on which the Executive's death occurs.

(b) Disability. If the Executive is unable to perform the Executive's essential job duties and responsibilities due to mental or physical disability for a total of twelve (12) weeks, whether consecutive or not, during any rolling twelve (12) month period, the Company may terminate the Executive's employment and this Agreement upon five (5) days' written notice to the Executive. For purposes of this Agreement, the Executive will be considered disabled when the Company, with the advice of a qualified physician, determines that the Executive is physically or mentally incapable (excluding infrequent and temporary absences due to ordinary illness) of performing the Executive's essential job duties. The Executive shall cooperate with the Company in obtaining the advice of a qualified physician regarding the Executive's condition. In the event of termination pursuant to this Section 7(b), the Company will be relieved of all obligations under this Agreement, provided that the Company will pay to the Executive that portion of the Base Salary under Section 4(a) which has been earned through the date on which such termination occurs.

(c) Discharge without Cause. The Company may terminate the Executive and this Agreement at any time during the Term for any reason, without Cause (as defined in Section 7(e) below) upon thirty (30) days' written notice to the Executive. Upon such termination, the Company will have no further liability to the Executive other than to provide the Executive with (i) that portion of the Base Salary under Section 4(a) earned through the date of the termination, (ii) severance pay in an amount equal to the Executive's then-current Base Salary, less applicable deductions, for a period of twelve (12)months following such termination, (the "Severance Period"), and (iii) the Company's portion of the premium for continued coverage under the Company's group health and dental insurance plan during the Severance Period, provided the Executive applies and remains eligible for such continuation coverage under applicable law, and provided further that the Executive authorizes the Company to deduct the Executive's portion of such premiums from the severance payments. It is understood that the period the Company makes such payments will run concurrently with the period of continuation coverage for which the Executive may be eligible under applicable law. The Executive's receipt of the severance payments and premium payments by the Company set forth in this paragraph (7) are conditioned upon the Executive executing a comprehensive release and waiver agreement and covenant not to sue as provided by the Company at the time of termination. Severance payments will be made in equal installments on dates corresponding with the Company's regular pay dates during the Severance Period.

(d) Termination for Cause. The Company may terminate the Executive's employment and this Agreement at any time during the Term for Cause as defined below. In such case, this Agreement and the Executive's employment shall terminate immediately and the Company shall have no further obligation to the Executive, except that the Company shall pay to the Executive that portion of the Base Salary under Section 4(a) earned through the date on which such termination occurs.

(e) Definition of Cause. For purposes of this Agreement, Cause shall be defined as:

(i) the willful or negligent failure of the Executive to perform the Executive's duties and obligations in any material respect (other than any failure resulting from Executive's disability), which failure is not cured within fifteen (15) days after receipt of written notice thereof, provided that there shall be no obligation to provide any additional written notice if the Executive's failure to perform is repeated and the Executive has previously received one (1) or more written notices;

(ii) acts of dishonesty or willful misconduct by the Executive with respect to the Company;

(iii) conviction of a felony or violation of any law involving moral turpitude, dishonesty, disloyalty or fraud, or a pleading of guilty or *nolo contendere* to such charge;

(iv) repeated refusal to perform the reasonable and legal instructions of the Executive's supervisors; or

(v) any material breach of this Agreement or Attachment A.

(f) Resignation. The Executive may voluntarily resign from employment at any time during the Term upon 3 months' written notice and in compliance with the provisions of Attachment B. In such event, the Company shall be relieved of all its obligations under this Agreement, except that the Company shall pay to the Executive that portion of the Base Salary under Section 4(a) earned through the date on which such resignation is effective.

(g) The Executive remains obligated to comply with the Executive's obligations and duties pursuant to Attachment B despite the termination of this Agreement and the Executive's employment for any reason.

(h) During employment and after the termination of this Agreement and the Executive's employment for any reason, the Executive agrees to cooperate fully with and at the request of the Company in the defense or prosecution of any legal matter or claim in which the Company, any of its affiliates, or any of their past or present employees, agents, officers, directors, attorneys, successors or assigns, may be or become involved and which arises or arose during the Executive's employment. The Executive will be reimbursed for any reasonable out-of-pocket expenses incurred thereby.

(i) During and after the termination of this Agreement and the Executive's employment for any reason, the Executive agrees that, except as may be required by the lawful order of a court or agency of competent jurisdiction, he will not take any action or make any statement or disclosure, written or oral, that is intended or reasonably likely to disparage the Company or any of its affiliates, or any of their past or present employees, officers or directors.

8. Severability. Whenever possible, each portion, provision or section of this Agreement will be interpreted in such a way as to be effective and valid under applicable law, but if any portion, provision or section of this Agreement is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other portions, provisions or sections. Rather, this Agreement will be reformed, construed and enforced as if such invalid, illegal or unenforceable portion, provision or section had never been contained herein.

9. Complete Agreement. This Agreement, including Attachments A and B, contains the complete agreement and understanding between the parties and supersedes and preempts any prior understanding, agreement or representation by or between the parties, written or oral.

10. Additional Rights and Causes of Action. This Agreement, including Attachments A and B, is in addition to and does not in any way waive or detract from any rights or causes of action the Company may have relating to Confidential Information or other protectable information or interests under statutory or common law or under any other agreement.

11. Governing Law. Notwithstanding principles of conflicts of law of any jurisdiction to the contrary, all terms and provisions to this Agreement are to be construed and governed by the laws of the State of New York without regard to the laws of any other jurisdiction in which the Executive resides or performs any duties hereunder or where any violation of this Agreement occurs.

12. Successors and Assigns. This Agreement will inure to the benefit of and be enforceable by the Company and its successors and assigns. The Executive may not assign the Executive's rights or delegate the Executive's obligations hereunder.

13. Waivers. The waiver by either the Executive or the Company of a breach by the other party of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by the breaching party.

THE COMPANY AND THE EXECUTIVE ACKNOWLEDGE THAT (A) EACH HAS CAREFULLY READ THIS AGREEMENT, (B) EACH UNDERSTANDS ITS TERMS, (C) ALL UNDERSTANDINGS AND AGREEMENTS BETWEEN THE COMPANY AND THE EXECUTIVE RELATING TO THE SUBJECTS COVERED IN THE AGREEMENT ARE CONTAINED IN IT, AND (D) EACH HAS ENTERED INTO THIS AGREEMENT VOLUNTARILY AND NOT IN RELIANCE ON ANY PROMISES OR REPRESENTATIONS BY THE OTHER, OTHER THAN THOSE CONTAINED IN THIS AGREEMENT ITSELF.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

	Hudson Highland Group, Inc.
/S/ LATHAM WILLIAMS	By: /S/ MARGARETTA R. NOONAN
Signature of Executive	Signature of Authorized Representative
Latham Williams	Its: Executive Vice President, Global Human Resources
Print Name	Title of Representative
August 4, 2004	August 4, 2004
Date	Date

Exhibit 10.14

HUDSON HIGHLAND GROUP, INC.

NONQUALIFIED DEFERRED COMPENSATION PLAN

(Effective May 1, 2004)

Table of Contents

HUDSON HIGHLAND GROUP, INC.
NONQUALIFIED DEFERRED COMPENSATION PLAN

Article 1. Introduction

1.1. Title. The title of this Plan shall be the "Hudson Highland Group, Inc. Nonqualified Deferred Compensation Plan."

1.2. Purpose. This Plan shall constitute an unfunded nonqualified deferred compensation arrangement established for the purpose of providing deferred compensation to a select group of management or highly compensated employees (as defined for purposes of Title I of ERISA) of the Employers participating in the Plan. The Plan is maintained and administered for the benefit of selected employees of the Employers, including those whose benefits under the Savings Plan are restricted by certain limitations of the Code.

Article 2. Definitions

"Account" means the Elective Deferrals Account, the Matching Contributions Account and/or the Profit Sharing Account maintained on behalf of a Participant.

"Beneficiary" means the Participant's beneficiary designated pursuant to Section 9.6.

"Board" means the Company's Board of Directors.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Committee consisting of the Senior Vice-President of Human Resources and the Chief Financial Officer of the Company, or such other officers of the Company as shall be designated by the Board from time to time to administer the Plan.

"Company" means Hudson Highland Group, Inc., a Delaware corporation.

"Effective Date" means May 1, 2004.

"Elective Deferrals" means the contributions made on behalf of a Participant pursuant to Section 4.1 of this Plan.

"Elective Deferrals Account" means the account maintained on behalf of each Participant which will represent the amount of Elective Deferrals made on behalf of such Participant pursuant to Section 4.1 of the Plan and the amount of deemed investment earnings and losses on such Participant's Elective Deferrals.

"Eligible Employee" means an employee of an Employer who is eligible to participate in the Plan pursuant to Article 3.

"Employer" means the Company and each of its affiliates that with the consent of the Committee participates in the Plan.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Matching Contributions" means the contributions made on behalf of a Participant pursuant to Section 5.1 of this Plan.

"Matching Contributions Account" means the account maintained on behalf of each Participant which will represent the amount of the Matching Contributions made on behalf of such Participant pursuant to Section 5.1 of the Plan and the amount of the deemed investment earnings and losses on such Participant's Matching Contributions.

"Participant" means any Eligible Employee who is participating in the Plan pursuant to Article 3.

"Permitted Investment" means such fund or type of investment as may be approved by the Committee from time to time for purposes of this Plan.

"Plan" means this "Hudson Highland Group, Inc. Nonqualified Deferred Compensation Plan," as amended from time to time.

"Plan Year" means the calendar year.

"Profit Sharing Contributions" means the contributions made on behalf of a Participant pursuant to Section 6.1 of the Plan.

"Profit Sharing Contributions Account" means the account maintained on behalf of each Participant which will represent the amount of the Profit Sharing Contributions made on behalf of such Participant pursuant to Section 6.2 of the Plan and the amount of the deemed investment earnings and losses on such Participant's Profit Sharing Contributions.

"Savings Plan" means the Hudson Highland Group, Inc. 401(k) Savings Plan, as amended from time to time.

"Valuation Date" means each day on which the Nasdaq National Market or the New York Stock Exchange is open.

Article 3. Eligibility

Each employee of an Employer shall be eligible to participate in the Plan for a Plan Year if, as of a date designated by the Committee, such employee:

(i) is eligible to participate in the Savings Plan,

(ii) is employed by an Employer in one of the following positions: (A) a Vice President or more senior position in the Corporate division of the Company, (B) a Regional Vice-President, Vice President (Staff) or more senior position in the Hudson division of the Company or (C) a Partner, Managing Partner, Vice President (Staff) or more senior position in the Highland division of the Company, and

(iii) is notified by the Committee in writing of such employee's eligibility to participate in the Plan;

provided, however, that only those employees of an Employer who are in a select group of management or are highly compensated (within the meaning of Title I of ERISA) may be designated as eligible to participate in this Plan.

Article 4. Elective Deferrals

4.1. Elective Deferral Election. Prior to the Effective Date and the first day of each Plan Year thereafter, each Eligible Employee shall be permitted to elect, in accordance with rules and procedures established by the Committee, that Elective Deferrals be credited to his or her Elective Deferrals Account in any one or more of the following amounts: (i) a whole percentage, not in excess of 25%, of such Participant's base pay for such Plan Year, including base salary and draws on commissions, (ii) a whole percentage, not in excess of 100%, of such Participant's annual bonus payable in such Plan Year and (iii) a whole percentage, not in excess of 100%, of such Participant's commissions payable in such Plan Year (other than draws on commissions). In order to participate in the Plan for any subsequent Plan Year, an Eligible Employee must submit a new election within the designated election period occurring prior to the Plan Year for which the election is to be effective. In no event shall an election under the Plan apply to compensation payable prior to the date on which such election is received by the Committee. Each Participant's compensation shall be reduced by the amount of all Elective Deferrals made on his or her behalf. Subject to any applicable requirements and restrictions under the Code, the Committee also may permit each Participant to elect, in accordance with rules and procedures established by the Committee, that any amount required to be distributed to such Participant from the Savings Plan in order to satisfy the nondiscrimination requirements of Section 401(k)(3) or 401(m)(2) of the Code shall instead be distributed to the Company and an amount equal to the amount so distributed shall be credited to such Participant's Elective Deferrals Account hereunder.

4.2. Suspension of Deferral Election. A Participant may elect to suspend all future Elective Deferrals for a Plan Year upon a demonstration to the satisfaction of the Committee that the continuation of such Elective Deferrals for the remainder of the Plan Year would cause such Participant to suffer a financial hardship, as determined by the Committee in its sole discretion. A Participant who is permitted to suspend Elective Deferrals during a Plan Year shall not be permitted to resume Elective Deferrals under the Plan prior to the first day of the following Plan Year. No other changes may be made during a Plan Year to the percentage or amount of compensation subject to a Participant's Elective Deferral election.

4.3. Elective Deferrals Account. The Committee shall establish and maintain an Elective Deferrals Account for each Participant who elects Elective Deferrals under this Article 4. The Participant's Elective Deferrals Account shall be a bookkeeping account maintained by the Company and shall reflect the amount of the Elective Deferrals credited hereunder on behalf of the Participant. The Company shall credit Elective Deferrals to a Participant's Elective Deferral Account within a reasonable period following the end of the payroll period during which the Participant's compensation is reduced by the amount of such Elective Deferral. The amount of any deemed investment earnings and losses on the amounts reflected in a Participant's

Elective Deferrals Account shall be credited or charged to his or her Elective Deferrals Account in accordance with Article 7.

4.4. Transfer of Elective Deferrals to Savings Plan. Prior to the Effective Date and the first day of each Plan Year thereafter, each Participant shall be permitted to elect, in accordance with rules and procedures established by the Committee, that as of a date not later than two and one-half (2½) months after the end of such Plan Year, such Participant's Elective Deferrals Account be reduced by an amount equal to the Maximum Permissible Contribution, as defined below, and that an amount equal to the Maximum Permissible Contribution be either (i) distributed to the Participant in cash or (ii) deferred as an Elective Deferral under the Savings Plan. For purposes of this Section 4.4, a Participant's "Maximum Permissible Contribution" with respect to a Plan Year shall be an amount equal to the lesser of:

(a) the maximum amount of Elective Deferrals which the Participant could elect for such Plan Year pursuant to the terms of the Savings Plan within the limits imposed under 402(g), 401(k)(3), 401(m)(2) and 401(a)(17) of the Code; and

(b) the aggregate Elective Deferrals which the Participant elected under this Plan for such Plan Year.

An Participant's election pursuant to this Section 4.4 with respect to a Plan Year shall be irrevocable.

Article 5. Matching Contributions

5.1. Matching Contributions. For each Plan Year, a Matching Contribution shall be credited to each Participant's Matching Contributions Account in an amount equal to the *excess of*:

(a) the amount of the Matching Contribution that would have been made on behalf of the Participant under the Savings Plan for such Plan Year with respect to the Elective Deferrals made pursuant to Section 4.1 hereof, including Elective Deferrals which the Participant elects to defer under the Savings Plan but excluding Elective Deferrals which the Participant elects to receive in cash, in either case pursuant to Section 4.4 of this Plan, determined as though all such Elective Deferrals had been made under the Savings Plan (i) without regard to the limits imposed under the Savings Plan to enable the Savings Plan to satisfy the nondiscrimination requirements of sections 401(k)(3) and 401(m)(2) of the Code, but (ii) subject to the limits under sections 401(a)(17), 402(g) and 415 of the Code, *over*

(b) the amount of the Matching Contribution actually made for the Participant under the Savings Plan for such Plan Year.

5.2. Matching Contributions Account. The Committee shall establish and maintain a Matching Contributions Account for each Participant who is entitled to receive Matching Contributions under this Article 5. The Participant's Matching Contributions Account shall be a bookkeeping account maintained by the Company and shall reflect the amount of the Matching

Contributions credited hereunder on behalf of the Participant. The Company shall credit a Matching Contribution to a Participant's Matching Contributions Account within a reasonable period following the end of the Plan Year for which such contribution is made. The amount of any deemed investment earnings and losses on the amounts reflected in a Participant's Matching Contributions Account shall be credited or charged to his or her Matching Contributions Account in accordance with Article 7.

Article 6. Profit Sharing Contributions

6.1. Profit Sharing Contributions. For any one or more Plan Years, a Profit Sharing Contribution may be credited to the Profit Sharing Contributions Accounts maintained for the benefit of any one or more Participants, in such amount, if any, as the Board shall determine in its sole discretion. Such amount may, but need not, be an amount equal to the excess of (i) the amount of the Profit Sharing Contributions, if any, that would have been allocated to the Participant's account under the Savings Plan for such Plan Year without regard to either or both of the limitations of sections 401(a)(17) and 415 of the Code over (ii) the amount of the Profit Sharing Contributions actually allocated to the Participant's account under the Savings Plan for such Plan Year.

6.2. Profit Sharing Contributions Account. The Committee shall establish and maintain a Profit Sharing Contributions Account for each Participant who is entitled to receive Profit Sharing Contributions under this Article 6. The Participant's Profit Sharing Contributions Account shall be a bookkeeping account maintained by the Company and shall reflect the amount of the Profit Sharing Contributions credited hereunder on behalf of the Participant. The Company shall credit a Profit Sharing Contribution to a Participant's Profit Sharing Contributions Account within a reasonable period following the end of the Plan Year for which such contribution is made. The amount of any deemed investment earnings and losses on the amounts reflected in a Participant's Profit Sharing Contributions Account shall be credited or charged to his or her Profit Sharing Contributions Account in accordance with Article 7.

Article 7. Deemed Investment Earnings

7.1. Permitted Investments. Each Participant may designate from time to time, in accordance with rules and procedures established by the Committee, that all or a portion of his or her Accounts be deemed to be invested in one or more Permitted Investments.

7.2. Receipts. Each Participant's Accounts shall be deemed to receive all interest, dividends, earnings and other property which would have been received with respect to a Permitted Investment deemed to be held in such Accounts if the Company actually owned such Permitted Investment. Cash deemed received with respect to a Permitted Investment shall be credited to the Accounts as of the date it would have been available for reinvestment if the Company actually owned the Permitted Investment.

7.3. Elections. All elections to be made by a Participant pursuant to this Article 7 shall be made only by such Participant; provided, that if such Participant dies before his or her entire Account balance is distributed pursuant to the terms of the Plan, or if the Committee determines that such Participant is legally incompetent or otherwise incapable of managing his or her own affairs, the Committee shall have the authority to itself make the elections pursuant to this Section 7.3 on behalf of such Participant, or designate such Participant's designated Beneficiary, legal representative or some near relative of such Participant to make the elections pursuant to this Section 7.3 on behalf of such Participant.

7.4. Actual Investment Not Required. The Company need not actually make any Permitted Investment. If the Company should from time to time make any investment similar to a Permitted Investment, such investment shall be solely for the Company's own account and the Participant shall have no right, title or interest therein. Accordingly, each Participant is solely an unsecured creditor of the Company with respect to any amount distributable to the Participant under the Plan.

Article 8. Establishment of Trust

8.1. Establishment of Trust. The Company may, in its sole discretion, establish a grantor trust (as described in section 671 of the Code) for the purpose of accumulating assets to provide for the obligations hereunder. The assets and income of such trust shall be subject to the claims of the general creditors of the Company. The establishment of such a trust shall not affect the Company's liability to pay benefits hereunder except that any such liability shall be offset by any payments actually made to a Participant under such a trust. In the event such a trust is established, the amount to be contributed thereto shall be determined by the Company and the investment of such assets shall be made in accordance with the trust document.

8.2. Status of Trust. Participants shall have no direct or secured claim in any asset of the trust or in specific assets of the Company and will have the status of general unsecured creditors of the Company for any amounts due under this Plan.

Article 9. Vesting and Distributions

9.1. Vesting of Elective Deferrals Account. Each Participant shall at all times have a one hundred percent (100%) vested and nonforfeitable interest in his or her Elective Deferrals Account.

9.2. Vesting of Matching Contributions Account and Profit Sharing Account. Except as otherwise specified by the Board with respect to a Profit Sharing Contribution, each Participant shall become vested in his or her Matching Contributions Account and Profit Sharing Contributions Account at the same time and to the same extent as the Participant shall become vested in his or her Matching Contributions and Profit Sharing Contributions accounts under the Savings Plan. The unvested portion of a Participant's Matching Contributions Account and Profit Sharing Account shall be immediately forfeited upon the termination of such Participant's employment for any reason, and shall not thereafter be reallocated to the Accounts of any other Participants.

9.3. Timing of Distributions. If a Participant's employment with all Employers is terminated for any reason, including death, retirement, total and permanent disability, resignation or dismissal, the balance in the Participant's Elective Deferral Account and the vested balance in the Participant's Matching Contributions Account and Profit Sharing Account (determined as of the Valuation Date on or immediately preceding the date on which the distribution is processed) shall be paid or begin to be paid to the Participant (or, in the event of the Participant's death, to his or her Beneficiary) as soon as administratively practicable after the end of the Plan Year in which the Participant's termination of employment occurs.

9.4. Form of Distribution. The vested balance of a Participant's Account shall be paid in the form of a lump sum cash payment unless the Participant submits an election to receive such payment in annual cash installments over a period elected by the Participant, which period shall be not less than two years nor more than 15 years in duration. Such election shall be submitted in accordance with procedures established by the Committee, and shall be effective only if submitted at least one year prior to the date on which the Participant's termination of employment occurs or, if later, the Participant's commencement of participation in the Plan. The Participant's Account shall continue to be credited with earnings or losses pursuant to Article 7 until the balance of such Account has been paid in full. If such Participant is entitled to a Matching Contribution or Profit Sharing Contribution for the Plan Year in which his or her employment terminates, the Committee may defer payment of such Participant's Account until such Matching Contribution or Profit Sharing Contribution has been credited to such Participant's Account. If a Participant dies before the vested balance of such Participant's Account has been distributed to the Participant in full, the remaining vested balance of such Account shall be distributed to the Participant's Beneficiary in a single lump sum cash payment as soon as administratively practicable after the end of the Plan Year in which the Participant's death occurs.

9.5. Involuntary Distributions. Notwithstanding the foregoing provisions of this Article 9, the Committee may on its own initiative authorize the Company to distribute to any Participant (or to a designated Beneficiary in the event of the Participant's death) all or any portion of the Participant's Elective Deferrals Account, Matching Contributions Account and Profit Sharing Contributions Account. Such payment would be specifically authorized in the event that there is a change in tax law, a published ruling or similar announcement issued by the Internal Revenue Service, a regulation issued by the Secretary of the Treasury, a decision by a court of competent jurisdiction involving a Participant or a Beneficiary, or a closing agreement made under section 7121 of the Code that is approved by the Internal Revenue Service and involves a Participant, and the Committee determines that a Participant has or will recognize income for federal income tax purposes with respect to amounts deferred under this Plan prior to the time such amounts are paid to the Participant.

9.6. Designation of Beneficiaries. Each Participant may name any one or more Beneficiaries (who may be named concurrently, contingently or successively) to whom the Participant's Accounts under the Plan are to be paid if the Participant dies before such Accounts are fully distributed. Each such Beneficiary designation will revoke all prior designations by the Participant, shall not require the consent of any previously named Beneficiary, and will be effective only when filed with the Committee during the Participant's lifetime. If a Participant fails to designate a Beneficiary before his or her death, as provided above, or if the Beneficiary designated by a Participant dies before the date of the Participant's death or before payment of the Participant's Accounts, the Committee, in its discretion, may pay the Participant's Accounts (a) to the surviving spouse of such deceased Participant, if any, or (b) if there shall be no surviving spouse, the surviving children of such deceased Participant, if any, in equal shares, or (c) if there shall be no surviving spouse or children, to the executors or administrators of the estate of such deceased Participant, or (d) if no executor or administrator shall have been appointed for the estate of such deceased Participant within six months from the date of the Participant's death, to the person or persons who would be entitled under the intestate succession laws of the state of the Participant's domicile to receive the Participant's personal estate.

Article 10. Administration of the Plan

The Plan shall be administered by the Committee. The duties and authority of the Committee under the Plan shall include (a) the interpretation of the provisions of the Plan, (b) the adoption of any rules and regulations which may become necessary or advisable in the operation of the Plan, (c) the making of such determinations as may be permitted or required pursuant to the Plan, and (d) the taking of such other actions as may be required for the proper administration of the Plan in accordance with its terms. Any decision of the Committee with respect to any matter within the authority of the Committee shall be final, binding and conclusive upon the Company and each Participant, former Participant, designated Beneficiary, and each person claiming under or through any Participant or designated Beneficiary. Any action taken by the Committee with respect to any one or more Participants shall not be binding on the Committee as to any action to be taken with respect to any other Participant. A member of the Committee may be a Participant, but no member of the Committee may participate in any decision directly affecting his or her rights or the computation of his or her benefits under the Plan. Each determination required or permitted under the Plan shall be made by the Committee in its sole and absolute discretion. The members of the Committee may allocate their responsibilities and may designate any other person or committee, including employees of the Company, to carry out any of their responsibilities with respect to administration of the Plan. The claims procedure applicable to claims and appeals of denied claims under the Savings Plan shall apply to any claims for benefits under the Plan and appeals of any such denied claims.

Article 11. Amendment and Termination

11.1. Amendment. The Company shall have the right to amend the Plan from time to time, except that no amendment shall reduce the amount credited to a Participant's Account without the consent of such Participant or, if the Participant is deceased, his or her Beneficiary. Any Plan amendment shall be adopted by action of the Compensation Committee of the Board; provided, however, that the Company's Executive Vice President, Human Resources, shall, and hereby is, also authorized to amend the Plan, but only to the extent that such amendment: (i) is required or deemed advisable as the result of legislation or regulation; (ii) concerns solely routine ministerial or administrative matters; or (iii) is not routine, ministerial or administrative but does not materially increase any cost to the Employers.

11.2. Plan Termination. The Plan may be terminated at any time by action of the Compensation Committee of the Board in its sole discretion. Upon a termination of the Plan, the Compensation Committee may elect either to accelerate the payment of all Accounts to Participants and Beneficiaries or to pay all Accounts pursuant to the terms of the Plan and the Participant elections thereunder. In no event, however, shall the amount credited to a Participant's Account be reduced as a result of a Plan termination without the consent of the Participant or, if the Participant is deceased, his or her Beneficiary.

Article 12. General Provisions

12.1. Non-Alienation of Benefits. A Participant's rights to the amounts credited to his or her Accounts under the Plan shall not be salable, transferable, pledgeable or otherwise assignable, in whole or in part, by the voluntary or involuntary acts of any person, or by operation of law, and shall not be liable or taken for any obligation of such person. Any such attempted grant, transfer, pledge or assignment shall be null and void and without any legal effect.

12.2. Withholding for Taxes. Notwithstanding anything contained in this Plan to the contrary, the Employers shall withhold from any distribution made under the Plan such amount or amounts as may be required for purposes of complying with the tax withholding provisions of the Code or any applicable State law for purposes of paying any tax attributable to any amounts distributable or creditable under the Plan. The Company may reduce a Participant's Account to reflect employment taxes payable with respect to deferred compensation prior to termination of employment.

12.3. Immunity of Committee Members. The members of the Committee may rely upon any information, report or opinion supplied to them by any officer of the Company or any legal counsel, independent public accountant or actuary, and shall be fully protected in relying upon any such information, report or opinion. No member of the Committee shall have any liability to the Company or any Participant, former Participant, designated Beneficiary, person claiming under or through any Participant or designated Beneficiary or other person interested or concerned in connection with any decision made by such member of the Committee pursuant to the Plan which was based upon any such information, report or opinion if such member of the Committee relied thereon in good faith.

12.4. Plan Not to Affect Employment Relationship. Neither the adoption of the Plan nor its operation shall in any way affect the right and power of any Employer to dismiss or otherwise terminate the employment or change the terms of the employment or amount of compensation of any Participant at any time, for any reason or without cause. By accepting any payment under this Plan, each Participant, former Participant, designated Beneficiary and each person claiming under or through such person, shall be conclusively bound by any action or decision taken or made under the Plan by the Committee.

12.5. Notices. Any notice required to be given by the Company or the Committee hereunder shall be in writing and shall be delivered in person or by U.S. mail, interoffice mail, express courier service or electronic mail, to the address set forth in the records of the Company.

12.6. Number; Headings. Wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply. Headings of sections and subsections of the Plan are inserted for convenience of reference and are not part of the Plan and are not to be considered in the construction thereof.

12.7. Controlling Law. The Plan shall be construed in accordance with the internal laws of the State of New York, to the extent not preempted by any applicable federal law.

12.8. Successors. The Plan is binding on all persons entitled to benefits hereunder and their respective heirs and legal representatives, on the Committee and its successor and on the Company and its successors, whether by way of merger, consolidation, purchase or otherwise.

12.9. Severability. If any provision of the Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan, and the Plan shall be enforced as if the invalid provisions had never been set forth therein.

IN WITNESS WHEREOF, Hudson Highland Group, Inc. has caused this Plan to be adopted by its duly authorized officer this ______ day of ______________, 2004.

HUDSON HIGHLAND GROUP, INC.

By: ____________________________________

Exhibit 10.15

Summary of Hudson Highland Group, Inc. Compensation for Non-employee Members of the Board of Directors

The Company's policy of compensation for the non-employee members of the Board of Directors is as follows.

- Retainer and Fees. Each non-employee director is entitled to receive an annual retainer of $25,000, a fee of $2,500 for each Board and Board committee meeting attended in person and a fee of $1,000 for each telephonic Board meeting. The Chairperson of the Audit Committee receives an additional annual retainer of $10,000 and Chairpersons of other Board committees receives an additional annual retainer of $5,000. Additionally, directors are reimbursed for out-of-pocket expenses associated with attending meetings of the Board and committees thereof.
- Equity Compensation. Upon first being elected or appointed as a director of the Company, each non-employee director of the Company is granted an option to purchase 25,000 shares of Common Stock under the terms of the Hudson Highland Group Long Term Incentive Plan. The exercise price for options is the fair market value of a share of Common Stock on the date of grant. Options have a term of ten years and become exercisable as follows: 40% immediately on the date of grant, 60% after the first anniversary of the date of grant, 80% after the second anniversary, and 100% after the third anniversary.

EXHIBIT 21

List of Significant Subsidiaries of Hudson Highland Group, Inc.

Hudson Highland Group, Inc.'s significant subsidiaries as of December 31, 2004, are listed below. All other subsidiaries, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary. Highland Partners conducts its business operations in the United States through Hudson Highland Group, Inc.

Subsidiary	State or jurisdiction of incorporation	Percentage owned
Hudson Global Resources Holding, Inc.	Delaware	100%
Hudson Global Resources Management, Inc.	Pennsylvania	100%
Hudson Global Resources HC, LLC	Delaware	100%
People.com Technology Partners, Inc.	Delaware	100%
Hudson Highland Group Holdings International, Inc.	Delaware	100%
Hudson Highland Center for High Performance, LLC	Delaware	80%
Cornell Technical Services, Inc.	Virginia	100%
Delta Search Group, Inc.	Illinois	100%
People.com Consultants, Inc.	California	100%
Hudson Global Resources America, Inc.	Florida	100%
JMT FINANCIAL PARTNERS, LLC	Colorado	100%
Hudson Highland Group Search, Inc.	Canada	100%
Highland Partners Co (Canada)	Canada	100%
James Botrie & Associate	Canada	100%
Hudson Global Resources Limited	United Kingdom	100%
Hudson Trade & Industrial Services Pty Ltd.	Australia	100%
Hudson Global Resources (NZ) Ltd.	New Zealand	100%
Hudson Global Resources S.A.S.	France	100%
Hudson Global Resources S.L.	Spain	100%
Hudson Highland Group Srl	Italy	99.5%
Hudson Global Resources Madrid S.L.	Spain	100%
Hudson Global Resources AS	Norway	100%
HH Global Resources A.B.	Sweden	100%
Hudson Global Resources (Singapore) Pte Limited	Singapore	100%
Hudson Global Resources Hong Kong Limited	Hong Kong	100%
Hudson Human Capital Solutions (Shanghai) Ltd.	China	100%
Hudson Highland Group Search, Inc.	Canada	100%
Hudson Global Resources Kft	Hungary	100%
Hudson Global Resources s.r.o	Czech Republic	100%
Hudson Global Resources Sp.Zo.O	Poland	100%
TMP Personnel Select s.r.o (Slovakia)	Slovakia	100%
Melville Craig Group Limited	Scotland	100%
De Witte & Morel Global Resources N.V.	Belgium	99.0%
De Witte & Morel Global Resources S.A.	Luxembourg	99.9%
Highland Partners Limited	United Kingdom	100%
Highland Partners Co (Canada)	Canada	100%
Highland Partners (Australia) Pty Ltd.	Australia	100%

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-110765 and 333-113703), Form S-4 (Nos. 333-119563 and 333-114731) and Form S-8 (Nos. 333-104209, 333-104210, 333-104212, 333-117005 and 333-117006) of Hudson Highland Group, Inc. of our reports dated March 8, 2005, relating to the consolidated financial statements and financial statement schedule, and the effectiveness of Hudson Highland Group, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO Seidman, LLP

New York, New York
March 8, 2005

Exhibit 31.1

CERTIFICATIONS

I, Jon F. Chait, certify that:

1. I have reviewed this annual report on Form 10-K of Hudson Highland Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 11, 2005

/s/ JON F. CHAIT

Jon F. Chait
Chairman and
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Richard W. Pehlke, certify that:

1. I have reviewed this annual report on Form 10-K of Hudson Highland Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 11, 2005

/s/ RICHARD W. PEHLKE

Richard W. Pehlke
Executive Vice President and
Chief Financial Officer

Exhibit 32.1:

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

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chairman of the Board and Chief Executive Officer of Hudson Highland Group, Inc. (the “Company”), hereby certify, based on my knowledge, that the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JON F. CHAIT

Jon F. Chait
March 11, 2005

Exhibit 32.2:

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

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Executive Vice President and Chief Financial Officer of Hudson Highland Group, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD W. PEHLKE

Richard W. Pehlke
March 11, 2005