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Conference Call Transcript

HHGP - Q1 2006 Hudson Highland Group Inc Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Andrew and I'll be your conference operator today. At this time I would like to welcome everyone to the Hudson Highland Group first quarter 2006 earnings call. [Operator Instructions]. I will now turn the call over to Mr. David Kirby, Director of Investor Relations. Sir, you may begin.

David Kirby - Hudson Highland Group, Inc. - Dir. IR

Thank you very much, operator. Good morning everyone and welcome to the Hudson Highland Group conference call for the first quarter of 2006. Our call this morning will be led by Jon Chait, chairman and chief executive officer and Mary Jane Raymond, executive vice-president and chief financial officer.

Before we begin, I will read the Safe Harbor statement. Please be advised that except for historical information, the statements made during this 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 market 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 the analysts' expectations or estimates or to update any forward-looking statements whether as a result of new 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

Thank you very much, David, and thank you, ladies and gentlemen, for joining us this morning. I am assuming for the purposes of my remarks that you have had a chance to review our press release issued after the close of business yesterday, as well as our letter to shareholders issued simultaneously. As has been our custom in the past, I'm going to start by making some general remarks and discuss some of the major issues that confronted us during the course of the quarter. Then I'll turn it over Mary Jane Raymond, our chief financial officer, to go through the numbers on a comprehensive basis and provide the guidance.

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Just to remind you, historically the first quarter of the year is the slowest period in the recruitment industry. Of course, due to seasonal factors, such as New Year's holidays, but also I want to remind you of the particular importance in the first quarter to the Hudson Highland Group of summer vacations in the southern hemisphere of the globe, which represents an unusually high proportion of our revenues and our earnings compared to many other of the comparable companies. The company's consolidated results released yesterday include lower revenue with virtually flat gross margin dollars and a small EBITDA loss for the period. These results were principally due to weaker than expected results in Hudson Americas and the negative currency impact in Europe and Asia Pac. Hudson Europe and Highland Partners continued to achieve increased profitability while operations in Hudson Asia Pacific stabilized.

Before I turn over to Mary Jane, as I said, for a comprehensive review of the numbers, I would like to comment on three general challenges during the course of the quarter. First, on a consolidated basis, the results were disappointing. We achieved just about break-even on an EBITDA basis; although that includes \$1.4 million of stock options expense and \$950,000 in negative currency impact compared to Q1 2005. While the result is disappointing, we did mitigate the impact of the shortfall in North America by adjusting spending levels at both the corporate and other regional levels.

Secondly, we expected at the beginning of the quarter that our Australia/New Zealand business would continue to face some challenges in this quarter as a result of lingering hiring freezes and a slow down in employment growth in the Australian economy. While Australia/New Zealand EBITDA was below prior year in Q1, we saw some encouraging signs. For example, in Q1 in Australia, in local currency, permanent recruitment gross margin increased nearly 10% over prior year and total gross margin over 8%. While we expect second quarter EBITDA will also be below prior year we feel encouraged as we look out to the remainder of the year in this region.

Thirdly, and most importantly, I want to turn to the operation in North America, on which I'm going to spend the bulk of my remarks. As I said, North America had a disappointing quarter, especially in the view of a generally good economy. Revenue was flat while gross margin dollars decreased by 8%, a decline of \$2.3 million in gross margin dollars in the first quarter of 2006, compared to the first quarter of 2005. Hudson Americas has achieved strong growth in permanent recruitment with revenue and gross margin increasing more than 40% or \$2 million in the quarter, led by permanent demand in IT, Financial Solutions and Management Search, our middle management firm recruitment unit. However, temporary contracting revenue was down 1% and gross margin dollars were down 17% or \$3.8 million in the quarter. The decline in temporary gross margin was principally due to operation within the IT and Financial Solutions practice groups, with Engineering, Aerospace and Defense recording a smaller decline. The gross margin decline in IT alone was \$3.1 million and was primarily attributable to a reduction in contractors on billing as well as a change in pricing at a particular high margin solutions account. It was also due to the exit from low margin business in a number of accounts. That exit is consistent with our long-term strategy of shifting our mix of business to higher margin business, but we did not do a good job in the quarter of managing that mix shift.

In Financial Solutions, temporary gross margin dollars were down \$700,000 compared to prior year due to lower utilization rates. In Engineering, Aerospace and Defense, gross margin declined due to credits for non-allowable overtime on a government contract.

The Legal Practice group continued its growth trajectory with a revenue increase of 26%. Gross margin dollars increased only 10% as a result of competitive pressures that affected gross margins. For those reasons, the North American temporary contracting margin percentage fell to 17.4% in the first quarter 2006 from 20.8% in the same period of the prior year.

North American costs also increased. SG&A costs were up approximately \$3 million in the first quarter. Mary Jane is going to provide some considerable additional color on the issues behind that increase in costs, but just to summarize for the moment, principal investments were \$2 million associated with PeopleSoft stabilization and back office process and re-engineering and \$1 million in client and product development spending in the Financial Solutions Practice. As a result of the lower gross margin and higher costs, Hudson Americas has reported a loss of \$3.4 million in EBITDA in the quarter, compared to a profit of \$1.7 million in the first quarter of 2005. We have taken action to address the shortfall. Hudson Americas has already made a number of key personnel changes, including the appointment announced yesterday of a new CFO for that unit. The unit is focused on improving branch accountability and containing expenses in the second quarter and the remainder of the year.

Turning to Hudson Europe now, business conditions seemed to improve in the first quarter in Europe. Although GDP growth remains low in absolute terms, less than 2% at the moment, many economic and business confidence indices are signaling an economic revival in that region. Our Hudson Europe revenue decreased 5% in the first quarter. Gross margin increased 1% and EBITDA increased 75%. I am pleased to say that this is a region, consistent with our strategy, that has done a good job, not only in quarter one but in previous quarters, in managing the shift in mix that we've talked about as we move our business to higher margin products and services. Improved trends and permanent recruitment in continental Europe also contributed to the results in the first quarter. Hudson Europe achieved \$5.6 million in EBITDA in the first quarter compared to \$3.2 million in the same quarter of the prior year, continuing its strong trend from 2005.

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I want to recognize the key EBITDA contributors in the quarter which included the United Kingdom, again doing a superb job of managing the mix shift as well as the recently acquired Netherlands-based Balance organization, which has continued to grow its business, plus our operations in Belgium, France and Spain, all of which recorded excellent results and good growth in the quarter.

Turning to Asia Pac, as I mentioned while growth was stronger in Asia than in the rest of the region, economic conditions and sentiment in Australia improved somewhat during the first quarter. Economic conditions in New Zealand remain soft. Some of the hiring freezes that we noted last quarter are still in place but others have lifted. In the interim, the Company has worked diligently to offset some of those declines with new business. I'm pleased to say that we continue to win significant new business and we continue to expand our business with key clients. As I mentioned, permanent recruitment revenue and gross margin were up in Q1 over prior year. In New Zealand, gross margin was down 2.2% in New Zealand dollars compared to 2005, but EBITDA increased due to excellent expense management. The Company remains cautiously optimistic regarding its outlook for the region for the remainder of the year, although we are encouraged by better constant currency trends in the first quarter. As expected, the economy continues to grow in the face of an ongoing labor shortage in the region, although we are seeing a reduction in employment growth in Australia generally and in New South Wales in particular.

Results at Highland Partners showed continued strength in the quarter, revenue increased 7% in constant currency in the first quarter and EBITDA reached \$1.3 million up from \$400,000 in the prior period due to stronger results in all three of our regions. Highland Partners achieved EBITDA equal to 8.1% of revenue in the first quarter of 2006.

Corporate expenses, as I mentioned earlier in my remarks, were lower in the first quarter of 2006 as compared to the prior year on the basis of improved expense management and lower project costs.

Reflecting on our results in the first quarter, I remain confident and strongly committed to our strategy. I just want to remind you that our strategy focuses on four main components: the high-growth, high-margin business lines; the continued growth in our North American Hudson business; increasing the percentage of professional contracting and project solutions in our business portfolio to offset the inherent volatility of permanent recruitment; and leveraging our Talent Management Solutions service offerings to deliver greater value to our clients and to differentiate us from our competitors.

Reflecting on our performance against our strategy in this last quarter, professional contracting and project solutions did not advance as planned in North America. As I said, that's disappointing. The results of the quarter do not represent, however, in my opinion a failure of our strategy or in any way of our business model, but a failure of execution. I want to assure you that the entire team is focused on execution in the remainder of the year. In fairness, until this most recent quarter, the North American team has grown its business strongly and profitably over the last several years. This was a big stumble, but still a stumble from which we expect to recover. From the performance in other regions we take confidence that the strategy is taking hold and provides a steady base from which we can build.

With that, I'm going to turn over to Mary Jane.

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

Thanks, Jon. Good morning. All right, I will go through the financial highlights in order for the first quarter. I'll also review the business mix, the currency impact, some of the key balance sheet and cash flow items, and then I will also update you on our guidance.

First turning to the P&L, let me remind you that our financial statements now reflect the adoption of FAS 123R which is the expensing of stock options. Our company adopted the modified retrospective method. The reason for telling you that is that that means that the results of 2005 have been, as allowed under this method, recast to include the stock option compensation which previously was in the footnote. I'll come back and talk about the actual numbers in a minute.

With respect to revenue, our reported revenue fell 2% to \$345 million in the first quarter compared to the same period last year with a 6% gain at Highland Partners, flat revenue at Hudson Americas, offset by a 3% decline in Asia Pacific and a 5% decline in Europe.

Temporary contracting revenue fell 3% in total while permanent placement grew 3%. On constant currency basis, revenue increased 2% in the quarter, including gains of 3% in both Hudson Europe and Asia Pacific, 7% in Highland Partners, and, as you can imagine, flat in North America.

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Our reported gross margin fell less than 1% on the year over year basis with an 8% decline in Hudson Americas offset by gains in Europe, Asia Pacific and at Highland Partners. Gross margin as a percent of revenue increased to 37.2% up almost a full percentage point from the prior year when it was 36.3. This was driven primarily by a 4% increase in permanent placement. Temporary contracting gross margin dollars fell 2%, although the gross margin as a percent of revenue grew slightly from 17.4% in Q1 '05 to 17.5% in Q1 '06. On a constant currency basis, gross margin dollars increased 5%, including gains of 10% in Europe, 8% in Asia Pacific, 7% in Highland Partners and, as we said, with North America, a decline of 8%.

Turning to the EBITDA, in the first quarter of '06 we reported a loss of \$100,000, slightly below break even compared to a profit of \$1.8 million a year ago. Again, both years now include the expense of stock options, a non-cash charge. That number is \$1.4 million for Q1 of this year and was \$1 million for Q1 of last year. As an aside, stock option expense is having a pretty diverse impact on companies' results. As a general comment to give you an insight to ours, our options are designed to retain people and our vesting period is four years. We expect to have this expense with us for a little while longer. Our EBITDA also includes an adverse currency impact all told of about \$950,000.

Most of you have heard us discuss in the past our long-term leverage target to return between 25 and 50% of the increased gross margin dollars to the EBITDA. Despite strong profit gains in Europe and Highland Partners, we did not achieve this leverage goal this quarter, as our reported gross margin is flat and higher expenses in two regions, Hudson Americas and Asia Pacific, had an adverse impact.

Turning to the consolidated net income, our Q1 '06 reported net loss was \$5.9 million, slightly greater than our loss of \$5.2 million reported in the Q1 of '05. Do remember that our first quarter is the smallest revenue generating quarter, so things like fixed expenses, depreciation, amortization do tend to have a larger impact on the income. During Q1, depreciation and amortization is \$4.5 million and our tax expense of \$1.6. Our basic and diluted EPS was \$0.24 a share compared to \$0.25 in Q1 '05. We had 24 million shares outstanding in Q1 of this year compared to 20 million outstanding last year. The increase in shares is primarily due to our equity offering in July of 2005.

Let me turn to a few specific comments on our performance that will give you some color on the numbers. We continue to invest in the core businesses that will enhance our long-term sustainable profitability. Our mix of business, both by geography and by product in the quarter was actually fairly constant to the ratios that we saw in 2005. The permanent placement did show the strongest progress in the quarter which benefited from good gains in Asia, Australia, New Zealand, Europe and North America. These trends actually are to be expected because as we see the conditions improve in ANZ which is typically a large perm market, continental Europe grows and North America sees a natural expansion of permanent placement from its strong temporary business. To further strengthen our business mix, in the middle of April, we announced the acquisition of Professional Solutions, a North America provider of financial solutions services, as we continue to invest in the strategically important process area for us. We remain very committed to increasing the mix of our business toward temporary to reduce the volatility, but we won't shy away from permanent placement growth because it is strategically important to our customers, adds to our positioning with them and will always be a significant part of our operations.

Turning to currency, our results, as you have heard us say, were adversely affected by the currencies in the quarter due to the stronger dollar against the key currencies such as the pound, the Euro and the Australian dollar. For the quarter, currency reduced our overall reported results and margin gain by about 5 percentage points and reduced our EBITDA by just under \$1 million, as we have, as you know, considerable EBITDA contributions from our international operations. That said, based on some of our instruments in the other income line, we've essentially had a neutral effect of currency at the net income line.

I'd like to take a moment and turn to a discussion of expenses. In terms of expenses, the SG&A for our company grew 1.5% in this quarter, driven primarily by the back office and PeopleSoft work in North America, as well as client and product development in the Financial Solutions process group and some higher costs for the higher mix of sales representatives in Asia Pacific.

I'd like to spend a little time on the PeopleSoft funding. When we announced our 2005 year end results in February, I indicated that we expected to continue spending on PeopleSoft through the first half of 2006, to ensure that we monitor the system through a full one-year cycle, with that system having gone live last year in the third quarter. At the same time, I also began an in-depth review of how we were using the system since it was implemented before I arrived and I didn't really know a lot about how it had been implemented here. During the first quarter, we spent about \$2 million on this work and we budgeted for most of this. One of the things, though, as I looked at our use of the PeopleSoft system, was that I observed that it probably was implemented with too much complexity and may well have been just a bit rushed to its go-live date. Not inappropriately, frankly, the Company wanted to have an operating system in place for the back office in the North America market to complement the very good work that it had done to get about 20 acquisitions all operating as a single growing company, which, in and of itself, is a pretty remarkable feat. Tapping the back office integration is very hard and my assessment for our Company at this point is, rather than continue to rush down a path, I've decided to have a third party come in and undertake a review of the design that we have so that we can ensure that we are spending the funds on the system in the most efficient way, to make sure that we are looking at our business processes in all places we

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should to ensure that we achieve the operating benefits. While we commence this review in the second quarter, all the work probably will not be done by mid-year. End of the year is the more reasonable timeframe, I would say. I don't really have a good estimate of the cost for you at this point but it is a very important investment for us, one I think that we absolutely should do. I'm working to offset the impact of those costs in other parts of the business.

I'll end this topic by saying that PeopleSoft is used by a very large number of companies, particularly in services industries. Implementations are not uncommon, either in this system or any other one and I'm sure that a lot of companies have faced the same challenges that we have. It's a good system, there will be good benefits from it and we're committed to achieving them.

With respect to our discussion on expenses, I'll just spend a minute on the increased investments in the Financial Solutions base in North America over prior year. It's about \$1 million. These investments are primarily for client development and product development as we continue to move this practice, which is both strategically important to us, more into the solutions base and continue to have good products to offer our clients, as SOX becomes a smaller part of the business. Here again, given the circumstances that we faced in North America in Q1, we certainly could have considered cutting these expenses. We looked at this very carefully. This is an important growth area for us. It's an important market and we will continue to do these investments again looking to offset them in other parts of the business so that we can see the return on those in the next several months.

Turning to cash flow, our cash flow is improving. Cash flow from operations was modestly positive in the first quarter at about \$200,000 compared to \$25 million use of cash in Q1 of '05. Improvement in operating cash flow is mainly due to lower receivables following our year on year revenue trend, as well as other working capital management. I'll comment a little bit on another measure that we look at in our Company, which is our cash less our short-term borrowing. This was \$1 million in Q1 compared to -\$6.7 million in Q1 '05. Including investing and financing activities our total cash balance fell by about \$900,000 this period, compared to a decline of \$8.7 million in Q1 '05. As I mentioned earlier, depreciation and amortization of \$4.5 million in Q1, down slightly from \$4.9 million last year.

Capital spending was \$1.6 million, also lower than the \$2.1 we spent during Q1 2005. You will remember at the time we were in process of capitalizing PeopleSoft at that point. For our full year, we continue to expect depreciation and amortization to be in the range of about 20 to 22, including the amortization of PeopleSoft and the amortization of the Balance intangibles for the acquisition we made last year. We expect capital spending for 2006 to be between \$10 and \$12 million.

As we turn to taxes, our taxes spent in the quarter was \$1.6 million for a rate of -37.8, given that we had negative income. This resulted from paying taxes in the Asia Pacific region where I believe you know that we are a taxpayer, as well as in Europe where we pay tax on the Balance acquisitions income. I know that we've had a great deal of discussion on our tax rate. I know that this is also a little bit confusing to try and understand so I'll give you some context on that. Do remember that our tax rate is basically dependent on geographically where we earn our income. The rates are not particularly unusual in any geography but it is dependent on where we earn the income. In the longer term, it is also dependent on how eventually we are able to use our net operating loss carry forward. So, to provide you some perspective, I expect the rate for this year with a mix of income we see right now, to be about 37%. I'll just remind you, however, that we've not really reached a point in this Company's maturation where this number is steady. That is my best feel at the time. I will update you on this as we go forward. And, I will help you understand how that rate moved with where our income is delivered.

Turning to the balance sheet, we finished the quarter with \$33.2 million in cash and accounts receivable of \$238. The quality of our receivables remains good. Our DSO was up three days from Q4 to 59 days in Q1. This trend is common in Q1. Q1 of last year increased five days over the previous Q4. We continue to focus on our cash collection, particularly in North America and Europe. At the end of the quarter, our borrowings against our \$75 million credit facility was \$32 million up 2.1 from year-end.

With that, let me turn to guidance. We expect our guidance to remain for revenues at 1.1 to 1.5% for the Company in constant currency. We expect the gross margins to remain in the range of 5 to 10. We expect EBITDA, as a percentage of revenue, 2.5 to 3.5%, up from 2.1 in 2005. The guidance is based on the economic environment that we see in market. For example, we expect 5 to 10% now in Hudson Americas, down slightly from our original guidance of 7 to 12%, 0 to 5% for both Hudson Europe and Highland Partners and -5 to 5% Hudson Asia Pacific. The change in North America, as I say, is the only change that we have in these numbers from year-end. As always, this guidance does not reflect the impact of acquisitions or divestitures that the Company may choose to consider in the future.

With that, I'll turn the line over for questions.

David Kirby - Hudson Highland Group, Inc. - Dir. IR

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Andrew, I think we are ready for the Q and A session.

QUESTION AND ANSWER

Operator

[Operator Instructions].

Our first question comes from Jeff Silber.

Jeff Silber - Harris, Nesbitt - Analyst

A little bit more color on what happened in Hudson North America business. Obviously, you sounded disappointed in that. Did this just come out of the blue this quarter since you really had some strong performance in that division last quarter? I'm just trying to get a feel exactly what happened and when you found out about it.

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

First of all, Jeff, it is a dramatic departure from the results that we have experienced in the last, not only in the fourth quarter of 2005, but throughout 2005. We did realize earlier in the quarter that gross margin trends at that point and revenue trends were running below our expectation. I think you know, Jeff, that we have a system of flash reports that we have on a weekly basis, so that we are aware of the revenue and gross margin trends. So, on the one hand, being aware of it, we were able to take action at the corporate level in terms of spending to mitigate the impact but the other thing, just to draw your attention to, is that part of the shortfall also comes from continuing increase in expense levels. Just in the nature of our business or any business, that's something that you don't see until the end of the month when you get the financial statements. So, Hudson Americas lost money each month of the quarter. The loss in March was consistent with the trend in the other months, it was neither greater nor lesser. But, as I say, in a sense we did see the trend in gross margin coming and we did take the actions that we could take and you should note that we announced today the appointment of a new CFO. So you probably could guess that that was in the works for some weeks prior to yesterday's announcement.

Jeff Silber - Harris, Nesbitt - Analyst

Okay. That's actually very helpful. I appreciate that, Jon. In terms of the leverage in the model, obviously we did not see it this quarter, based on the guidance that you're giving for the year, if you did something we should expect to see beginning in the second quarter returning to that leverage goal or is it something, maybe, more in the back half of the year?

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

I'll let Mary Jane talk specifically about the guidance, but just conceptually, we certainly expect to see improvement. In this quarter we had negative leverage, we don't expect that to continue in any quarter for the remainder of the year. I think one of the things that we are particularly focused on, at this point, is expense management in North America. I'm sure I'm stating what's obvious but in an environment where we are seeing weakness on the top line and challenges on the top line, we are particularly focused on controlling expenses so the top line growth that we do get, whether in revenues or gross margin, we are able to deliver to the EBITDA line. Mary Jane, do you have a comment specifically on the leverage ratios?

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

On the leverage ratios, I think taking on board everything that Jon has just said, we would kind of expect the leverage ratio to improve from the second quarter to the first quarter.

Jeff Silber - Harris, Nesbitt - Analyst

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Okay. Great. One more quick one. Mary Jane, I really appreciate the tax rate guidance.

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

Thought so!

Jeff Silber - Harris, Nesbitt - Analyst

Okay, but again just looking at a quarter-to-quarter basis and I know there is a lot of moving parts here, but will it vary dramatically second, third and fourth quarter?

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

Well, to be honest, Jeff, I would be somewhat disinclined to give you a tax rate by quarter. I would say that it does have the ability to move quarter to quarter. I'd probably stop short of saying dramatic.

Jeff Silber - Harris, Nesbitt - Analyst

Any specific directional trend?

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

Well, certainly I would imagine that, as you know, first quarter, well our first quarter also was losses. This quarter the income improved over the year, so I would just say that it's best to think about that tax rate for the year.

Jeff Silber - Harris, Nesbitt - Analyst

All right, I appreciate it. Thanks.

Operator

Our next question comes from Mark Marcon.

Mark Marcon - Robert Baird - Analyst

Good morning.

Mary Jane Raymond and Jon Chait: Hi, Mark.

Mark Marcon - Robert Baird - Analyst

I was just wondering with regards to gross margins in North America on the temp side, fairly dramatic decline, down to levels that aren't consistent with professional services in general, how should we think about that going forward? What's your plan there? Should we expect it to increase or is there the potential that it continues to decline in the short-term first and then build back up?

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

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Well, let me just point out to you the impact what we identified as some of the issues in terms of gross margin decline. Because I think that will help you, Mark. First of all, we mentioned that there was a credit in the Aerospace and Defense business, so just to give you a little color on that.

Mark Marcon - Robert Baird - Analyst

How big was that?

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

\$400,000.

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

So, that's a direct deduction to gross margin, both in dollars and obviously it has a big impact, any kind of credit on the gross margin level has a big impact on the percentage.

Mark Marcon - Robert Baird - Analyst

Okay.

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

\$400,000 is not a gigantic number standing by itself, but it has an impact. That was the situation where we had done a lot of work with respect to Hurricane Katrina clean-up at the end of 2005, as you recall, and we discovered in the course of truing things up in the early part of 2006 with the customer that certain parts of overtime were not allowable and so we had to charge that as credit. That won't recur. First of all, the project's over. We've done the true-up. That's an isolated event. So that piece is gone.

Once of the things that we've battled in the IT business all year has been this Solutions account that we've mentioned for a couple quarters. The situation there was that the company was acquired by another company. They chose to use a different provider for that part of their infrastructure. I don't think it's particularly any kind of a slap at services we provided, because the provider they picked, which I don't want to name, is a provider that you would normally think of us being at a higher price point then we were. Now, I don't know because I don't know what the situation was, but it was more a case of they chose just to strategically go in a different direction then continuing to use Hudson. The impact of that was that we had a, it was a Solutions account, it's at relatively high margin, subtract that out of the mix, it drives the blended margin of what's left over down.

Mark Marcon - Robert Baird - Analyst

Is that the bench model, Jon?

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

Yes, it was the bench model.

Mark Marcon - Robert Baird - Analyst

Did you have a gross profit loss with that in that business?

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

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Mary Jane, do you know? I don't know that we know the details at that level. You might have to call us back, Mark, to give you detail at that level of detail.

Mark Marcon - Robert Baird - Analyst

I'm just trying to figure out, this is very helpful in terms of determining what are some of the one-time issues that go away.

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

Yes. And so I think absorbing that has been a tricky proposition. I'll plead guilty on behalf of the Company that we did not do a good job with that, but we have known about it for three quarters and we have been absorbing it. But that's, at some point, we are going to anniversary that event.

The other piece which we just did not do a good job of in the quarter, and we have done a good job, to give credit to John Rhodes in the UK, he's done an excellent job of managing the mix shift that we talked about repeatedly of moving our business to the higher margin parts of the business and we are particularly focused on that in IT because we are concerned about low wage countries and low wage contractors in the IT market, so we have spent a lot of time really developing a strategy to move our businesses to the higher margin business that are less susceptible to competition from low wage environments. We, frankly, just did not do a good job of managing that in the quarter. I think as the year goes on, just as John has done in the UK, we will do a better job. This is a group of people and the management of this particular practice group, as I said, certainly had a stumble but to put it in context, they have been good profit producers. They did make a profit in the quarter, by the way, just a much reduced profit. They have been good profit producers. They've been strong players historically and I have every confidence that they will build their business. This team will build its business over the course of the rest of year. I don't want you to think that it's going to happen in the second quarter. But this has been a team that has been successful and I think they'll continue to be successful. Have I hit the high points, Mary Jane, or left anything out?

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

Yes, I think Jon's summary is great. The North America action plan for addressing what we experienced in the first quarter is, as Jon said, very, very focused on all aspects of improvement but with a particular focus on the gross margin. So while everything might not be back in the same place it was immediately, I would say there is just no question that they understand the importance of that number, that it's a sign of our financial health and that they need to be focused there.

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

Yes, I guess I should mention, and that's absolutely true -- two things I didn't mention were Financial Solutions. We, as Mary Jane mentioned, we have invested in Financial Solutions. You can look at it from a standpoint of saying we didn't get a return on that investment in the first quarter, but again we are not that dramatically out of kilter with the rest of the market in that practice group. Others have talked about the need to do that. We feel strongly that we've made good investments with good people - and the investments in this business are people - with good people and that we will get a return. So, while we'll say less than brilliant quarter in utilization of bench in that business is an issue, our bench utilization improved during the quarter. The quarter did not end at a level, however, where we were happy with it. But I think as you look out over the course of the year, I still believe that's a good market. I still believe it's going to be a strong growth market over the next decade, much less over the next several quarters. So we feel that the investments are justified. Having said that, obviously, I hope it is obvious, we are going to be careful about further investment during the course of this year until we see a return. Absolutely.

Mark Marcon - Robert Baird - Analyst

Taking all of that and putting it all together, where do you think the temp margins could migrate to towards the back end of the year as you make some of the adjustments in North America?

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

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I personally think that they should migrate back towards where they were, which is towards the 20% level, not to say that we necessarily get there by the end of the year, but I'd think it would be reasonable to assume that they would improve and migrate in that direction. I think you're absolutely right, Mark, that 17% is not consistent with professional services, and I think if we look at our unit-by-unit gross margins, it is not as dire as the consolidated gross margin would suggest because we had a number of one-time events. I'm not trying to make excuses about it; we are disappointed. But we do think it can migrate upward.

Mark Marcon - Robert Baird - Analyst

With regards to the SG&A, it sounds like the PeopleSoft and some of the FNA expenses are going to be with us for a while. You also indicated that there are some other areas that you could make some adjustment. I'm wondering how much of an adjustment can you make in terms of getting SG&A down, number one? Secondly, imbedded within your 2.5 to 3.5% EBITDA margin guidance for the year, how are you thinking about the EBITDA margin performance for the Americas group? How should that track?

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

Okay. Let me try SG&A first and then I'll turn it over to Mary Jane to talk about specifics. One thing I'll just draw your attention to is that our corporate expense declined by the better part of \$2 million in the quarter. That is the first real significant decline I think we've enjoyed since we've been a public company.

Mark Marcon - Robert Baird - Analyst

My SG&A comment was related to the North Americas.

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

Yes. But you also asked where else can we cut. I'm just commenting that those two are linked. First of all, we are conscious of the fact that, and I think you and I have talked about this in the past but I believe that our SG&A is too high. I think your feedback has been similar, as have a number of other shareholders. I think Mary Jane has done a fantastic job of changing the trajectory of SG&A, which is no small feat in a decentralized business at the corporate level. I won't promise that we'll have \$2 million improvement every quarter, that wouldn't be right, but I think the trajectory is now downward and that is a place where this is some room to make up for some of the challenges that we are facing in North America. Mary Jane, do you want to just comment specifically?

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

Jon gave you the first part of the answer which is where else can we make adjustments, which as we look in the whole Company, obviously, one place that we look is corporate. But I think in addition inside of North America, one thing to keep in mind is as the Company has been growing, it's used certain metrics pretty well with respect to sales accountability, etcetera, that in the aggregate worked pretty well. I think in light of what we saw in the first quarter, the detail into which we are reviewing expenses and the increased expectations on performance are pretty significant. As a result of that, I would expect that what we would do, both to improve the overall results but also to manage the SG&A in North America, is to have a much shorter leash on performance in the areas of the branch offices, in the non-revenue areas, really in all areas, so that we ensure that we are making the right investments in North Americas, those that matter, and also we are having accountability in all the areas now in a more detailed level.

Mark Marcon - Robert Baird - Analyst

So, when you put all that together, where do you think America's EBITDA margins will end up?

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

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Well, I'll probably be a little hesitant to promise that to you right now. I certainly, given that North America delivered a loss in the quarter, our main goal is to improve that as the year goes on. But I'd probably at this point, as we sort of see the action plan taking hold put pause on giving you a number on that.

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

We do expect North America to be profitable in the second quarter.

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

Oh, yes.

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

We do expect it to be profitable for the year. But I think at this point having suffered a pretty difficult first quarter, we are a little bit chastened about coming out with an EBITDA percentage right at the moment for North America.

Mark Marcon - Robert Baird - Analyst

Okay. I'll follow up later, thank you.

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

Thanks, Mark.

Operator

Your next question comes from Mike Carney.

Mike Carney - Aperion Group, LLC - Analyst

Good morning.

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

Hi, Mike.

Mike Carney - Aperion Group, LLC - Analyst

I have a number of questions, so I'll just try to standardize them to make them go quickly and then I'll do the rest off line. Outside of the bonuses, what were the other expense declines in corporate SG&A, Mary Jane?

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

We looked pretty carefully at professional services in all areas. We looked also at various marketing programs that we had in place. And we were very cautious about headcount in the first quarter.

Mike Carney - Aperion Group, LLC - Analyst

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Okay. How much was the HCS in the US or developmental, how much was that down in gross profit of EBITDA?

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

Let me just take a look at that.

Operator

The next question comes from Matt Litfin.

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

Mike, we'll come back to you on that in a minute.

Kevin Steinke - William, Blair and Company - Analyst

This is actually Kevin Steinke for Matt Litfin today. Couple of questions if I might. Following up on the temp gross margin in North America, you talked about it trending back towards 20% through the year. Are you generally feeling good about the spread you're getting on bill rates and pay rates outside of these one-time items that you talked about? You did mention that you are seeing some competitive pricing pressure in Legal and also sounded a little bit like on IT as well. So could you just elaborate on that, please?

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

I think generally we feel pretty good about the spread between bill rates and pay rates. That's a complicated issue because even -- let's take IT -- there's a dramatic variance depending on the level of IT skills. Some skills have much tighter margins in terms of bill pay spread. Some are much wider. Obviously we'd rather be in the wider businesses than the narrower, tighter businesses. I think that it's fair to say that there has been some competitive pressure in IT in terms of margins, but so much of it depends on the mix and what skills and what places and what geography, even within the North American market.

I think in the Legal business, that's been a phenomenal success story. If you look back, certainly it has been at Hudson and we certainly are very proud of it. Looking at the industry as a whole, it's been a phenomenal success story and it has brought some new competitors into the mix who are, let's say, late entrants or trying to gain market share or so forth, and that's having an impact right at the moment, given the first quarter, in terms of pricing. That's probably the first competitive pressure of any significance that we've seen in the legal market, notwithstanding very strong double-digit top line growth. We think we have a very attractive offering in the Legal business. But it falls in the category of we wanted -- it's one quarter, but this is the first time that we've really seen it so we wanted to just be forthright and tell people about it.

Kevin Steinke - William, Blair and Company - Analyst

Okay. Thank you. In Australia, you talked about some clients removed hiring freezes and others kept them on. I believe in the past you've talked about some of those hiring freezes you felt were client specific issues, so if you just review the reasons why you think some of those freezes were removed and others were continued. Were they client specific or economic related or what's your feel there?

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

Sure, first of all, I think you have to start with the Australian economy. It's a resources driven economy. It has become a much more increasingly resources driven economy so that at the top line GDP growth is actually fairly strong. Forecast GDP growth for the year 2006 are somewhere around 3% and the forecast increase in 2007 is about 3.25%. However, having, at the same time, there are crosscurrents within the economy. One of which is slow down in consumer spending and for the reasons that are going to sound very common to many other parts of the world -- slow down in the housing market that has lessened some of the wealth effect; increase in commodity prices, particularly the price of gasoline; now an increase in interest rates which is increasing the cost of housing. So you have the phenomenon of an Australian stock market that's going up and

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up and up. Australian economy that's actually growing pretty strongly, but some pretty dramatic crosscurrents and we mentioned those cross currents effect the Australian states somewhat differently. The more urbanized states, particularly New South Wales and Victoria are suffering lower growth rates, in terms of GDP and employment growth, than the resources driven states, other states. Unfortunately our business, like everybody else in the market in our industry is much more concentrated in New South Wales and Victoria. When you talk about a slow down in consumer spending, hopefully the first thing that goes through your mind is the banking industry, which is a huge user of recruitment services all over the world in every country. The banking industry, the technology industry, the telecommunications industry are big customer sectors. They are for us in Australia as well. So the consumer spending slow down and consumer spending insecurity, lack of confidence, translates into the banking business to be careful about increasing headcount, just like it would in any business. An increase in headcount is how we make money. What has happened is that in certain components of even a single business, hiring freezes have been removed because certain product lines and service lines are attractive and the customers want to recruit for those lines. That's why I say we think a very positive sign is they've turned back to us for that recruitment. In other situations, they consolidated their purchasing power and again they've turned to us rather than our competition so we've had a little bit of a benefit; others have had a little bit of a negative. So I think that both of those things are signs that have given us some encouragement as we look out towards the remainder of the year.

Kevin Steinke - William, Blair and Company - Analyst

And the hiring freezes that have reminded in place, [inaudible] those continuing economic issues you talked about?

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

Yes, exactly. You have situations where even within the same company, specific departments are still on a hiring freeze and other departments are hiring. And I think in reflecting the demand for certain products and services in a very diversified financial institution and then you have other companies that are still obviously managing their expenses very carefully and recruitment expenses get a lot of attention today, so they might still have a hiring freeze. When you net it all out, we thought that the increase in the quarter in gross margin for permanent recruitment, which was 10% in Australia in local currency, was a pretty significant improvement because when we went into the quarter, we would have identified that particular product offering as one that we felt was the most challenging for the first quarter. So it's a volatile business - permanent recruitment. It can swing right and left pretty quickly. But I would say we felt pretty encouraged when we saw the results of the first quarter.

Kevin Steinke - William, Blair and Company - Analyst

Great, thank you.

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

Mike Carney had asked a question and somehow you got cut off, Mike. I think Mary Jane is going to just give you the answer.

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

I can answer your question with respect to development and then I think you may have had a few others.

Operator

Mike's line is open.

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

Mike your question, I think, was what would be EBITDA impact of the development. It was flat in the prior year. The gross margin was down about \$400,000. But with the expense management of that group, it was flat to prior year.

Mike Carney - Aperion Group, LLC - Analyst

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Okay. So that made up the difference between the temp and perm versus the overall then, pretty much?

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

That's it, yes.

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

That's it and bear in mind, also that within that category we have a range of things. One of the reasons that we stopped reporting that as a separate line is that we've reduced, frankly, the number of things that are within that line, the number of operations have been closed within that line so they are no longer impacting it, obviously.

Mike Carney - Aperion Group, LLC - Analyst

So it's pretty much flat profitability now.

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

Yes. But the other thing is that there are things in there where we have expenses, let's take HCS. We have certain expenses for HCS that we report as part of development where the revenue and income related to those things are in the regions. So, we pay certain things at corporate. You can imagine, that's an internal negotiation that has some heat attached to it. But we pay some things at corporate and the benefits go into the regions. It's not huge amounts of money within the scheme of things and that's why we stopped reporting it because it just gets pretty noisy to try to explain why that's there and it's not reallocated out to the regions.

Mike Carney - Aperion Group, LLC - Analyst

Okay. And then specifically, which individual is in charge of the PeopleSoft and reintegration of back office reintegration?

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

That's an interesting question. Let me give you a couple of data points. We have a position called, like everybody does, CIO. The PeopleSoft implementation was identified at the beginning of 2004, I think, as a number one priority of the then incumbent CIO. That CIO is no longer in position with the Company. We are currently in the midst of a search for a replacement. Secondly, we have a project team that specifically spends 100% of their time, a better part of 100% of their time – not literally – devoted to the PeopleSoft implementation. I think everybody on that project team is now, that was in place in 2004-05, has now left.

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

Yes.

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

So, we've made changes, shall we say, Mike. We've appointed a new head of that project team who is in place and who is working but, as I mentioned, we have not replaced the CIO. We have two other project leaders that also have been assigned to this project, just to be sure you understand the level of visibility it's getting within the Company. One is Don Bielinski who, particularly in light of the fact that we don't have a CIO, the CIO would report to Don. Don is spending a good portion, not 100% certainly, but a good portion of his time intervening in that project. Mary Jane also has been, shall we say, more intimately involved in PeopleSoft and the back office re-engineering, frankly because she has the greatest base of knowledge of all of us within the Company. This is a group of people, Don, Mary Jane, Tom Moran, who is the business owner, who work very well as a team and resolve issues very well as a team. I would say Don is more involved in the process engineering at this point

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until we get the CIO in place. Don has a long history as a former CFO at Grainger and also has had IQ reporting for a considerable period of his career. He's more in my age range than even Mary Jane's so he is an experienced professional. That's where we stand right now.

Mike Carney - Aperion Group, LLC - Analyst

And then I think Mary Jane you said that could be completed by year-end. Is that when the cost will be normalized?

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

As I said, what we are going to do is have a third-party review. That is the process forward, so my expectation at this point is that, as I indicated, it would probably go through year-end. But even to the spirit of your question, we are looking very aggressively - frankly, that's why I wanted someone to come in and review this with us - to move the cost to a normalized level so that we understand what they should be and how we should maintain them and how we should operate to do so.

Mike Carney - Aperion Group, LLC - Analyst

Well, currently, it's just the US, correct?

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

Yes.

Mike Carney - Aperion Group, LLC - Analyst

So, there's 40 offices, so that's about \$200,000 annually per office at the current rate. So I assume that that could be a lot less.

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

Well, I'm certainly not looking to spend that amount of money for the rest of my life on this. So as I say, it's - my focus right now is just being sure that what we are investing, we are getting the outcome we want because this system working well and, frankly, the whole back office working well, is very important to how this business goes to market, how we deliver, how our clients see us. And my focus for the next several weeks is to be sure that we really understand what that looks like so that what we do is spend smart and over the period of time can conserve more efficiently.

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

Maybe I can just add two things to that. One of the reasons we feel we want to bring in a third party to take another look is that as Mary Jane, I think in particular, has dug into this, as Don has dug into this, we've been concerned about the level of competency, frankly, of our staff as well as a third party advisors and experts that participate in this project. So we are at the point where we are feeling like we would just, you know, we want to make sure that we are not perpetuating the mistakes of the past and the band-aids aren't just piling up on top of each other. So that's the reason we want to just take a little more time to be sure about that. The second thing is that in the expense of the PeopleSoft, you can think of some of it as programming bits and bytes and all that sort of stuff, but also a pretty significant chunk of it is extra money that we're spending to reconcile accounts and do things manually that ideally the system would do itself. We fully expect that those costs will go away as the system performs more and more self-reconciliations and other things, so there are two important pieces to it. We're spending more money today to ensure the integrity of our financial statements. It's taking us more time and the information flow that's being generated to the business, to Tom Moran, to the manager of the IT business, the manager of the Financial Solutions business, is not coming out sufficiently quickly and sufficiently timely to allow them to take actions to run the business as you and I and everybody else would like them to run the business. So that's a little bit of the background about why we are doing what we're doing.

Mike Carney - Aperion Group, LLC - Analyst

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Okay. And then there is pretty strong recruitment perm increase. Is that straight perm or is that conversions?

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

I think its mostly straight perm. I don't have the exact detail. David Kirby will be available afterwards and have the detail.

Mike Carney - Aperion Group, LLC - Analyst

That's fine.

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

I think that the good news, and again, we're conscious of the fact that this is a disappointing quarter. We are not spending as much time on the good news as we might otherwise because we just think that's not the right way to do things. But there has been very strong perm demand. It's been in kind of the right places, the places that I think a lot of the people have talked about. We are at the point in the economy where everybody's expectations should be, as a matter of industry, expectation both in North America and in Europe, perm demand would be stable and even increasing. Yes, there is a shortage of people but typically, perm demand is strongest mid-cycle to end of cycle, notwithstanding the shortage of people.

Mike Carney - Aperion Group, LLC - Analyst

And then on the FNA side in the US, basically I assume most of the engagements ending are SOX work. Would that be correct?

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

Well, we certainly have had a reduction in SOX work year-over-year if that's you're asking.

Mike Carney - Aperion Group, LLC - Analyst

Right.

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

We do have an ongoing piece of SOX work because people feel it would just disappear after the first year. Obviously it doesn't. But compared to last year, certainly, we were up against a huge comp for that in Q1 of '05.

Mike Carney - Aperion Group, LLC - Analyst

So those contractors, are you losing those to other professional services companies or why can't you get the same, why can't you get really a higher margin when you are putting them at a new engagement afterwards?

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

Yes. We do. We do. And one of the things we mentioned, Mike is in that business, we have a bigger, not big bench, but we have a bench, a number of bench employees. The reason is demand for those services. Now, we had very weak utilization, particularly in January. It improved in February. It improved again in March. It's not where we'd like to see it. But certainly March was higher than January. But the margins, when we put those people on business, billable, the margins are very attractive.

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Mike Carney - Aperion Group, LLC - Analyst

Right. I just don't understand the utilization rate. How are those people in such a strong demand environment not being put on their new engagements at even better rates?

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

Let me address it for you this way, which is a bit, part and parcel of investments also in this practice down in the SG&A. Basically what happening is not so much the people are not going on to the higher margin business, it's that as we move away from, as most companies are doing in this particular practice, from what I might describe as very important but somewhat more routine SOX and audit work, and we move them into the higher margin business. What we are experiencing as we grow that solution side of the business, it's a bit of a learning curve from the contract. So one - January in particular I think, tends to be a bit of a low month and certainly was for us. One of the things we are also working on, and this is part of the North America action plan for the margin improvement, is increasing the rate of the learning curve as people move into the more solutions oriented work, that it's consistent with their skill set but I think tends to be somewhat more complex with clients, the clients' expectations may well be higher, as witnessed in a higher billing rate. There is, as I say, just a bit of learning curve that part of the investments down in SG&A are geared at helping get the actual bench employees through. We don't see that as either not being able to move the people nor necessarily the bill rate declining. I think what we are really doing is moving them to solutions and getting them up that curve.

Mike Carney - Aperion Group, LLC - Analyst

Then let's go to IT. What's the around average bill rate in IT?

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

Around \$60 an hour.

Mike Carney - Aperion Group, LLC - Analyst

So it's pretty high end. So I know you talked about the one large account but then you mentioned, Jon, the low margin business. But obviously it just didn't work, I guess, in this quarter, but because your revenues remained flat but the gross margin was down so much. Is there - I know you mentioned this, but was there anything outside of the bill rate/pay rate that would have been leading to a lower gross margins, any of the other costs?

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

No. We have the usual stuff of FICA in the beginning of the year but, no. What happens in, just to review, Mike, because I know a number of people have asked about the mix and how does that work and all. In an ideal world, it's - maybe it's not ideal - but if you decide not to renew a low margin contract, the impact is, of course, you lose the revenue and the gross margin right away. And if you don't make a corresponding higher margin sale at the same time, then the net effect in your financial statement is gross margin goes down. Revenue goes down. Now, yes, the margin rate might actually even go up for that one little component. We mentioned, what we are trying to show you is that there are other things happening in the gross margin that were affecting the rate and there were also things that were affecting the volume in terms of the dollars. So the low margin management was affecting the volume in dollars in the quarter.

Mike Carney - Aperion Group, LLC - Analyst

Okay. I'll just jump back in.

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

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I think we've gone over our hour. We're happy to take one more question, perhaps. We are available all day. David Kirby, Mary Jane and myself, available, certainly to continue to answer questions. We'll take one more question, if there is one.

Operator

Our next question comes from Jeff Silber.

Jeff Silber - Harris, Nesbitt - Analyst

Thanks. I'll be quick. Can you give us what revenue growth would have been excluding the Balance acquisition?

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

Yes, bear with us one second.

Jeff Silber - Harris, Nesbitt - Analyst

And also, can you also tell us the size of the Professional Solutions acquisition you just made?

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

It's a pretty small acquisition. The revenue in that business is about \$6 million a year.

Jeff Silber - Harris, Nesbitt - Analyst

Okay. Great.

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

Jeff, on Balance, constant currency would have been down about 1%, as opposed to up 2%.

Jeff Silber - Harris, Nesbitt - Analyst

So excluding Balance, it would have been down 1% for consolidated?

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

That's right.

Jeff Silber - Harris, Nesbitt - Analyst

Great, thanks so much.

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

Ladies and Gentlemen, thank you very much for attending today. As I mentioned, we will be available through the day. I'll turn it over to David to just handle the wrap up.

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David Kirby - Hudson Highland Group, Inc. - Dir. IR

The call today has been recorded and will be available later today by calling the following number 1-800-642-1687 followed by the pass code 7841127. For calls outside the US, you can call 1-706-645-9291 followed by the same pass code. The calls today will be archived for the next seven days at those numbers. Today's web cast will also be available on the investor section of our website, hhgroup.com. Thank you very much for joining us today.

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