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## Conference Call Transcript

**HHGP - Hudson Highland Group Inc Guidance Announcement**

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## CORPORATE PARTICIPANTS

**David Kirby**

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**Jon Chait**

*Hudson Highland Group Inc. - Chairman and CEO*

**Mary Jane Raymond**

*Hudson Highland Group Inc. - EVP and CFO*

## CONFERENCE CALL PARTICIPANTS

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*BMO Capital Markets - Analyst*

**Mark Marcon**

*Robert W. Baird - Analyst*

**Mike Carney**

*Coker & Palmer - Analyst*

**Tim McHugh**

*William Blair - Analyst*

## PRESENTATION

### Operator

Good morning. My name is Angie and I will be your conference operator today. At this time, I would like to welcome everyone to the Hudson Highland Group second-quarter earnings pre-announcement conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (OPERATOR INSTRUCTIONS).

I would now like to turn the call over to the Director of Investor Relations, Mr. David Kirby. Sir, you may begin.

### David Kirby - Hudson Highland Group Inc. - Director of IR

Thank you, operator, and thank you all for joining us this morning. Our call today will be led by Jon Chait, Chairman and Chief Executive Officer, and Mary Jane Raymond, Executive Vice President and Chief Financial Officer for Hudson Highland Group.

Before we begin, I will read the Safe Harbor statement. Please be advised that except for historical information, statements made during the presentation constitute forward-looking statements under applicable securities laws. Such forward-looking statements involve certain risks and uncertainties, including statements regarding the Company's strategic direction, prospects and future results. Certain factors, including factors outside of our control, may cause actual results to differ materially from those contained in the forward-looking statements, including economic and other conditions in the markets in which we operate, risks associated with acquisitions, competition, seasonality and the other risks discussed in our filings made with the SEC.

These forward-looking statements speak only as of today. The Company assumes no obligation and expressly disclaims any obligation to review or confirm analyst expectations or estimates or to update any forward-looking statements whether as a result of information, future events or otherwise.

With that, I will now turn the call over to Jon Chait.

### Jon Chait - Hudson Highland Group Inc. - Chairman and CEO

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Thank you very much for joining us today. I want to start off by saying that I am assuming that all of you have had a chance to read the press release that we issued earlier this morning, and therefore I won't repeat the contents of that release. There were three components to the release, and between Mary Jane and I, we will comment on each of them during the course of this call.

First, let me explain our reasoning in issuing the release. In reviewing the wording of our guidance about the second quarter, we were concerned that some could interpret our guidance as being \$12.5 million to \$13.5 million in EBITDA -- that is, including any restructuring charges. In fact, in the Q2 call, we mentioned that we did not expect that there would be any such charges.

If we included the restructuring charge and EBITDA, our preliminary results indicated that we would be below the guidance range for Q2. We don't believe that this is a fair interpretation of what we intended, but to avoid any misunderstandings, we decided to issue the release.

I want to remind you that this is a pre-announcement call. We are not at a stage where we can comment in the same detail as we would in our quarterly conference call. So what we will do today is to provide you with some additional color on our announcement. But please appreciate that some of the detailed analysis will have to wait until next week.

Now I am going to turn it over to Mary Jane Raymond, our Chief Financial Officer, to discuss the background to the restructuring charge. Mary Jane?

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**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

Thanks, Jon. As Jon said, we said in our first-quarter call that we had not expected any more charges associated with our 2006 program. You may remember that one of the actions in that program was that we moved from our larger and more expensive property in New York City. We worked very hard to obtain two subleases for the floors, the two floors that we were on, which we submitted to the landlord for approval in the early part of the second quarter.

During the first half of the year, especially for those of you who are in New York City, you may know that the rents began to rise, and in fact, the subleases that we were looking at were actually higher than our current rent. That is actually the reason, for those of you who dissect our accounting, that we never really had a charge for the move from New York. We had expected that the subleases would cover the rent that we had, thus not requiring one.

Pretty far into that process, however, of course, the landlord is observing that rent potential as well, and he elected to recapture the property in light of the stronger rental the market, something that the landlord had not been inclined to do so when we started this process. As I said in my quote in the press release, fundamentally recapture is a very good thing. That is essentially the landlord taking the lease entirely back from us. That eliminates a lot of potential risk going forward, like the potential of subtenant default, etc. So fundamentally, this is economically a good thing. It is actually also less cash for us than we would have spent otherwise.

The dilemma presented to us in the quarter, however, is that the accounting for this requires the cost to be recorded in this period because -- and an example of those costs would be, for example, the commissions due to the broker who had been working with us on this process -- and of course, their contract stipulates situations like this -- they are required to be recorded now. The reason for that is simple, that there is no sublease over which to put those costs in the future.

Because that is different than we told you, it is recorded now. It does affect the guidance that we had. But overall, again, it is a very good thing, and it is a better outcome for us. Jon?

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Thank you very much, Mary Jane. I want to turn to the second element of our release, which is a preliminary indication of adjusted EBITDA for Q2.

As we said in the release, we expect results to be within the guidance range. If you take the midpoint of the range, simply arithmetically, \$13 million, that would compare against \$9.3 million in the same period in the prior year, or an increase of 40%.

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The primary drivers of this performance, which is a substantial improvement, as I said, were our European and Asia-Pacific operations. In addition, the Americas unit reduced its loss in the quarter compared to the prior year. I will comment more on the Americas operations in a moment when I discuss the Q3 guidance.

The third component of our release was our preliminary comments on our Q3 guidance. As you know, we have not previously given Q3 guidance. We are at a stage in the quarter where we would now be doing the exacting work to make a detailed analysis to support our guidance. While this work is not complete, the broad parameters are clear to us. At the high end of the range, as I mentioned in the release, we expect to be flat against prior year in adjusted EBITDA.

The biggest driver of this third-quarter guidance is the shortfall against prior year in the Americas unit. There are three components of that shortfall. In no particular order, they relate to the Legal segment, the Financial Solutions practice group and the Perm unit.

Let me first turn to the Legal practice group. The Legal group has been impacted by the conclusion of a large project early in the second quarter. We do not regard this as a fundamental shortcoming of our business. In fact, we continue to do a very substantial amount of work for the same client on other projects. But for the first time in memory, the Legal group failed to match prior year in Q2, and we do not expect that it will match prior year in Q3.

Let me put this in context for you. The legal industry has become a very important part of the staffing industry and is very project oriented. The projects are dominated by litigation discovery fueled by the increased use of electronic forms of communication and decentralized document creation and storage.

While the Legal group added contractors on billing through the quarter, it was not able to overcome the impact of this project. It also left us at a lower starting point for Q3 than we had expected. We may well overcome this during the remainder of the year, but we can't count on it at this point, and so it is not baked into our guidance.

In Financial Solutions, we announced last quarter the appointment of Marc Bouchard as the Executive Vice President of that group. We are pleased that he is supported by an entire team from the JMT acquisition, notwithstanding the end of the earnout, which, by the way, we are paying today in cash.

Last week, Marc announced internally a series of actions that he believes, and I fully believe as well, will position this group for success, including the closure of several offices and a reduction in force. However, the impact of the changes and the associated costs will be absorbed in the third quarter.

Finally, we had a disappointing second quarter in permanent recruitment. Last week, we also announced an internal reorganization of the permanent recruiting structure, which I believe again will position the Company for future success. However, in view of these changes, we are cautious on the outlook for the third quarter in the Perm group.

I want to close our discussion of operations in the Americas by asking Mary Jane to comment on the current state of the PeopleSoft remediation project.

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**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

Thanks, Jon. Part of the reason, obviously, that we are going to comment on PeopleSoft is it has often been part of the discussion we have had for additional costs in our quarters and aspects of our operating performance. In fact, we have a better story to tell you.

We commenced last fourth quarter, as you know, a project with Oracle itself to work on the efficiency and effectiveness of our PeopleSoft system. We have completed that project in the second quarter, by the end of the second quarter, as we had planned, on time and slightly under budget.

We feel very good about the work that we did, in particular what the organization learned together about how to use PeopleSoft better, and also the operating efficiencies, now with this work behind us, to make the system easier to use -- the operating efficiencies that we can get. We will begin to look at those improvements in our business process flow here in the third quarter. An example of that would be that obviously among the sale team, they can spend more time selling and less time worrying about managing paper than they did when they had a fair degree of manual work around with this system as it used to operate.

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So as we look ahead to third quarter, we have said that we expect to have something of a challenging quarter in the delivery of the earnings. But as Jon said, along with the two operating leader changes that we think position the business well for success, we are also happy to have completed the PeopleSoft work, which will also allow us to move on our operating efficiencies as well.

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Thank you very much, Mary Jane. And with that, operator, we are ready to take questions.

## QUESTION AND ANSWER

**Operator**

(OPERATOR INSTRUCTIONS). Tim McHugh, William Blair.

Jeff Silber, BMO Capital Markets.

**Jeff Silber - BMO Capital Markets - Analyst**

My first question is about the revenue shortfall in the second quarter. I am not sure if you addressed that. Is the reason for that because of what happened in the specific areas in the Americas region that you talked about?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Mary Jane, I'll just ask you to comment on the revenue falls in the category, Jeff, of the detailed analysis that we would normally have another 10 days to do that we have not done at this point.

**Jeff Silber - BMO Capital Markets - Analyst**

Generally, it's obvious that we know that there was a shortfall, but you don't have specifics?

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

Basically, the answer to your question is yes. The majority of the shortfall in the revenue does come not only in the North America unit, but also from the areas that we cited in Jon's remarks.

**Jeff Silber - BMO Capital Markets - Analyst**

And just drilling down into that, and again, I'm not going to ask detailed numbers, but in the Financial Solutions in the perm area, obviously if you are going through some potential internal restructuring, do you think it's more of that being an issue, or are we seeing kind of a slowdown in the end markets?

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

I don't think, just to comment on the numbers -- Jon will, too -- I don't think we see a slowdown in the end markets. I think what we do see is, and again, part of the reason we put the leadership changes in place is not making progress at the rate that we had expected, and the processes that we had in place before, and with the restructuring, that's also a little upsetting when it happens. But nonetheless, we think that is what the -- the internal rate of progress is what the management changes will help us begin to improve.

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**Jeff Silber - BMO Capital Markets - Analyst**

And then on the third-quarter guidance, I will ask, but if you don't have the details, I understand this, but what type of revenues would you be looking for to get that \$9 million to \$12 million in EBITDA, adjusted EBITDA, in the quarter?

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

Well, I think at this point we will probably see revenues certainly not better than flat to prior year. But I would say at this point, witness the fact that our range is \$9 to \$12 -- I would like to have the rest of the week that we will take to analyze that and be sure we understand that pretty strongly before we cement that for you next week.

**Jeff Silber - BMO Capital Markets - Analyst**

Okay, we will wait until next week, then. I will let somebody else jump on. Thanks.

**Operator**

Mark Marcon, Baird.

**Mark Marcon - Robert W. Baird - Analyst**

I was wondering, with regards to the Legal work, which is project oriented, are you satisfied with the management in the Legal division?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Yes. This is a business that has just grown phenomenally under this management team. I don't have, again, because we haven't had the extra 10 days, I don't have the numbers at hand to give you the history, but in very round numbers we have gone from, in a short period of time, this business has doubled or tripled.

So I think we have a very strong management team. I think, Mark, you know quite a bit about this business. But this has become a very project-driven business. And the good news about it is these projects are very large, and normally they last a long time. They are around the major pieces of litigation that are affecting our society. Virtually every time you pick up the business news and you see some litigation going on, our industry is participating, and frequently our Company.

So I think this is fundamentally a great team and a great business. And it is just like any other business that ends up being dependent, not by great design, but by the fact that the market is driving that way on large projects.

**Mark Marcon - Robert W. Baird - Analyst**

We have seen that with a number of other companies where, in the legal business, the overall trajectory is quite positive, but there is more lumpiness in this type of business than there are in some of the other traditional types of temporary staffing. Is that correct?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Yes, I would say that is a very fair comment. And also, just think about it from what you know about how corporations work. Whenever there are discussions about major changes in litigation, and usually that is settlement; it can also be cutting down on the scope of litigation and cutting down on the scope of discovery -- things like that actually affect the number of contractors that we have at a particular place. Those are very sensitive topics that are guarded in senior management very, very carefully.

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So the people that we are talking to are never going to have any visibility about that. That is just not the way it works. When we have had litigation -- I mean, those are decisions that are made really at the very top of our Company, frequently between Latham and Mary Jane and I and perhaps our Board. And that is one of the other challenges -- the people down the line who are your customers just don't have any visibility at all.

**Mark Marcon - Robert W. Baird - Analyst**

Sure. And then with regards to -- how big of a percentage of your North American business is the Legal practice at this point?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

We give everybody a kind of general answer, which is 20% to 25%.

**Mark Marcon - Robert W. Baird - Analyst**

With better than average profitability?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Yes.

**Mark Marcon - Robert W. Baird - Analyst**

Okay. And then would you expect that, if you end up with these large projects that kind of end in Q2 and carry over into Q3, that by the time you exit Q3 and go into Q4 that things should be back up to normal?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

There's a difference between our guidance and our management. Basically, we give you guidance based on what we have and what we see and what we really have in our pipeline. Again, we would have another week to scrub this down a little. So yes, we just don't give guidance around anything that we don't either have or have really in sight in the pipeline. Obviously, the way we -- I hope it is obvious -- the way we run the Company is we try to do better and we try to land projects.

And one of the other things about the Legal business is that the projects come fast. There's very little visibility about projects. We have had situations where we get a call from a client and they want to start two weeks later. And all of a sudden, they need 100 contractors. So it's just -- now, the good news is usually once you get these things up and running, litigation doesn't go away too easily. So we are just caught in one of these periods where we got hit, as I say, by the conclusion of a project.

**Mark Marcon - Robert W. Baird - Analyst**

Right. Normally, over the course of time that we are talking about, so sometime between now and the end of Q3, typically you would end up -- by that point, you would typically end up seeing resumption in terms of new projects, would you not?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

As I mentioned in my remarks, we have seen an increase in contractors billing since the conclusion of that project, and once again, it reassures us that this is a very strong team. And normally in a half -- let's take it, rather than tying ourselves to a quarter, let's say normally in a half year, we would hope to land another big project. We just can't bake that into our guidance at this point because we don't have any visibility.

**Mark Marcon - Robert W. Baird - Analyst**

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And just to be perfectly clear, it sounds like everything in Europe and Asia-Pac continues to go on plan.

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

I am sorry, Mark.

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

Would you repeat that?

**Mark Marcon - Robert W. Baird - Analyst**

Just to be clear, Europe and Asia-Pac continue to progress on plan.

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Yes, and again, Mark, you know the staffing business -- we always have little ups, little downs.

**Mark Marcon - Robert W. Baird - Analyst**

Sure.

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

The third quarter in Europe is a funky quarter because of the holiday schedule. But we're not seeing anything out of the normal ebbs and flows of the business.

The other thing, just on the Legal business, let me comment on one thing and then maybe I'll ask Mary Jane if she would like to add some color as well. One of the things about our Legal business is that the way this business has evolved, very quickly, has been that a couple of years ago, we were approaching clients on a business model where we were offering a turnkey solution, meaning that we provided the physical space, we provided the computer technology, and we provided the people. And as this business first started to evolve, the client paid for everything. And basically, the client absorbed all the risk on the space and the client absorbed all the risk and all the cost of the computer technology, and we supplied the people.

As the business has evolved, increasingly there is pressure for us to supply the space for our own account and to build it into our rates. And you are seeing a number of our competitors who, frankly, are trumpeting the facilities that they are now building to satisfy this demand. I would say, oddly enough, we are actually resisting that as much as we can. I mean, the market is moving towards that model now. But we are resisting that as much as we can. So our cost base in our Legal business I would say is a little more variable than our competition, although, admittedly, this is a very fluid market.

And Mary Jane, I don't know if you can add any color to that or have thoughts about that.

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

I think just maybe to underscore Jon's point as we're talking about the Legal business and a little bit of a softness in the top line, obviously that is part of what's contributing to the range we have on Q3. But the bottom line is that the business model that we are using, as Jon said, is one that is more flexible, and where working hard to keep flexible does allow us, even while there is some right now movement on the projects, which is something we could see again, is kind of inherent in the business. The flexibility of the cost base does allow us to still focus on trying to deliver a reasonable earnings component, even as the top line is a little bit moving.

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So I just point that out to you because we don't completely control the projects. And frankly, as most of you know, we don't really completely control the revenue at all. Our typical history in Legal has been that the projects went longer than we thought, not shorter. But the fact remains that the team has, speaking again to the management point, worked very hard to not only develop, but then continue to maintain a very flexible model that I think helps us at least buffer the impact on the earnings from them.

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**Mark Marcon - Robert W. Baird - Analyst**

And just to be clear, on the Legal side, are you saying that as other companies are actually taking on facilities, that your competitive position in terms of winning new bids may be impacted?

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

No. We, I would say, the way I would put it, Mark, is that we are resisting that trend as much as possible. We feel we have a superior brand name. And we use that as well as we can. We are not at all convinced about that trend. So I would say we are being very, very careful about building overhead. And thus far, we haven't had to.

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**Mark Marcon - Robert W. Baird - Analyst**

I've got several other questions, but I will jump off for now just to allow somebody else to have some questions, and I will jump back on.

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**Operator**

Mike Carney, Coker & Palmer.

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**Mike Carney - Coker & Palmer - Analyst**

In the press release, you mentioned core Asia-Pacific was performing in line. Does that mean that there is a region there is that is not doing as well, Japan or some other--?

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**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

With respect to the question, we have talked in prior quarters about some challenges we have had in some of the markets in the smaller region of Asia proper, Japan being one of them. We are continuing to work through a set of issues in some of the smaller countries in Asia. But as I say, we have as a company a lot of faith in that region. It is important to us. We think the investments that we're making there are important. And overall, the Asia-Pacific region did make strong contributions in the quarter.

A company that is our size, right -- \$1.4 billion across what's essentially four continental areas -- it is probably not likely every single place is going to be dancing on the head of a pin at the same time. But overall, I would say we are happy with the very good progress made by the Asia-Pacific region.

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**Mike Carney - Coker & Palmer - Analyst**

And also, obviously you probably would not have provided the third-quarter guidance if such high numbers were not weaker than you probably originally expected. Was that just from what you have already mentioned in the U.S., the three businesses in the U.S., or is there any weakness that you have seen in Europe or Asia-Pac?

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Well, I have to slightly reorient you. First of all, the reason we provided the third-quarter guidance was that doing our own internal forecasting, which we do, as you know, Mike, which we do in the ordinary course of business just to run our business, and we use that as our fundamental

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building block to build the guidance -- as we were doing that, we were seeing that, on the high side, we were coming up to be flat against prior year.

Ordinarily, we would not have announced it at this point, but we were in a position where we felt we had to make an announcement because of the possible confusion about restructuring. And we were in a position where having made the announcement, we felt that we had to make a full and clear disclosure of everything we knew at this point. That was really the reason for the announcement. It was not that we were looking at results in July, which -- we made this decision Friday -- that was July 13. As a practical matter, we have just a smattering of returns in for the first week of July at this point. And in North America, it is a holiday week, so it makes it even more difficult to analyze.

So it wasn't that we were seeing something in our actual results for July. It was that we were looking at our own internal forecast, and then realizing that -- where we thought we were ending up.

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**Mike Carney - Coker & Palmer - Analyst**

And also, you may not answer this again, but can you give us a trend in the second quarter, or let's say June compared to April?

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

I would rather not right at the moment, because, again, we're looking at data. Normally, we get our consolidated results compiled right about the 12th, which was Friday. So we are giving you very definitely a preliminary view. And we will have more detail for you in 10 days' time, when we have -- 12 days' time, when we have our conference call.

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**Mike Carney - Coker & Palmer - Analyst**

I hear you. And then also, I think Jon, or Mary Jane, you mentioned that the payments are to be made in cash for the Financial Solutions business. Do you have any update on that?

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**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

Well, just to maybe -- we thought you might ask us about that, which is why Jon mentioned it, but with the JMT acquisition, the earnout payments were due to be paid today. They are being paid today. They are being paid in cash. And they are being paid in the tune of roughly \$30 million, which again we will go into a little bit more detail next week, but I would say is commensurate with their good performance and consistent with multiples that we have -- that we think are fair for these sort of businesses.

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Maybe I could just add something about the team at JMT. We are very, very pleased with the work Marc has done both as a leader of JMT and in the couple of months that he has been the leader of our Financial Solutions business. In the JMT business, the four individuals, including Marc, really function much more as a partnership rather than in a corporate hierarchy. And we are very, very pleased that the other three partners, of Marc's partners, have agreed to stay with the Company and to support him and us in building that business.

So we have an unbelievably successful team on the field to help us build this business in the future. And I would say we have a very high -- I certainly have a very high, and I think I speak for the entire -- our senior team -- we have a very high degree of confidence in that group of people, and in particular, Marc.

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**Mike Carney - Coker & Palmer - Analyst**

Perm is always, obviously, variable. So when you talk about perm in the second quarter, I guess, am I right in assuming that in making actual changes there, that you see it as your own internal issues there -- is that right?

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

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Yes, I do. I think first of all, perm in our business covers a variety of different methodologies. So it covers a contingent methodology, a retained methodology, and something we call permanent solutions, which is more of a large account kind of business.

And as we had announced a leadership change in that business last quarter, again, and I think this falls in the category of anytime you make changes in business' reporting structure changes and people just get a little bit discombobulated about it. I think we have a good perm group. But again, our way of doing the guidance is to look at what we have and what is in the pipeline. We look at the trends from the last quarter. And frankly, we don't cut it very close. And the third quarter in North America is, again, because of the vacation season, is normally a kind of funky quarter.

So I think we feel strongly that we have a good team here. We have the right management in place. We have a good group of people. And I think this structure will give them a much greater sense of belonging in our Company. And I think, Mike, this is a hugely important business for our success in the future. As much as people accuse me of loving contract, I fully appreciate that for us to be successful as a company, we need to be successful in perm.

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**Mike Carney - Coker & Palmer - Analyst**

So Jon, just to clarify, when you talk about a management change, that was the management change that had already occurred about four months ago, five months ago?

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

That is right. So this is --

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**Mike Carney - Coker & Palmer - Analyst**

Not a new management change?

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Correct. Correct. What we did was we reorganized, so the management stayed the same -- not a new change. What we did was we took essentially, and over a period of time, it will be all of the perm operations and moved them underneath our new perm leadership. So we used to have perm divided -- I mentioned we have the methodologies. We used to have the perm business divided by methodology. And that meant it was very splintered and fragmented. And so now, we have gone to a structure where all perm reports up through a single channel. And I think this will give the perm team a much better sense of belonging and much greater cohesion in how they address the market.

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**Mike Carney - Coker & Palmer - Analyst**

One more quick one. On Legal, that was -- the lower results going forward are for a quarter, so that was the result of a project actually ending, right?

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Right.

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**Mike Carney - Coker & Palmer - Analyst**

Okay. And then, if you -- on those project ends, don't your teams have a sense for when the projects will end, like in the other large project businesses, IT, or is that what you were talking about, that it is not exactly the same?

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**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Yes, that is what I was talking about. It really is different in Legal, because project ends end up being shrouded in secrecy. If you imagine the major kinds of litigation that you read about, just think about the industries that are ongoing, ongoing litigation that you read about in the newspaper all the time. And I want to protect our clients' confidentiality, but you read about the tobacco industry, things related to employment practices, things related to the pharmaceutical industry -- there is a whole load of litigation. Frequently, a case settles, and the settlement discussions are going to be very closely guarded at the top of these organizations. They have their own earnings issues. There is just no way a whisper of that is ever going to get out.

So the people that we are dealing with, our customers, who are wonderful corporate employees of the clients, they have no way of knowing where that is going.

**Mike Carney - Coker & Palmer - Analyst**

So in what you were talking with Mark about after that was that essentially you have become the leader by these large projects. And you're not moving towards building out a more -- I guess I could use the term retail-based business that is going to require higher costs. Is that what you were saying?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Well, what I was saying is two things. One is that in that large project business, some people are moving to a model where they set up facilities that the staffing company owns. And then when the project comes in, they can instantly -- I mean, very, very quickly ramp up the service to the client.

**Mike Carney - Coker & Palmer - Analyst**

You have those facilities, right?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

We do have those facilities, but we do them basically on the cheap, in our offices, and we get the clients to pay for it. Heretofore, we have not gone to a business model where we go out and we build a facility in a cornfield somewhere where we can simply begin to build volume. We have not done that. There is certainly pressure in the market to do that. We haven't done that. So we have kept our cost base at this point, I would say, more variable than our competition.

So that is the big project stuff. Now, we do try to build our retail business, absolutely. It is just that when you are adding contractors at 150 or 200 at a time, it is hard to build a retail business that is going to overcome that. That is the challenge.

**Operator**

Tim McHugh, William Blair.

**Tim McHugh - William Blair - Analyst**

Sorry, I got taken off earlier. Just wanted to touch on the --

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

It wasn't us, Tim.

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**Tim McHugh - William Blair - Analyst**

I appreciate that. Going to the Financial Solutions practice, I apologize if this was asked, but how many offices are you talking about just in a general sense, maybe as a percentage of the offices that you have right now that you might close?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

We announced that we were closing four out of nine.

**Tim McHugh - William Blair - Analyst**

And then how much of that really accomplishes what you need to fix there? At the remaining five, are the operations there going well? Is it simply a matter of cutting off the dead weight, or is there a lot of change that needs to be done at the remaining five offices?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

That is a good question, Tim. Of the remaining five, I would say three are very strongly performing offices. Two are good-performing offices, but we certainly think we can improve the performance. And Marc's philosophy in doing it, and again, I support this, it's his recommendation, but I think it is a good recommendation and it makes sense, is get smaller, get more focused, and get very big in some big markets, and then expand from there. I think he felt it was a question of trying to do too much too soon.

**Tim McHugh - William Blair - Analyst**

Okay. And then are the offices you're closing actually unprofitable in that you're not losing EBITDA by closing these? Or are you actually losing some EBITDA in the short term in the hopes of getting a better business over the next few years?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Mary Jane, do you know the number off the top of your head?

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

In terms of quoting you a number on that, Tim, I can't quite do that. But I would say in some of those offices, there may be some EBITDA associated with them, but I wouldn't say it was hugely material. Just to reinforce, I think, what Jon is saying, what he likes and what I also like about this model, since I am the Company's beta client for Financial Solutions, is the selling of the Financial Solutions practice requires some pretty specialized knowledge. And the markets that we are focusing on are the ones that we both think are the most lucrative, have the best combination of resources, the best access to leadership to drive those.

The other markets, while they may well have had a little bit of EBITDA associated with it, just did not have that critical mass of factors to be able to grow without access to, I think, frankly, a little bit more experience in how to run an office. One of the things we look at when we look at JMT's model is, witnessing their performance that they have had since they have been with us, is this is a model that helps build trust with clients and allows us to penetrate clients. So it's good. So the overall contribution of Financial Solutions, shall we say, slight diminishment to how we see third quarter, is -- it is a tad bit of loss of EBITDA, but it is, frankly, mostly the severance costs, etc., to effect this action that we're putting in place.

**Tim McHugh - William Blair - Analyst**

Getting to those severance costs, are you anticipating a restructuring charge, or are those costs that you expect will flow through? And how meaningful are these costs? And then I guess lastly, how does that relate to the \$9 to \$12 million in EBITDA -- is that excluding those or inclusive of those?

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**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

You guys are getting very good at asking us this. And we mean to be careful about answering it, too. First of all, the costs in and of themselves are roughly in the range of roughly \$400,000. I do not, at this time, really think about that as a restructuring action, because it is kind of small. One wouldn't really do a restructuring action with a number of that size, right? So those costs are included in the \$9 to \$12 million. And our decision here with Marc was just to make some good decisions and get on with it.

**Tim McHugh - William Blair - Analyst**

Okay. And then I think two more quick ones. One, you didn't mention the IT practice. How is that trending? Is it doing better, given that you didn't say anything?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

Well, given that we didn't say anything, you are right in assuming that it was not a problem. In fact, in the quarter, the IT practice had a terrific quarter in terms of profitability. And again, we will give you a little more detail on that in the call, but just to give you the color, it more than doubled profitability in the quarter.

The thing about our IT practice as we look forward is that Tim Bosse, who has been running it, I want to say, for about a year, a little less than a year, I think, has done a great job in terms of rebuilding our practice and improving the profitability. We are cautious about the growth, the top-line growth, in Q3 in that practice. But in Q2, we had a very good quarter.

**Tim McHugh - William Blair - Analyst**

Can I ask what makes you cautious going into the third quarter? Is there meaningful contracts coming off? Any color there?

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

No, I would say what makes us cautious is simply that we have had modest top-line -- we've seen -- again, we will get into this a little more in the call, but we have seen modest top-line growth in that business over the past six months. And it goes back to our philosophy of doing our guidance. We count what we have, we look at the trend, we count what's in the pipeline, but we don't count anything else. So it puts us in a position where we're looking at Q3 in the IT business as more flat than it was in Q2.

**Tim McHugh - William Blair - Analyst**

Okay. And then last, if I could just touch on -- were there any divestitures that occurred in the second quarter? And is that impacting the third-quarter guidance, or any planned ones that might be impacting that, I guess?

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

There were no divestitures in the second quarter. That is good. We would have told you that part. There are none per se planned that are included in the guidance. We did talk earlier in the year about focusing on various options on our 10% noncore revenue. But you seem to know as well as I do that trying to sell a slow-growth, low-margin business is not something you can predict the timing on real well. So at this point, by definition, we have not included a divestiture of those in the guidance we have given.

**Operator**

Jeff Silber, BMO Capital Markets.

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**Jeff Silber - BMO Capital Markets - Analyst**

Sorry, I am going to go back to a numbers questions, and I apologize.

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

That is okay.

**Jeff Silber - BMO Capital Markets - Analyst**

And this is on the tax rate, which is always something that confounds me. And I'm not asking for specific numbers, but in theory, if we are going to be bringing down our projections for U.S. EBITDA, should the corporate tax rate, the one you report on the income statement, be going up?

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

Yes.

**Jeff Silber - BMO Capital Markets - Analyst**

Okay, I just wanted to double-check that. And you're still looking for about a 30% tax rate in the UK and Asia-Pacific?

**Mary Jane Raymond - Hudson Highland Group Inc. - EVP and CFO**

Yes, roughly.

**Operator**

And there are no further questions.

**Jon Chait - Hudson Highland Group Inc. - Chairman and CEO**

David, I will turn over to you for a final wrap-up. But once again, thank you all for joining us today. As I mentioned before, this is a pre-announcement. David will go over in a minute the logistics for our second-quarter earnings call, where we will have additional detail to share with you about our business. With that, David, I'd just turn it over to you.

**David Kirby - Hudson Highland Group Inc. - Director of IR**

Thank you, Jon. A few items of business. We will have our full second-quarter results and full third-quarter guidance out in a press release after the market closes next Wednesday, July 25, with an earnings call the following morning, Thursday, July 26, at 9AM Eastern Time.

One update on the data we discussed -- the Legal group at this point is approximately 30% of North American business, a little bigger than the 20% to 25% we quoted earlier.

With that, if anyone does have further follow-up questions, you can reach Mary Jane at 212-351-7232, and you can reach me at 212-351-7216. This call has been recorded and will be available later today by calling 800-642-1687, followed by the passcode 7562453. For callers outside the U.S., please call 1-706-645-9291, followed by the same passcode. The call will be archived for the next seven days. The webcast from today will also be available on the Investors section of our website, hhgroup.com. Thank you for joining us today.

**Operator**

This concludes today's Hudson Highland Group second-quarter earnings pre-announcement conference call. You may now disconnect.

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