HEADWAY CORPORATE RESOURCES INC
Form 10-Q/A
July 25, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended March 31, 2002

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 No. 1-16025

HEADWAY CORPORATE RESOURCES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	75-2134871
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

317 Madison Avenue, New York, New York 10017
(Address of principal executive offices)

(212) 672-6501
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Exchange Act subsequent to the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 10,914,627 shares of common stock.

This amendment is filed to correct a clerical error in transposing the cash figures on the balance sheet.

FORM 10-Q
HEADWAY CORPORATE RESOURCES, INC. AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENT NOTICE

When used in this report, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions are intended to identify forward-looking statements within the meaning of Section 27a of the Securities Act of 1933 and Section 21e of the Securities Exchange Act of 1934 regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, operating results, and financial position. Persons reviewing this report are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such factors are discussed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," and also include general economic factors and conditions that may directly or indirectly impact the Company's financial condition or results of operations.

Item 1. Financial Statements

Headway Corporate Resources, Inc. and Subsidiaries

Consolidated Balance Sheets
(Dollars In Thousands, except for share data)

	March 31, 2002	December 31, 2001
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 10,289	$ 8,641
Accounts receivable, trade, net	35,939	37,713
Prepaid expenses and other current assets	1,553	2,181
Deferred financing costs, current	385	979
Prepaid and refundable income taxes	2,806	4,279
Total current assets	50,972	53,793
Property and equipment, net	5,536	5,691
Goodwill	42,366	87,313
Deferred financing costs	485	509
Other assets	1,892	1,858
Total assets	$101,251	$ 149,164
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 987	$ 1,302
Accrued expenses	6,575	7,848
Accrued payroll	9,666	8,319
Capital lease obligations, current portion	208	224
Earnouts payable	927	1,287
Total current liabilities	18,363	18,980
Capital lease obligations, less current portion	75	111
Long-term debt	82,000	82,000
Deferred rent	1,014	1,073
Deferred income taxes	307	307
Other liabilities	49	264
Commitments and contingencies		
Preferred stock---$.0001 par value, 5,000,000 shares authorized:	21,622	20,000
Series G, convertible preferred stock--$.0001 par value, 1,000 shares authorized, issued and outstanding (aggregate liquidation value $21,622)		
Stockholders' (deficit) equity		
Common stock--$.0001 par value, 20,000,000 shares authorized, 10,914,627 shares issued and outstanding	1	1
Additional paid-in capital	18,268	18,268
Notes receivable	(71)	(71)
Deferred compensation	(353)	(382)
(Accumulated deficit)/retained earnings	(39,786)	9,220
Other comprehensive (loss)	(238)	(607)
Total stockholders' (deficit) equity	(22,179)	26,429

Total liabilities and stockholders' (deficit) equity	$ 101,251	$ 149,164

See accompanying notes.

Headway Corporate Resources, Inc. and Subsidiaries

Consolidated Statements of Operations
(Unaudited)
(Dollars In Thousands, except per share data)

	Three months ended March 31, 2002	2001
Revenues:	$ 69,641	$ 89,713
Operating expenses:		
Direct costs	56,880	63,891
Selling, general and administrative	13,517	18,681
Depreciation and amortization	469	1,386
	70,866	83,958
Operating (loss) income	(1,225)	5,755
Other (income) expenses:		
Interest expense	3,854	2,075
Interest income	(25)	(14)
	3,829	2,061
(Loss) income before income tax (benefit) expense and cumulative effect of accounting change	(5,054)	3,694
Income tax (benefit) expense	(1,545)	1,710
(Loss) income before cumulative effect of accounting change	(3,509)	1,984
Cumulative effect of accounting change	(45,000)	--
Net (loss) income	(48,509)	1,984
Preferred dividend requirements	(497)	(375)
Net (loss) income available for common stockholders	$ (49,006)	$ 1,609
Basic (loss) earnings per share:		
Basic (loss) income per common share before cumulative effect of accounting change	$ (0.37)	$ 0.15
Cumulative effect of accounting change	(4.20)	--
Basic (loss) income per common share	$ (4.57)	$ 0.15

Diluted (loss) earnings per share:		
Diluted (loss) income per common share before cumulative effect of accounting change	$ (0.37)	$ 0.14
Cumulative effect of accounting change	(4.20)	--
Diluted (loss) income per common share	$ (4.57)	$ 0.14

See accompanying notes.

Headway Corporate Resources, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity (Deficit)
Three Months Ended March 31, 2002
(Unaudited)
(Dollars in thousands, except for share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Notes Receivable	Deferred Compensation
Balance at December 31, 2001	10,914,627	$ 1	$ 18,268	$ (71)	$ (382)
Amortization of stock-based compensation	-	-	-	-	29
Preferred stock dividends	-	-	-	-	-
Translation adjustment	-	-	-	-	-
Change in fair value of derivative, net of applicable income taxes of $107,000	-	-	-	-	-
Net (loss)	-	-	-	-	-
Comprehensive (loss)	-	-	-	-	-
Balance at March 31, 2002	10,914,627	$ 1	$ 18,268	$ (71)	$ (353)

Headway Corporate Resources, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity (Deficit), Continued
Three Months Ended March 31, 2002
(Unaudited)
(Dollars in thousands)

	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive (loss)	Total Stockholders' Equity (Deficit)
Balance at December 31, 2001	$ 9,220	$ (607)	$ 26,429
Amortization of stock-based compensation	-	-	29
Preferred stock dividends	(497)	-	(497)
Translation adjustment	-	154	154
Change in fair value of derivative, net of applicable income taxes of $107,000	-	215	215
Net (loss)	(48,509)	-	(48,509)
Comprehensive (loss)	-	-	(48,140)
Balance at March 31, 2002	$ (39,786)	$ (238)	$ (22,179)

See accompany notes.

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Headway Corporate Resources, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Three months ended March 31, 2002	2001
Operating activities		
Net (loss) income	$ (48,509)	$ 1,984
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Cumulative effect of accounting change	45,000	-
Depreciation and amortization	469	1,386
Amortization of deferred financing costs	1,286	203
Provision for bad debt	60	110
Amortization of deferred compensation	29	29
Changes in assets and liabilities:		
Accounts receivable	1,694	(2,966)
Prepaid expenses and other assets	214	(62)
Prepaid and refundable income taxes	1,455	-
Other assets	(36)	-
Accounts payable and accrued expenses	(556)	(1,974)
Accrued payroll	1,470	(5,080)
Income taxes payable	-	2,427
Deferred rent	(59)	(9)
Net cash provided by (used in) operating activities	2,517	(3,952)

Investing activities		
Expenditures for property and equipment	(308)	(390)
Repayment from notes receivable	-	6
Cash paid for acquisitions	(423)	(1,360)
Net cash (used in) investing activities	(731)	(1,744)
Financing activities		
Proceeds from long-term debt	-	5,800
Payment of capital lease obligations	(52)	(106)
Payments of loan acquisition fees	(268)	-
Cash dividends paid	-	(375)
Net cash (used in) provided by financing activities	(320)	5,319
Effect of exchange rate changes on cash and cash equivalents	182	(156)
Increase (decrease) in cash and cash equivalents	1,648	(533)
Cash and cash equivalents at beginning of period	8,641	1,549
Cash and cash equivalents at end of period	$ 10,289	$ 1,016

HEADWAY CORPORATE RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2002

(1) BASIS OF PRESENTATION

Headway Corporate Resources, Inc. and its wholly owned subsidiaries (collectively referred to as the "Company") provide strategic staffing solutions and personnel worldwide. Its operations include information technology staffing, temporary staffing, human resource staffing, permanent placement and executive search. Headquartered in New York, the Company has temporary staffing offices in California, Connecticut, Florida, New Jersey, North Carolina, Virginia, and Texas and executive search offices in New York, Illinois, Massachusetts, the United Kingdom, Japan, Hong Kong and Australia. These consolidated financial statements include the accounts of Headway Corporate Resources, Inc. and its subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

(2) GOODWILL

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, "Business Combinations", effective for all combinations initiated after June 30, 2001, and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives.

Upon adoption of SFAS 142 in the first quarter of 2002, the Company recorded a one-time, non-cash charge of $45 million to reduce the carrying value of its goodwill. Such charge is non-operational in nature and is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations. In calculating the impairment charge, the fair value of the impaired reporting units underlying the business segments (see Note 5) were estimated using a discounted cash flow methodology.

A summary of the change in the Company's goodwill during the quarter and total assets at March 31, 2002, by reporting units is as follows:

	Goodwill				Total Assets
	January 1, 2002	Adjustments (i)	Impairments	March 31, 2002	March 31, 2002
Executive Search	$ 11,086,000	$ 53,000	$ (8,200,000)	$ 2,939,000	$ 7,873,000
Temporary Staffing	42,415,000	-	(10,800,000)	31,615,000	82,382,000
Technology Staffing	33,812,000	-	(26,000,000)	7,812,000	13,190,000
Total	$ 87,313,000	$ 53,000	$(45,000,000)	$ 42,366,000	$103,445,000

(i)During the three months ended March 31, 2002, additional purchase price of $60,000 was recorded as goodwill upon the determination that the earnouts had been met on certain acquisitions made in 1997, 1998 and 1999.

The 2001 results on a historical basis do not reflect the provisions of SFAS 142. Had the Company adopted SFAS 142 on January 1, 2001 and ceased to amortize goodwill at such date, the historical net income and basic and diluted net income per common share would have been changed to the adjusted amounts indicated below:

Three Months Ended March 31, 2001

Net income per

	Net income	Net income per basic common share	diluted common share
As reported--historical basis	$1,609,000	$0.15	$0.14
Add: Goodwill amortization	1,003,000	0.09	0.07
Income tax impact	(435,000)	(0.04)	(0.03)
Adjusted	$2,177,000	$0.20	$0.18

(3) DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses interest rate swap contracts for hedging purposes. The Company had entered into interest rate swap agreements that effectively convert a portion of its floating-rate debt to a fixed-rate basis through April 18, 2002, thus reducing the impact of interest-rate changes on future interest expense. Approximately $30,000,000 of the Company's outstanding long-term debt was designated as the hedged item to an interest rate swap agreement at March 31, 2002.

At March 31, 2002, the fair value of the interest rate swap contract amounted to approximately $87,000. The Company is exposed to credit loss in the event of non-performance by the counter party, a large financial institution. However, the Company does not anticipate non-performance by the counter party. For interest rate swaps, the net amounts paid or received and net amounts accrued through the end of the accounting period were included in interest expense. Unrealized gains or losses on interest rate swap contracts were not recognized in income. During the three months ended March 31, 2002, the Company recognized change in fair value of the derivative of $215,000 related to the change in fair value of the interest rate swap contract net of applicable income taxes of $107,000 as a component of other comprehensive income.

(4) EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2002 and 2001:

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	2002	2001
Numerator:		
Net (loss) income	$(48,509,000)	$ 1,984,000
Cumulative effect of accounting change	45,000,000	-
Preferred dividend requirements	(497,000)	(375,000)
Numerator for basic (loss) earnings per share - net (loss) income available for common stockholders before cumulative effect of accounting change	(4,006,000)	1,609,000
Effect of dilutive securities:		
Preferred dividend requirements	-	375,000
Numerator for diluted (loss) earnings per share - net (loss) income available for common stockholders after assumed conversions before cumulative effect of accounting change	$ (4,006,000)	$ 1,984,000
Denominator:		

Denominator for basic (loss) earnings per share - weighted average shares	10,729,627	10,729,627
Effect of dilutive securities:		
Convertible preferred stock	-	3,584,229
Dilutive potential common stock	-	3,584,229
Denominator for diluted (loss) earnings per share - adjusted weighted-average shares and assumed conversions	10,729,627	14,313,856
Basic (loss) earnings per share before cumulative effect of accounting change	$ (0.37)	$ .15
Diluted (loss) earnings per share before cumulative effect of accounting change	$ (0.37)	$ .14

(5) BUSINESS SEGMENTS

The Company classifies its business into two fundamental areas, staffing and executive search. Staffing consists of the placement and payrolling of temporary and permanent office, clerical and information technology professional personnel. Executive search focuses on placing middle to upper level management positions. The Company evaluates performance based on the segments' profit from operations before unallocated corporate overhead.

Three months ended March 31, 2002	Staffing Services	Executive Search Services	Total
Revenues	$65,315,000	$ 4,326,000	$69,641,000
Segment (loss)	(1,708,000)	(532,000)	(2,240,000)

Three months ended March 31, 2002	Staffing Services	Executive Search Services	Total
Revenues	$75,793,000	$13,920,000	$89,713,000
Segment (loss) profit	(565,000)	2,970,000	2,405,000

Reconciliation to net (loss) income	Three months ended March 31, 2002	2001
Total (loss) profit for reportable segments	$ (2,240,000)	$ 2,405,000
Unallocated amounts:		
Interest expense	(1,382,000)	(273,000)
Corporate overhead	(541,000)	(517,000)
Cumulative effect of accounting change	(45,000,000)	--
Income tax benefit	654,000	369,000

Net (loss) income	$(48,509,000)	$ 1,984,000
	=============	============

(6) LONG-TERM DEBT AND CREDIT FACILITIES

In March 1998, Headway obtained $105 million of financing consisting of $85 million in senior debt, $20 million of equity financing and $10 million of senior subordinated debt. As of March 31, 2002, $72,000,000 in aggregate principal amount was outstanding under the Senior Credit Facility, which was to mature on April 18, 2002 (see below). Substantially all assets of the Company have been pledged as collateral for the senior credit facility.

As of March 31, 2002, $10,000,000 in aggregate principal amount was outstanding under the Senior Subordinated Notes and $20,000,000 in face amount of Series G Convertible Preferred Stock of the Company (the "Preferred Stock") was outstanding. The senior subordinated notes are payable in March 2006 and bear interest at 12% per annum until March 2001, increasing to 14% per annum thereafter. In January 2001, the terms of the senior subordinated notes were amended, including increasing the effective interest rate to 13% until March 2001 and 15% thereafter.

On April 17, 2002, the Senior Credit Facility and Senior Subordinated Notes were amended and the Company entered into the Second Limited Waiver with the Senior Subordinated Notes Holders and the Preferred Stockholders, which provided the following:

(i) An extension of the Senior Credit Facility maturity date to June 30, 2003.

(ii) A waiver of the events of default on the Senior Subordinated Notes from March 31, 2002 through the "Recap Amendment Termination Date", defined as the earliest of (1) June 30, 2003 or such earlier on date on which the Senior Indebtedness may mature; (2) the date on which all amounts due under the Senior Credit Facility shall have been paid in full in cash; (3) the date on which the Senior Credit Facility is amended or modified in a manner that (A) increases the Base Rate, the Default Rate, the Applicable Margin or any other interest rate on the Senior Indebtedness (B) decreases the PIK Amount (C) increases the amount of fees or other payments due to the Agent or any Lender under the Senior Credit Facility (other than increases made in connection with events of default under the Senior Credit Facility that do not exceed, in the aggregate, 0.50% of the outstanding Senior Indebtedness), or (D) in consideration of which, the Agent (as defined in the Senior Credit Facility) or any Lender under the Senior Credit Facility is issued any additional equity interest in the Company; and (4) the acceleration of any indebtedness under the Senior Credit Facility or the exercise of any rights or remedies by any of the Lenders under the Senior Credit Facility.

(iii) A waiver of the payment of interest (but not the accrual of interest) under the Senior Subordinated Notes from March 31, 2002 through the Recap Amendment Termination Date.

(iv) A waiver of the Preferred Stock events of default and a waiver of the payment of dividends (but not the accrual of dividends) on the Preferred Stock from March 31, 2002 through the Recap Amendment Termination Date.

(v) A waiver of the increase in interest rate on the Senior Subordinated Notes from 15% to 20% retroactive to July 1, 2001.

(vi) An adjustment to the exercise price of the First Series G Warrants and the Third Series G Warrants to $0.25 per share.

(vii) Required maintenance of certain amounts of EBITDA, as defined, and maximum amounts of capital expenditures, as defined.

(viii) That the Company take all actions necessary to obtain Common Stockholder

Approval at a stockholder meeting to be held no later than July 15, 2002, subject to extension under certain circumstances.

(ix) That the Company issue warrants to purchase 2,455,522 shares of common stock at $0.25 per share to the lenders in connection with the amendment of its Senior Credit Facility. Such warrants were issued in April 2002.

(7) COMPREHENSIVE INCOME

During the three months ended March 31, 2002 and 2001, total comprehensive (loss) income amounted to $(48,140,000) and $ 1,382,000, respectively.

(8) LEGAL PROCEEDINGS

In the ordinary course of its business, Headway is periodically threatened with or named as a defendant in various lawsuits, including discrimination, harassment, and other similar claims. Headway maintains insurance in such amounts and with such coverage and deductibles as management believes are reasonable.

In May 2000, a lawsuit was filed in the Judicial District Court of Dallas County, Texas alleging breach of contract, fraud, negligence, negligent retention and supervision, civil conspiracy and harmful access by computer. Plaintiffs have alleged damages in the amount of $10 million. Headway believes the claims are unfounded and intends to defend itself vigorously.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

Revenue Recognition

Information technology staffing, temporary staffing and human resource staffing revenue is recognized when the temporary personnel perform the related services. Permanent placement revenue is recognized when the placement is employed. Provisions are made for estimated losses in realization (principally due to applicants not remaining in employment for the guaranteed period, usually 90 days) and for bad debts. These provisions are reviewed periodically and have always been found to be adequate based on the Company's experience in this regard.

Executive search services are primarily engaged on a retainer basis. Income from retainer contracts which provide for periodic billings over periods of up to one year, is recognized as earned based on the terms of the contract.

Goodwill

Goodwill prior to the first quarter of 2002 was amortized utilizing the straight-line method over a period of 20 to 30 years. The Company periodically evaluated the carrying value and the periods of amortization of goodwill based on the current and expected future non-discounted income from operations of the entities giving rise to the goodwill to determine whether events and circumstances warrant revised estimates of carrying value or useful lives. No such write-downs have been made.

During the first quarter of 2002 the Company adopted Statements of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS

142"). Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives. Under FAS 142, goodwill impairment is deemed to exist if the net carrying value of a reporting unit's goodwill exceeds its estimated fair value. The Company's reporting units are one level below the operating segments underlying the segments identified in Note 5-Segment Information. Upon adoption of FAS 142 in the first quarter of 2002, the Company recorded a one-time, non-cash charge of $45 million to reduce the carrying value of its goodwill. Such charge is non-operational in nature and is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.

Results of Operations

Overview

The results for the first quarter reflect a significant reduction in the demand for the Company's staffing and executive search services. This trend is a direct result of the soft economy and is consistent with the performance of the other staffing and executive search companies in the sector. Many companies have instituted hiring freezes for both temporary and permanent positions. The financial services industry has reduced its demand for the Company's executive search services as a direct result of the poor financial performance across the financial services industry. The Company believes that the performance for the balance of the year will continue to be impacted by the performance in the general economy. The performance in executive search for the balance of the year will depend in part on the financial services industry. The Company has taken steps to reduce costs and is constantly looking for growth opportunities.

Consolidated

Revenues decreased $20,072,000 or 22.4% to $69,641,000 for the three months ended March 31, 2002, from $89,713,000 for the same period in 2001. The decrease was attributable to an overall decline in the demand for the Company's staffing and executive search services as a direct result of weakness in the economy.

The executive search subsidiary, Whitney Partners, LLC (Whitney) contributed $4,326,000 to consolidated revenues in the first quarter of 2002, a decrease of $9,594,000 from $13,920,000 for the same period in 2001. The decrease reflects a sharp decline in the demand for new hires in the financial services industry.

The staffing subsidiary, Headway Corporate Staffing Services, Inc. (HCSS) contributed revenues of $65,315,000 to consolidated revenues in the first quarter of 2002, a decrease of $10,478,000 from $75,793,000 for first quarter of 2001. The decline in revenues was a result of the negative impact of the unfavorable economic conditions on the demand for information technology and clerical staffing services.

Total operating expenses decreased $13,092,000 to $70,866,000 for the three months ended March 31, 2002, from $83,958,000 for the same period in 2001. The decrease is the result of a $7.0 million decrease in direct costs, a $5.2 million decrease in selling, general and administrative expenses, and a $0.9 million decrease in depreciation and amortization. Direct costs increased as a percentage of revenues to 81.7% in 2002 from 71.2% in 2001. This increase in direct costs as a percentage of revenues is a result of a change in Headway's business mix in 2001. Specifically, the executive search and permanent placement business that has no direct costs experienced more significant declines than the staffing business, therefore reducing its percentage of our total revenues. Selling, general and administrative expenses decreased as a percentage of revenues from 20.8% in first quarter 2001 to 19.4% in first quarter 2002. The decrease in selling, general and administrative expenses is primarily attributed to the lower commission expenses associated with the reduction in revenues, as well as staff reductions and other cost-cutting initiatives implemented in response to the unfavorable economic conditions. The decrease in depreciation and amortization is a result of the adoption of Statements of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Amortization of goodwill recorded for the first quarter of 2001 was $1.0 million.

Whitney's selling, general and administrative expenses decreased $3.2 million in the first quarter of 2002 to $4.8 million as compared to $8.0 million for the same period last year. The decrease relates primarily to the reduced commissions related to the lower executive search revenues.

HCSS' selling, general and administrative expenses decreased $2.0 million in the first quarter of 2002 to $8.2 million as compared to $10.2 million for the same period last year. The decrease in selling, general and administrative expenses is primarily attributable to the lower commission expense associated with the decline in revenues, as well as staff reductions and other cost-cutting initiatives implemented in the latter half of 2001.

Interest expense increased $1.8 million to $3.9 million in the first quarter of 2002 as compared to $2.1 million for the same period last year. The increase in interest expense related to increased amortization of deferred financing costs relating to the amendment completed in August 2001, an increase in the applicable margin for base rate loans under the Amended Senior Credit Facility, and expense relating to the Company's interest rate swap.

During the first quarter of 2002 the Company adopted SFAS 142. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives. Under SFAS 142, goodwill impairment is deemed to exist if the net carrying value of a reporting unit's goodwill exceeds its estimated fair value. The Company's reporting units are one level below the operating segments underlying the segments identified in Note 5-Segment Information. Upon adoption of SFAS 142 in the first quarter of 2002, the Company recorded a one-time, non-cash charge of $45 million to reduce the carrying value of its goodwill.

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Such charge is non-operational in nature and is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.

Liquidity and Capital Resources

In March 1998, Headway obtained $105 million of financing consisting of $85 million in senior debt, $20 million of equity financing and $10 million of senior subordinated debt. As of March 31, 2002, $72,000,000 in aggregate principal amount was outstanding under the Senior Credit Facility, which was to mature on April 18, 2002 (see below). Substantially all assets of the Company have been pledged as collateral for the senior credit facility.

As of March 31, 2002, $10,000,000 in aggregate principal amount was outstanding under the Senior Subordinated Notes and $20,000,000 in face amount of Series G Convertible Preferred Stock of the Company (the "Preferred Stock") was outstanding. The senior subordinated notes are payable in March 2006 and bear interest at 12% per annum until March 2001, increasing to 14% per annum thereafter. In January 2001, the terms of the senior subordinated notes were amended, including increasing the effective interest rate to 13% until March 2001 and 15% thereafter.

On April 17, 2002, the Senior Credit Facility and Senior Subordinated Notes were amended and the Company entered into the Second Limited Waiver with the Senior Subordinated Notes Holders and the Preferred Stockholders, which provided the following:

(i) An extension of the Senior Credit Facility maturity date to June 30, 2003.
(ii) A waiver of the events of default on the Senior Subordinated Notes from March 31, 2002 through the "Recap Amendment Termination Date", defined as the earliest of (1) June 30, 2003 or such earlier on date on which the Senior Indebtedness may mature; (2) the date on which all amounts due under the Senior Credit Facility shall have been paid in full in cash; (3) the date on which the Senior Credit Facility is amended or modified in a manner that (A) increases the Base Rate, the Default Rate, the Applicable Margin or any other interest rate on the Senior Indebtedness (B) decreases the PIK Amount (C) increases the amount of fees or other payments due to the Agent or any Lender under the Senior Credit Facility (other than increases made in connection with events of default under the Senior Credit Facility that do not exceed, in the aggregate, 0.50% of the outstanding Senior Indebtedness), or (D) in consideration of which, the Agent (as defined in the Senior Credit Facility) or any Lender under the Senior Credit Facility is issued any additional equity interest in the Company; and (iv) the acceleration of any indebtedness under the Senior Credit Facility or the exercise of any rights or remedies by any of the Lenders under the Senior Credit Facility.
(iii) A waiver of the payment of interest (but not the accrual of interest) under the Senior Subordinated Notes from March 31, 2002 through the Recap Amendment Termination Date.
(iv) A waiver of the Preferred Stock events of default and a waiver of the payment of dividends (but not the accrual of dividends) on the Preferred Stock from March 31, 2002 through the Recap Amendment Termination Date.
(v) A waiver of the increase in interest rate on the Senior Subordinated Notes from 15% to 20% retroactive to July 1, 2001.
(vi) An adjustment to the exercise price of the First Series G Warrants and the Third Series G Warrants to $0.25 per share.
(vii) Required maintenance of certain amounts of EBITDA, as defined, and maximum amounts of capital expenditures, as defined.
(viii) That the Company take all actions necessary to obtain Common Stockholder Approval at a stockholder meeting to be held no later than July 15, 2002, subject to extension under certain circumstances.
(ix) That the Company issue warrants to purchase 2,455,522 shares of common stock at $0.25 per share to the lenders in connection with the amendment of its Senior Credit Facility. Such warrants were issued in April 2002.

Net cash provided by operations during the three months ended March 31, 2002 was $2,517,000. The cash provided in 2002 was primarily attributable to a decrease

in accounts receivable and prepaid and refundable income taxes, and an increase in accrued payroll. Net cash used in operations during the three months ended March 31, 2001 was $3,952,000. The cash used in 2001 was primarily attributable to an increase in accounts receivable, a decrease in accounts payable, accrued expenses and accrued payroll, which was partially offset by an increase in income taxes payable.

Net cash used in investing activities for the three months ended March 31, 2002, of $731,000 was primarily the result of earnout payments for acquisitions completed during 1997 and 1998 and capital expenditures. This compares to cash used in investing activities of $1,744,000 for the same period in 2001. The cash used for investing activities in 2001 also related primarily to earnout payments for acquisitions completed during 1997 and 1998 as well as capital expenditures.

Net cash used in financing activities during the three months ended March 31, 2002 was $320,000, primarily relating to payments of loan acquisition fees. Net cash provided by financing activities of $5,319,000 for the three months ended March 31, 2001 was primarily a result of additional borrowings under the Company's senior credit facility.

The Company's working capital was $32,609,000 at March 31, 2002, compared to $34,813,000 at December 31, 2001. Management expects that the Company's working capital position will be sufficient to meet all of its working capital needs for the remainder of the year.

On January 22, 2002, the Securities and Exchange Commission issued FR-61, Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations. The release sets forth certain views of the Securities and Exchange Commission regarding disclosure that should be considered by registrants. Headway's contractual obligations and commercial commitments are summarized below. The following table includes aggregate information about Headway's contractual obligations as of March 31, 2002 and the periods in which payments are due:

Contractual Obligations	Payments Due by Period (in thousands)				
	Total	Less than 1 year	1-3 years	4 - 5 years	After 5 years
Loans Payable	$82,000	$ -	$82,000	$ -	$ -
Capital Lease Obligations	283	208	75	-	-
Operating Leases	9,728	2,770	3,662	2,183	1,113
Unconditional Purchase Obligations	None				
Other Long Term Obligations (1)	927	927	-	-	-
Total Contractual Cash Obligations	$92,938	$3,905	$85,737	$ 2,183	$ 1,113

The following table includes aggregate information about Headway's commercial commitments as of March 31, 2002. Commercial commitments are items that Headway could be obligated to pay in the future. They are not required to be included in the consolidated balance sheet.

Other Commercial Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period (in thousands)

		Less than 1 year	1 - 3 years	4 - 5 years	Over 5 years
Lines of Credit	None				
Standby Letters of Credit	$1,687	$1,687	$ -	$ -	$ -
Guarantees	None				
Standby Repurchase Obligations	None				
Other Commercial Commitments	None				
Total Commercial Commitments	$ 1,687	$1,687	$ -	$ -	$ -

(1) Represents earnout amounts payable to the former owners of businesses previously acquired by Headway.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Headway is exposed to changes in interest rates primarily from its long-term debt arrangements. Under its current policies, Headway uses interest rate derivative instruments to manage exposure to interest rate changes. As of March 31, 2002, Headway had one interest rate exchange agreement converting $30.0 million of variable rate borrowings under the senior credit agreement to a fixed rate of 6.868% per annum plus the applicable margin, expiring in April 2002.

Headway is exposed to credit loss in the event of non-performance by the counter-party, a large financial institution. However, Headway does not anticipate nonperformance by the counter-party.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

Exhibit No.	Title of Document	Location
3.1	Certificate of Incorporation	(1)
3.2	By-Laws	(1)
3.3	By-Law Amendments	(2)
4.1	Series F Preferred Stock Designation	(2)
4.2	Series G Preferred Stock Designation	(3)
4.3	Form of Warrants issued August 23, 2001, exercisable	(3)

	for an aggregate of 1,000,000 shares	
4.4	Form of Warrants issued August 23, 2001, exercisable for an aggregate of 1,150,000 shares	(3)
4.5	Form of Warrants issued August 23, 2001, exercisable for an aggregate of 850,000 shares	(3)
4.6	Securities Purchase Agreement dated March 19, 1998	(2)
4.7	Registration Rights Agreement dated March 19, 1998	(2)
4.8	Amended and Restated Indenture dated Aril 18, 2002	(3)

4.9	Registration Rights Agreement dated April 17, 2002	(3)
4.10	Amended and Restated Credit Agreement dated April 17, 2002, With Exhibits	(3)
4.11	Voting Agreement dated April 17, 2002	(3)

(1) These exhibits are included in Headway's annual report on Form 10-KSB, for the fiscal year ended December 31, 1996, and filed with the Securities and Exchange Commission on March 27, 1997, and are incorporated herein by this reference.

(2) These exhibits are included in Headway's current report on Form 8-K, dated March 19, 1998, and filed with the Commission on April 3, 1998, and are incorporated herein by this reference.

(3) These exhibits are included in Amendment No. 1 to Headway's annual report on Form 10-K for the fiscal year ended December 31, 2001, and filed with the Securities and Exchange Commission on April 30, 2002, and are incorporated herein by this reference.

Reports on Form 8-K: None.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEADWAY CORPORATE RESOURCES, INC.

Date: May 15, 2002

By: /s/ Barry S. Roseman
President and Chief Operating Officer

By: /s/ Philicia G. Levinson
Senior Vice President and
Chief Financial Officer