

Hudson Global, Inc.  
Form 10-Q  
November 01, 2012

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-50129

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HUDSON GLOBAL, INC.  
(Exact name of registrant as specified in its charter)

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DELAWARE  
(State or other jurisdiction of incorporation or organization)

59-3547281  
(IRS Employer Identification No.)

560 Lexington Avenue, New York, New York 10022  
(Address of principal executive offices) (Zip Code)  
(212) 351-7300  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

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

Class	Outstanding on September 30, 2012
Common Stock - \$0.001 par value	33,192,233

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

HUDSON GLOBAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 AND OTHER COMPREHENSIVE INCOME (LOSS)  
 (in thousands, except per share amounts)  
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Revenue	\$ 187,873	\$ 245,081	\$ 593,301	\$ 710,998
Direct costs	120,207	152,089	375,359	441,341
Gross margin	67,666	92,992	217,942	269,657
Operating expenses:				
Selling, general and administrative expenses	66,074	85,305	214,070	251,517
Depreciation and amortization	1,672	1,537	4,788	4,750
Business reorganization expenses	1,520	—	7,551	747
Operating income (loss)	(1,600	) 6,150	(8,467	) 12,643
Non-operating income (expense):				
Interest income (expense), net	(161	) (328	) (510	) (910
Other income (expense), net	591	(238	) 215	244
Income (loss) before provision for income taxes	(1,170	) 5,584	(8,762	) 11,977
Provision for (benefit from) income taxes	995	2,202	(3,770	) 4,377
Net income (loss)	\$ (2,165	) \$ 3,382	\$ (4,992	) \$ 7,600
Earnings (loss) per share:				
Basic	\$ (0.07	) \$ 0.11	\$ (0.16	) \$ 0.24
Diluted	\$ (0.07	) \$ 0.11	\$ (0.16	) \$ 0.24
Weighted-average shares outstanding:				
Basic	32,156	31,620	32,024	31,541
Diluted	32,156	32,085	32,024	31,988
Comprehensive income (loss):				
Net income (loss)	\$ (2,165	) \$ 3,382	\$ (4,992	) \$ 7,600
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of income taxes	1,395	(5,234	) 1,834	(1,959
Total other comprehensive income (loss), net of income taxes	1,395	(5,234	) 1,834	(1,959
Comprehensive income (loss)	\$ (770	) \$ (1,852	) \$ (3,158	) \$ 5,641

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$34,883	\$37,302
Accounts receivable, less allowance for doubtful accounts of \$1,541 and \$1,772, respectively	115,548	131,489
Prepaid and other	12,987	13,132
Total current assets	163,418	181,923
Property and equipment, net	20,735	17,838
Deferred tax assets, non-current	10,593	8,628
Other assets	5,080	8,157
Total assets	\$199,826	\$216,546
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$8,529	\$12,025
Accrued expenses and other current liabilities	62,140	74,248
Short-term borrowings	—	3,384
Accrued business reorganization expenses	2,996	858
Total current liabilities	73,665	90,515
Other non-current liabilities	6,790	6,388
Deferred rent and tenant improvement contributions	8,564	4,479
Income tax payable, non-current	4,098	7,807
Total liabilities	93,117	109,189
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.001 par value, 100,000 shares authorized; issued 33,257 and 32,776 shares, respectively	33	33
Additional paid-in capital	473,184	470,786
Accumulated deficit	(402,282	) (397,290 )
Accumulated other comprehensive income - currency translation adjustments	36,089	34,255
Treasury stock, 65 and 79 shares, respectively, at cost	(315	) (427 )
Total stockholders' equity	106,709	107,357
Total liabilities and stockholders' equity	\$199,826	\$216,546

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$(4,992	) \$7,600
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,788	4,750
Provision for (recovery of) doubtful accounts	46	46
Provision for (benefit from) deferred income taxes	(1,818	) 669
Stock-based compensation	2,386	2,821
Other, net	361	38
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	17,824	(25,698
Decrease (increase) in prepaid and other assets	3,445	704
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(16,407	) 3,566
Increase (decrease) in accrued business reorganization expenses	3,268	(1,511
Net cash provided by (used in) operating activities	8,901	(7,015
Cash flows from investing activities:		
Capital expenditures	(7,793	) (5,175
Proceeds from sale of assets	—	248
Net cash provided by (used in) investing activities	(7,793	) (4,927
Cash flows from financing activities:		
Borrowings under credit agreements	72,544	161,261
Repayments under credit agreements	(75,775	) (155,771
Repayment of capital lease obligations	(332	) —
Purchase of restricted stock from employees	(542	) (352
Net cash provided by (used in) financing activities	(4,105	) 5,138
Effect of exchange rates on cash and cash equivalents	578	(237
Net increase (decrease) in cash and cash equivalents	(2,419	) (7,041
Cash and cash equivalents, beginning of the period	37,302	29,523
Cash and cash equivalents, end of the period	\$34,883	\$22,482
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$268	\$827
Cash payments during the period for income taxes, net of refunds	\$2,394	\$3,349

See accompanying notes to condensed consolidated financial statements.

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

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock	Total
	Shares	Value					
Balance at December 31, 2011	32,697	\$33	\$470,786	\$(397,290 )	\$ 34,255	\$(427 )	\$107,357
Net income (loss)	—	—	—	(4,992 )	—	—	(4,992 )
Other comprehensive income (loss), translation adjustments	—	—	—	—	1,834	—	1,834
Purchase of restricted stock from employees	(111 )	—	—	—	—	(542 )	(542 )
Issuance of shares for 401(k) plan contribution	124	—	12	—	—	654	666
Stock-based compensation	482	—	2,386	—	—	—	2,386
Balance at September 30, 2012	33,192	\$33	\$473,184	\$(402,282 )	\$ 36,089	\$(315 )	\$106,709

See accompanying notes to condensed consolidated financial statements.

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

## NOTE 1 – BASIS OF PRESENTATION

These interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of Hudson Global, Inc. and its subsidiaries (the “Company”) filed in its Annual Report on Form 10-K for the year ended December 31, 2011.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of operating revenues and expenses. These estimates are based on management’s knowledge and judgments. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows at the dates and for the periods presented have been included. The results of operations for interim periods are not necessarily indicative of the results of operations for the full year. The Condensed Consolidated Financial Statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. All significant intra-entity balances and transactions between and among the Company and its subsidiaries have been eliminated in consolidation.

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

## NOTE 2 – DESCRIPTION OF BUSINESS

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

The Company has operated as an independent publicly-held company since April 1, 2003 when the eResourcing division of Monster Worldwide, Inc., formerly TMP Worldwide, Inc., composed of 67 acquisitions made between 1999 and 2001, was spun off. As of September 30, 2012, the Company had approximately 2,000 employees operating in 20 countries with three reportable geographic business segments: Hudson Americas, Hudson Asia Pacific, and Hudson Europe. For the three and nine months ended September 30, 2012 and 2011, the amounts and percentage of total of the Company’s gross margins from the three reportable segments were as follows:

	For The Three Months Ended September 30, 2012		For The Three Months Ended September 30, 2011		
	Gross Margin (\$)	%	Gross Margin (\$)	%	
Hudson Americas	\$9,587	14	% \$13,662	15	%
Hudson Asia Pacific	29,852	44	% 41,201	44	%
Hudson Europe	28,227	42	% 38,129	41	%
Total	\$67,666	100	% \$92,992	100	%
	For The Nine Months Ended September 30, 2012		For The Nine Months Ended September 30, 2011		
	Gross Margin (\$)	%	Gross Margin (\$)	%	
Hudson Americas	\$33,776	15	% \$37,040	14	%
Hudson Asia Pacific	91,067	42	% 113,323	42	%



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Hudson Europe	93,099	43	% 119,294	44	%
Total	\$217,942	100	% \$269,657	100	%

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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

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

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

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

**Legal eDiscovery:** Hudson's Legal eDiscovery services are composed of eDiscovery solutions, managed document review (encompassing logistical deployment, project management, process design and productivity management), and contract attorney staffing. The most comprehensive of these is the Company's full-service eDiscovery solution, providing an integrated system of discovery management and review technology deployment for both corporate and law firm clients.

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

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

**Reporting Segments**

In the fourth quarter of 2011, the Company reorganized its leadership team to align the Company's operations with its business strategy to run its global operations in three regions. As a result, the Company revised its reportable segments by aggregating the segments of Hudson Australia New Zealand and Hudson Asia into one segment, Hudson Asia Pacific. The Company has reclassified information for the three and nine months ended September 30, 2011 to reflect this change to the segment reporting in accordance with the requirements of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280-10-50-1 to 9 "Operating Segments" and ASC 280-10-50-10 "Reportable Segments." See Note 15 for further details.

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

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

## NOTE 3 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued Accounting Standards Update ("ASU") 2011-12 "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." ASU 2011-12 deferred certain aspects of ASU 2011-05 "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." Among the new provisions in ASU 2011-05 is a requirement for entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the other comprehensive income is presented. This requirement is indefinitely deferred by ASU 2011-12 and will be further deliberated by the FASB at a future date. The standard is effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. The Company adopted ASU 2011-05 as of January 1, 2012, and presented the components of other comprehensive income in a single continuous Condensed Consolidated Statement of Operations and Other Comprehensive Income (Loss). The Company's adoption of ASU 2011-05 did not have any impact on the Company's results of operations or financial condition.

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

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

	For The Three Months Ended September 30, 2012			For The Three Months Ended September 30, 2011		
	Temporary Contracting	Other	Total	Temporary Contracting	Other	Total
Revenue	\$142,418	\$45,455	\$187,873	\$182,867	\$62,214	\$245,081
Direct costs (1)	117,419	2,788	120,207	148,513	3,576	152,089
Gross margin	\$24,999	\$42,667	\$67,666	\$34,354	\$58,638	\$92,992

  

	For The Nine Months Ended September 30, 2012			For The Nine Months Ended September 30, 2011		
	Temporary Contracting	Other	Total	Temporary Contracting	Other	Total
Revenue	\$442,484	\$150,817	\$593,301	\$526,734	\$184,264	\$710,998
Direct costs (1)	364,675	10,684	375,359	430,338	11,003	441,341
Gross margin	\$77,809	\$140,133	\$217,942	\$96,396	\$173,261	\$269,657

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



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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

## NOTE 5 – STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with ASC 718 "Compensation – Stock Compensation," as interpreted by the SEC Staff Accounting Bulletins No. 107 and No. 110. Under ASC 718, stock-based compensation is based on the fair value of the award on the date of grant, which is recognized over the related service period, net of estimated forfeitures. For awards with graded vesting conditions, the values of the awards are determined by valuing each tranche separately and expensing each tranche over the required service period. The service period is the period over which the related service is performed, which is generally the same as the vesting period. The Company uses the Black-Scholes option-pricing model to determine the compensation expense related to stock options.

## Incentive Compensation Plan

The Company maintains the Hudson Global, Inc. 2009 Incentive Stock and Awards Plan (the "ISAP") pursuant to which it can issue equity-based compensation incentives to eligible participants. The ISAP permits the granting of stock options and restricted stock as well as other types of equity-based awards. The Compensation Committee of the Company's Board of Directors (the "Compensation Committee") will establish such conditions as it deems appropriate on the granting or vesting of stock options or restricted stock. While the Company historically granted both stock options and restricted stock to its employees, since 2008 the Company has granted primarily restricted stock to its employees.

The Compensation Committee administers the ISAP and may designate any of the following as a participant under the ISAP: any officer or other employee of the Company or its affiliates or individuals engaged to become an officer or employee, consultants or other independent contractors who provide services to the Company or its affiliates and non-employee directors of the Company. On April 26, 2012, the Company's stockholders approved an amendment to the ISAP to, among other things, increase the number of shares of the Company's common stock that are reserved for issuance to participants by 2,500,000 shares. As of September 30, 2012, there were 2,575,123 shares of the Company's common stock available for future issuance.

The Company also maintains the Director Deferred Share Plan (the "Director Plan") pursuant to which it can issue restricted stock units to its non-employee directors. A restricted stock unit is equivalent to one share of the Company's common stock and is payable only in common stock issued under the ISAP upon a director ceasing service as a member of the Board of Directors of the Company.

For the three and nine months ended September 30, 2012 and 2011, the Company's stock-based compensation expense related to stock options, restricted stock and restricted stock units were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Stock options	\$ 149	\$ 151	\$ 542	\$ 367
Restricted stock	305	793	1,299	2,209
Restricted stock units	52	52	545	245
Total	\$ 506	\$ 996	\$ 2,386	\$ 2,821

## Stock Options

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

As of September 30, 2012, the Company had approximately \$593 of unrecognized stock-based compensation expense related to outstanding non-vested stock options. The Company expects to recognize that cost over a weighted average

service period of 1.25 years.

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

Changes in the Company's stock options for the nine months ended September 30, 2012 and 2011 were as follows:

	Nine Months Ended September 30, 2012		2011	
	Number of Options	Weighted Average Exercise Price per Share	Number of Options	Weighted Average Exercise Price per Share
Options outstanding at January 1,	1,396,350	\$ 11.36	1,548,300	\$ 12.64
Granted	—	—	400,000	5.18
Expired	(59,700	) 12.62	(547,950	) 10.50
Options outstanding at September 30,	1,336,650	11.31	1,400,350	11.35
Options exercisable at September 30,	924,150	\$ 14.04	975,350	\$ 14.04

## Restricted Stock

A summary of the quantity and vesting conditions for shares of restricted stock granted for the nine months ended September 30, 2012 was as follows:

Vesting conditions	Number of Shares of Restricted Stock Granted
Performance and service conditions (1) (2)	566,830
Vest 50% on each of the second and third anniversaries of the grant date with service conditions only	35,000
Immediately vested	1,400
Vest 2/3 on the second anniversary of the grant date and 1/3 on the third anniversary of the grant date with service conditions only	20,000
Vest one-third on each of the first three anniversaries of the grant date with service conditions only	15,000
Total shares of restricted stock granted for the nine months ended September 30, 2012	638,230

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

50% of the shares of restricted stock may be earned on the basis of performance as measured by a "Take-out Ratio," (a) defined as the percentage of the direct, front line costs incurred for the year ending December 31, 2012 divided by the gross margin for the year ending December 31, 2012;

25% of the shares of restricted stock may be earned on the basis of performance as measured by an employee (b) engagement score for the year ending December 31, 2012 based on an employee survey to be conducted by a global human resources consulting firm;

25% of the shares of restricted stock may be earned on the basis of performance as measured by "Cash Efficiency," (c) defined as (1) cash flow from operations for the year ending December 31, 2012 divided by (2) gross margin minus selling, general and administrative expenses for the year ending December 31, 2012.

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

(2) To the extent shares are earned on the basis of performance, such shares will vest on the basis of service as follows:

- (a) 33% of the shares vest on the later of the first anniversary of the grant date or the determination that the performance conditions have been satisfied;
- (b) 33% of the shares vest on the second anniversary of the grant date;
- (c) 34% of the shares vest on the third anniversary of the grant date; provided that, in each case, the named executive officer remains employed by the Company from the grant date through the applicable service vesting date.

As of September 30, 2012, the Company had approximately \$2,699 of unrecognized stock-based compensation expense related to outstanding non-vested restricted stock. The Company expects to recognize that cost over a weighted average service period of 1.45 years.

Changes in the Company's restricted stock for the nine months ended September 30, 2012 and 2011 were as follows:

	For The Nine Months Ended			
	September 30, 2012		2011	
	Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value	Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value
Non-vested restricted stock at January 1,	1,166,082	\$5.12	953,037	\$3.64
Granted	638,230	4.59	743,625	6.22
Vested	(429,950 )	4.90	(271,540 )	3.90
Forfeited	(156,568 )	5.37	(89,263 )	2.80
Non-vested restricted stock at September 30,	1,217,794	\$4.88	1,335,859	\$5.08

## Restricted Stock Units

As of September 30, 2012, the Company had approximately \$234 of unrecognized stock-based compensation expense related to outstanding non-vested restricted stock units. The Company expects to recognize that cost over a weighted average service period of 1.6 years.

Changes in the Company's restricted stock units for the nine months ended September 30, 2012 and 2011 were as follows:

	For The Nine Months Ended			
	September 30, 2012		2011	
	Number of Shares of Restricted Stock Unit	Weighted Average Grant-Date Fair Value	Number of Shares of Restricted Stock Unit	Weighted Average Grant-Date Fair Value
Non-vested restricted stock units at January 1,	100,000	\$5.18	—	\$—
Granted	76,023	5.13	127,376	5.37
Vested	(76,023 )	5.13	(27,376 )	6.05
Non-vested restricted stock units at September 30,	100,000	\$5.18	100,000	\$5.18





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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

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

The Company maintains the Hudson Global, Inc. 401(k) Savings Plan (the "401(k) plan"). The 401(k) plan allows eligible employees to contribute up to 15% of their earnings to the 401(k) plan. The Company has the discretion to match employees' contributions up to 3% of the employees' earnings through a contribution of the Company's common stock. Vesting of the Company's contribution occurs over a five-year period. For the three and nine months ended September 30, 2012 and 2011, the Company's expenses and contributions to satisfy the prior years' employer-matching liability for the 401(k) plan were as follows:

(\$ in thousands, except otherwise stated)	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2012	2011	2012	2011
Expense recognized for the 401(k) plan	\$144	\$176	\$511	\$584
Contributions to satisfy prior years' employer-matching liability				
Number of shares of the Company's common stock issued (in thousands)	—	—	124	92
Market value per share of the Company's common stock on contribution date (in dollars)	\$—	\$—	\$5.35	\$6.55
Non-cash contribution made for employer matching liability	\$—	\$—	\$666	\$602

## NOTE 6 – INCOME TAXES

Under ASC 270, "Interim Reporting", and ASC 740-270, "Income Taxes – Intra Tax Allocation", the Company is required to adjust its effective tax rate for each quarter to be consistent with the estimated annual effective tax rate.

Jurisdictions with a projected loss for the full year where no tax benefit can be recognized are excluded from the calculation of the estimated annual effective tax rate. Applying the provisions of ASC 270 and ASC 740-270 could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.

## Effective Tax Rate

The benefit from income taxes for the nine months ended September 30, 2012 was \$3,770 on a pre-tax loss of \$8,762, compared with a provision for income taxes of \$4,377 on pre-tax income of \$11,977 for the same period in 2011. The Company's effective income tax rate was 43.0% and 36.5% for the nine months ended September 30, 2012 and 2011, respectively. The change in the effective tax rate was primarily attributable to the Company's reduction of reserves of approximately \$3,600 for uncertain tax positions principally in connection with the settlement of an appeal with the State of Pennsylvania, partially offset by the inability to benefit from losses in certain foreign jurisdictions in 2012.

## Uncertain Tax Positions

As of September 30, 2012 and December 31, 2011, the Company had \$4,098 and \$7,807, respectively, of unrecognized tax benefits, including interest and penalties, which if recognized in the future, would lower the Company's annual effective income tax rate. Accrued interest and penalties were \$729 and \$1,644 as of September 30, 2012 and December 31, 2011, respectively. Estimated interest and penalties are classified as part of the provision for income taxes in the Company's Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss) and totaled to a benefit of \$881 and \$58 for the nine months ended September 30, 2012 and 2011, respectively. In many cases, the Company's unrecognized tax benefits are related to tax years that remain subject to examination by the relevant tax authorities. Tax years with net operating losses remain open until the losses expire or the statutes of limitations for those years when the losses are used expire. The Company's open tax years are 2008 through 2011 for

the U.S. Federal and 2005 through 2011 for most state and local jurisdictions, 2010 through 2011 for the U.K., 2007 through 2011 for Australia and 2006 through 2011 for most other jurisdictions. The Company is currently under income tax examination in New Zealand (2009). The Company believes that its tax reserves are adequate for all years subject to examination.

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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

Based on information available as of September 30, 2012, it is reasonably possible that the total amount of unrecognized tax benefits could decrease approximately \$347 over the next 12 months as a result of projected resolutions of global tax examinations and controversies and potential lapses of the applicable statutes of limitations.

NOTE 7 – EARNINGS (LOSS) PER SHARE

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

A reconciliation of the numerators and denominators of the basic and diluted earnings (loss) per share calculations were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Earnings (loss) per share ("EPS"):				