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Conference Call Transcript

HHGP - Q2 2007 Hudson Highland Group Inc Earnings Conference Call

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PRESENTATION

Operator

At this time, I would like to welcome everyone to the Hudson Highland Group's second quarter earnings 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 David Kirby, Director of Investor Relations. Sir, you may begin.

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

Thank you, operator, and good morning, everyone. 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 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 the 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, CEO

Thank you very much, David. As has been our custom in recent calls, I am going to make a few preliminary comments, and then I'm going to turn it over to Mary Jane Raymond, our Executive Vice President and Chief Financial Officer, to go through the financial statements in detail.

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As you know, we issued our press release last night at the close of the market and a shareholder's letter. For purposes of my remarks I am assuming that all of you have had a chance to look at those.

Today, I am going to limit my remarks to the question I think is on the mind of many investors, which is -- what is the current status of our North American operations? As you may know, we announced our guidance for Q3 with an EBITDA range of \$9 to \$12 million. At the top end of that range, we would be flat against prior year. The biggest change compared to prior year implied in our guidance is the year-on-year decline in EBITDA in Hudson North America.

Let me put this in context. Over the course of the last year, we have established a new leadership team in Hudson North America. For example, we have appointed a new finance director in April 2006; a new North American CIO in July 2006; a new leader of the IT practice group in July 2006; a new leader of the Management Search and Permanent Recruitment practice groups in February of 2007; a new leader in Aerospace and Defense Engineering in March 2007; and most recently, a new leader in Financial Solutions in April 2007.

So you can see that we have had quite a change in North American leadership, both in the time that I have been the acting CEO of North America and shortly before that. In addition, there have been a number of subsidiary changes in the second level of leadership.

I believe we have a stronger, more focused unit in North America at this time. I believe that we will see signs -- and I want to underline signs -- of improvement in the second half of the year.

The biggest gap between the outlook implied within our guidance and the prior-year results are in three practice groups -- Legal, Financial Solutions, and Permanent Recruitment. I want to make just a few comments on each of these.

With respect to legal, this is the first time since our spin-off from our former parent that the Legal unit did not exceed prior year in a quarter. The biggest impact in the quarter was the conclusion of a project. However, we still work for the same client and expect to continue to do so.

Legal represents approximately one-third of our North American revenues and would be one of our largest country operations on a stand-alone basis. We have excellent, deep management at all levels of this unit. We have substantial market share and brand recognition among clients and candidates.

This business has become very large project based over recent years, which in general is a positive, but has some negative aspects as well. We don't have much control over the timing of the end of large projects, and we have very little visibility, since -- as you can imagine -- most of these projects end due to settlements of large, complex litigation. Those settlement discussions are guarded at the highest levels of our clients' leadership, so that our specific client reference frequently has no knowledge whatsoever as to the status of settlement negotiations.

However, I have great confidence in this leadership team, which has really nearly tripled their business in 2004 and has a demonstrated track record of success.

Financial Solutions. As I mentioned, we appointed a new leader in April 2007 with the appointment of Marc Bouchard, formerly with and the leader of the JMT acquisition. Marc announced a number of changes internally last month -- well, earlier in this month, early in July -- including a reduction in force and the closure of several offices.

The costs associated with those changes will be recorded in the third quarter, but the benefits are not built into our forecast or guidance. The concept behind the changes is to focus our resources on our most established markets, or markets with the greatest management talent, solidifying the second level of leadership, and institutionalizing the selling process. From there we expect to expand over time to other markets.

Previously, our value proposition was not well focused, included too many offerings, and was spread over a large geography which lacked managerial resources. We now have a clear focus and a leadership team that I have confidence in.

Next, I want to turn to Permanent Recruitment. Again, as I mentioned before, we have a new leadership team. There are two parts to our Permanent Recruitment offerings, retained and contingent.

Looking at retained first, to some extent the retained search segment of this unit was hurt by the divestiture of Highland Partners last year, which was a source of steady referrals and of collaboration. We did not have a good quarter in the second quarter; but there is nothing fundamentally wrong with our retained search business.

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Also in Q2, our contingent Permanent Recruitment business, which previously had been organized along practice group lines, suffered declines in Financial Solutions, Legal, and Engineering. But again, this is fundamentally a good business with strong local leadership.

The leaders that I have appointed to head our Permanent Recruitment business are very experienced in managing a profitable, sustainable perm operation, including the development of client relationships, productivity, candidate management, and cost structure.

This is a volatile business. We have always said that about perm, and we certainly had a bad quarter. Nevertheless, we're optimistic about the future, and this is an important component of our business. For now, improvement is not built into our guidance.

In summary, I want to emphasize that the changes that I have made in the last three months, during which I have been acting as the interim leader of North America, in the leadership of the North American operations are critical to our growth and profitability. I have acted to increase the experience level of our managers with proven track records of success. I've also focused on making sure that each of our operations has a well-defined value proposition and that they are clear on their approach to the target end-markets.

I believe it is natural that I would be cautious about building too much optimism into our revenue forecast for next quarter. But as I said, I believe we will see signs of improvement in the second half of the year.

With that, I am ready to turn it over to Mary Jane Raymond to make a detailed analysis of our financial results for the quarter and to go through our guidance. Mary Jane?

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

Thanks, Jon. Hello. Jon has just shared with us his views on our overall business as well as the leadership team in North America. You also have from us our published reported results. So I will just discuss a few points with you, starting with the revenue.

The revenue, as we reported, declined 1% to prior year, with the balance of increases in Europe and Asia and a decline in the Americas on a reported basis. In constant currency, Europe's revenue declined 5% while Asia-Pacific's revenue declined 6%, for the total decline of 7% on a constant currency basis.

I will point out to you that prior-year revenue included \$6 million from the two businesses that we sold in the UK -- the Scottish industrial business sold in the third quarter of last year, and the UK office support which was sold in the first quarter of this year. For this quarter, that would equate to 2 points of revenue growth. So to determine the growth in the ongoing operations, basically add those 2 points back.

But our story for our Company is in the gross margin. The reported gross margin increased 7% to prior year. On a constant currency basis, the gross margin was essentially flat to prior year for the Company overall, with a 6% improvement in Europe partially offset by a 1% decline in Asia and a 10% decline in the Americas. The gross margin from 2006 included about \$1 million or 1% from the two UK businesses we sold.

Generally speaking, the advancement in the gross margin for us is accomplishment, like through the repositioning of our business, as perm was roughly the same percentage of the gross margin to last year, 54% for this quarter versus 53% for last year. The gross margin in total, as well as the temporary contracting margin, improved in all regions around the world.

Adjusted EBITDA in the second quarter of '07 was \$13.2 million or 3.8% of revenue compared to \$9.3 million last year or 2.6% of revenue. This was driven by regional margins of 8.7% in Europe, 8.3% in Asia, negative 0.7% in the Americas, and reduced cost in corporate.

Last week, on our call on Monday, we discussed the addition to our 2006 restructuring charge in the second quarter of '07 of approximately \$1.5 million, the majority of which relates to our former New York location. Just to remind you of a few of the details here, basically we intended to sublet that property and had expected to do so over a rental rate that we were currently paying. But obviously, given the stronger real estate market in New York that would have got us such a sublet, the landlord also noticed that and decided to recapture the property.

While this releases us from future lease obligations, which is a very good thing from an accounting standpoint, this action by the landlord requires us to record the expenses in this quarter instead of over the life of the sublease that we would have otherwise had.

So for the 2006 restructuring program in total, we have spent about \$11 million. We expect no further material changes to this initiative. We do think that this was instrumental in helping us reduce our cost structure and improve profitability.

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On depreciation and amortization, \$4 million in this quarter, flat to prior year and 7% lower on a constant currency basis. This has helped by lowering our capital spending in the last several quarters compared to the depreciation runoff.

We earned about \$400,000 in interest income, primarily from third parties. Obviously, the main news for us as a Company on interest income as an expense is that we're not an interest payer this quarter due to better collections, as well as the ability to lower our short-term borrowings compared to last year.

The provision for income taxes in the quarter was \$4.6 million. I will talk a little bit more about that in a minute.

Our consolidated net income for this quarter was \$3.2 million, up \$1.1 million from last year. Basic and diluted EPS were \$0.13 and \$0.12, respectively, compared to \$0.09 last year. We had 26.2 million shares outstanding, which is 1 million increase above prior year, largely driven by option exercises.

I will give you a few perspectives on the regional results. Again, because you have the reported results, I will just talk about these in constant currency.

Europe's second-quarter revenue, as I mentioned earlier, declined 5% while the gross margin grew 2% -- sorry, grew 6% -- obviously reflecting the execution of our strategy in this region. These actions, coupled with good expense control, saw strong EBITDA contributions from Belgium, Balance in the Netherlands, France, Spain, and the UK.

In Asia, Asia-Pac, revenue declined 6% on a constant currency basis with a subsequent 1% decline in the gross margin and an 8% decline in EBITDA. The revenue decline was primarily due to purposeful strategic decisions to exit lower-margin contracts, particularly in A/NZ. But this helped keep the gross margin flat in A/NZ, and the EBITDA doubled -- or advanced to double digits compared to last year on a constant currency basis.

In Asia, the permanent recruitment declined against prior year after several quarters of growth. EBITDA results were weaker in all the Asian countries, especially Japan. That said, for us Asia is a small region; it is about 3% of our overall revenue. It has a long track record of growth in profitability, so we consider this a relatively small bump. We as a Company are very committed to this region. We have recently acquired, as you saw, the acquisition of the Tony Keith business, which didn't have much of an impact in this quarter yet, for being acquired late-ish in the quarter. That acquisition is a step toward our continuing commitment to this region.

Hudson Americas second quarter declined 11% with a 10% decline in gross margin on a constant currency basis. Jon provided you most of the perspective on this region. I will just note that their EBITDA loss of \$700,000 is a \$1 million improvement against last year.

Just a couple of other perspectives relative to the financials in the quarter. Our leverage in this quarter was 35%. On a constant currency basis, our EBITDA increased \$1.4 million on flat gross margin.

From a currency perspective, our adjusted EBITDA for the quarter includes about \$2.2 million effects of currency due to the weakening of the US dollar.

Just to tell you how the year-on-year currency changes affected us -- these would be the major currencies we look at -- the British pound is strengthened by 9%; the euro by 7%; the Australian dollar is up 11%; and the New Zealand dollar is up 18%. So you can see what is contributing \$2 million to our EBITDA on currency.

Last year, we sold non-core businesses with about \$85 million in revenue, including Highland Partners. In that, I include the \$10 million from the UK office support that we actually sold in the first quarter of this year. To reiterate a point we made earlier in this year, we still have non-core businesses of about 10% of our revenue that we may sell over the next several quarters. In the meantime, we continue to operate those businesses as part our trading group.

We completed the Tony Keith acquisition in May of '07. They operate in three major cities in the US -- not in the US -- in China. As I mentioned, that will help solidify our presence in the Asian market.

PeopleSoft, one of our happy topics, we noted this in the shareholder's letter. Our work to stabilize the PeopleSoft system in North America has been substantially completed. We completed that on time and slightly under budget. The greater stability in the PeopleSoft application allows us

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to maintain steadier performance in North America and to react more quickly to changes in trends. The team did a very, very good job on this. This is a big move forward for our Company. We're happy to have this both finished and able to move forward on greater operating efficiencies.

From a tax point of view, we incurred \$4.6 million of tax of the quarter compared to \$2.6 million last year, largely due to higher profitability in A/NZ and the UK. We had been a historical taxpayer in A/NZ; and we are, as we noted, at the end of last year a new taxpayer in the UK.

Going forward, the tax guidelines I have given are relatively still intact. We expect a tax rate of near 30% in Asia-Pacific; taxes on profits in the Netherlands from Balance. We will incur tax on a P&L basis in the UK, since we have completed recognizing the deferred tax asset there, though we still will have the benefit of cash deductions -- or the cash benefit of deductions through 2009. As a result, we think the UK rate will be near 30% as well.

From a cash flow point of view, in the second quarter the Company generated cash flow from operations of \$20 million or \$17 million year-to-date. This compares with \$2.2 million a year ago, or \$2.4 million on a year-to-date basis. The improved cash flow from operations compared to the same quarter last year primarily reflects improvements in collections as well as the lowering of the receivables base.

We had no debt outstanding on the credit facility at the end of Q2. The cash balance at the end of Q2 as you can see was \$56.7 million, after paying out about \$3.2 million in earnouts during the second quarter. Our DSO was down one day to 55 days.

As a subsequent use of cash on July 16, as we actually noted to you I think on that day, we paid \$30.5 million in cash for the earnout of the JMT acquisition. This is the final earnout for that acquisition and that could cause you to ask me what the cash balance is now. The net cash balance as of yesterday was \$27 million.

Our capital spending in the quarter was \$3.7 million, up from \$1.4 million a year ago, primarily due to systems investments and one office expansion in Asia. This is in line with our expectations. I expect our overall expectation of \$14 million in capital for the year to be still intact.

So let me turn to guidance. As we have done for the last four quarters, we will continue to provide quarterly guidance. We expect the second quarter of '07 -- sorry, the third quarter of '07 revenue to be between \$340 and \$355 million in revenue at the prevailing exchange rates, and the EBITDA to be between \$9 and \$12 million. This compares with revenues last year of \$352.5 million and adjusted EBITDA of \$12.1 million in the third quarter of '06. I expect to have no restructuring charges in this quarter.

I want to just comment on a couple things with respect to our guidance, particularly in anticipation of your questions. The width of our guidance range of \$3 million in the 9 to \$12 million is certainly wider than we have typically done. The first reason for this is actually driven by the revenue outlook. In Q2, the revenues were slightly below prior year. Our current outlook indicates that that trend could continue, and we have set our guidance accordingly. While certainly we are making all efforts to capitalize on the revenue opportunities that we see, and we continue to create them, we didn't include those in our guidance; and it wouldn't really be prudent to do so.

A large part of the potential improvement is dependent on the North America operations. At this point, it is just hard to call that rate of improvement. However, that said, we're pretty leveraged on an operating basis -- highly leveraged I would say at this point in time. Even a small revenue improvement of a few percentage points coupled with good expense control could result in a meaningful EBITDA improvement.

Other things that drive the range are our ability to complete certain expense recoveries around the world, which could on their own be worth \$1 to \$2 million. As a final thought, I'm being a little bit cautious on the improvements in Asia, just for their having had a bit of a rough quarter in the second quarter.

So overall, again, while we acknowledge that the range is a bit wide, as you can see there is a number of things going on we are focused on that, each in themselves, could be worth \$1 million. That starts to be us living, as we have said before, the tyranny of small numbers. Thus we have struck the range the way we have.

I will also address one question that I think you might ask about -- what is different between the high end of our guidance range, which is basically flat to prior year, and some of the average expectations that people might have had for us in the third quarter of '07, just looking at our recent track record?

There are really two reasons for that. One is revenue and the other one is timing. I have just discussed the revenue; and I think you can appreciate that, again, with revenue, that is always difficult to call.

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We also have some timing issues between the third and fourth quarter in the international markets of between \$1.5 million and \$2 million. Roughly in total, this account for somewhere between \$2 and \$3 million of where we have set the top end of the range and what some of you might have been thinking about that might have been possible -- again, based on our prior track record.

I will give you a few thoughts on regional guidance as well. We don't give regional guidance as a Company, as you know. But the trends are important to you and they are important to us, so I will help you with a few things.

In North America, as I noted a moment ago, it's a bit difficult to predict at this time. But we do expect, as Jon says, to see signs of progress from the second quarter and third quarter and into the fourth. We will continue to monitor those. So what I can tell you is that, while we don't expect necessarily to have it completely change overnight, we do expect to see signs of progress as we progress from Q3 -- what is built into the guidance -- into Q4.

Internationally, I would expect the trends we have seen recently to continue. That includes relatively low revenue growth, low digit revenue growth benefiting from constant currency -- the currency right now -- and a higher gross margin growth compared to that lower revenue growth.

We expect to see, just to remind you, kind of the typical seasonal softness in Europe, particularly in the third quarter. Depending on the progress that we make during this quarter in Asia, we would expect to see some seasonal strength in the Asia-Pac region in the fourth quarter.

Obviously, the goal here is just to give you a little bit of a sense of what we are expecting going forward; and hopefully that will help you. Overall, we're very focused on delivering this in the third quarter. We feel good about the range that we set.

I will now turn the call back to Jon to give you his concluding remarks and then open the line for questions.

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

Thank you very much, Mary Jane. With that, operator, we are ready for Q&A.

QUESTION AND ANSWER

Operator

Tim McHugh, William Blair & Company.

Tim McHugh - William Blair & Company - Analyst

Yes, I want to first touch on -- Mary Jane, you mentioned some timing differences for your international operations of \$1.5 to \$2 million. Were those seasonal factors or was there something else that you were talking about there?

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

Well, I think to some extent they're seasonal factors. But a little bit various activities that they are looking to try and conclude, that we thought might have been in the third quarter that we think will be in the fourth. But I would say probably primarily seasonal.

Tim McHugh - William Blair & Company - Analyst

When you are talking about activity, are you talking about projects? Expenses that will come on board? Just not clear what you mean by that.

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

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No, more on the project range, not there are expenses being moved into the fourth quarter. I didn't mean that.

Tim McHugh - William Blair & Company - Analyst

Okay. I guess next, in talking about Europe, how much more room is there for improvement there? You have touched on almost a 9% EBITDA margin, in admittedly what is a seasonally strong period. But can you move higher there given the strength in permanent on the continental Europe?

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

(technical difficulty) one, our European region consists of about 14 countries. I think that the leadership of Europe itself is focused on continuing to advance the profitability in all the countries. In other words, some countries are doing very well, as I noted, four or five of them. And other ones we think are making good progress, absolutely, but have not quite hit the level that we think they can be. So just even in terms of the individual country profitability, yes, we think there is room to grow there.

Second of all Christine Raynaud, who runs Europe herself, continues to be very focused on the leverage we are delivering, and I expect that we will continue to focus on that. So yes, I do think that there is some more room we can go in Europe.

Tim McHugh - William Blair & Company - Analyst

Okay, great. Then moving over to the cash flow, any update on the guidance there? Do you still expect something in line with EBITDA for the year? Or is there anything that would, I guess, stall the strong cash flow you have seen over the last few quarters?

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

Well, generally speaking, first of all, we are not giving cash flow guidance, but we have attempted to try to and tell you roughly where it is going. What I will just say again is that my own goal inside the Company, as the Company focuses more on cash flow, is to try to get the cash flow to approximate the EBITDA.

I don't know, though, to the major part of your question, Tim, that I see anything necessarily stalling the cash flow. Obviously, we have paid out \$30 million in the Balance -- sorry, in the JMT acquisition. But that said, cash flow remains a very important priority to us.

Tim McHugh - William Blair & Company - Analyst

Okay. Then lastly, can you update us on your NOLs at this point in the United States? That is mostly where there are, I guess at this point. But how big are those at this point?

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

Okay, so first of all, yes, the NOLs of the Company are mostly concentrated in the US. The value of them is about \$225 million.

Tim McHugh - William Blair & Company - Analyst

Okay, thank you very much.

Operator

Mark Marcon, R.W. Baird.

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Mark Marcon - Robert W. Baird - Analyst

I was wondering if you could talk a little bit about the trends that you saw on a monthly basis in the US. I understand the Legal part and the challenges there. But particularly in terms of perm, what were you seeing there?

Also, can you describe a little bit -- Jon, you went through all the big leadership changes. Can you talk a little bit about what might be happening underneath the leaders in terms of turnover with regards to your account managers and recruiters?

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

Sure. First of all, I will just address the issue about trends. The difficulty with analyzing the trends during the quarter is that June is by far the most important month on a seasonal basis. So that for me to be honest, Mark, the mathematics are June was the best month of the quarter in North America. But basically, it should be.

Mark Marcon - Robert W. Baird - Analyst

I meant more from a year-over-year perspective.

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

I don't recall year-over-year. We would have to take it -- I mean, Mary Jane would be able to answer it off-line.

What I was going to say was that the way I would see the trends -- I gave you the math, which was June is the strongest month; so the trend was the best; results were the best.

Looking at the operating trends, there are two other things to know. Looking at perm, first of all, again June is the strongest month of the quarter for perm, and it was. It was weaker than a year ago. Again, Mary Jane can give you the monthly report on June. But it was weaker than a year ago.

I think if we look at our two -- so looking at the other part of our business, our contracting business, the trend within the quarter basically was no better than flat. So we didn't see an improvement during the quarter in our contractors on billing or other things.

So here, Mary Jane has the numbers. So she can give you the actual data on perm in North America in June.

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

So just with respect to period-on-period, we saw about a 18% decline between '06 and '07 with respect to perm in North America.

Mark, as Jon says, we can give you some specifics off-line. But I would say generally speaking, based on the pattern we saw, they are probably down each month compared to what we saw last year.

I think I will turn this back to Jon so he can tell you more, but I think that is part of what caused the reorganization that we did in perm, just to create a tighter community and a better ability to drive that in what is generally still a pretty good market.

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

Yes. I think that number Mary Jane gave you was quarter-on-quarter. I think Mark wanted the data for the month of June, so.

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

Right, we will come back to you on the monthly data; but for the total quarter it is down \$1.8 million.

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

So I just draw your attention to one thing Mary Jane had mentioned, was that -- that we talked about in the preannouncement I think -- was that in July, we announced a perm reorganization where we moved Perm out of the practice groups -- contingent perm. Out of our three core practice groups, and into a single Permanent Recruitment unit along with Management Search.

So that we have our biggest perm businesses on a contingent basis and our retained business all operating under a single leadership, which we think will be -- allow us to focus better on the Permanent Recruitment business.

So then with respect to your question about changes underneath the senior team, there certainly have been a number of changes underneath the senior team. Basically, you can figure the leadership that has been in place the longest has made the most changes.

I think the -- so if you look at IT, Tim Bosse was appointed about a year ago to run our IT, what we call or IT practice group. He has made a number of changes, which I think have been good changes in terms of the leadership reporting to him. And we are beginning to see results.

In some of the other practice groups, the leadership has not been in place very long, and so the changes have not been very significant. There may indeed -- they may not be necessary.

The other thing I would say is that we have made a number of changes in the financial -- finance and accounting part of our North American business. We brought in a new leader a little more than a year ago, Patrick Lyons. He has made a number of changes in the people that are reporting to him. I would say there that we have had a considerable strengthening of the team reporting to him.

We have seen a dramatic improvement of results. Not in results in terms of profits and losses, but in results -- the speed with which we can compile our results, the quality with which the financial results are completed at the end of every month and the end of every quarter.

I mean, here we are reporting today -- I think it's what we reported on the 25th; we preannounced unfortunately before that. You know, in previous quarters, we would not have had the results this quickly. We have moved up our reporting timetable a week.

While that is a testimony to the work that has been put in around the entire Company, really North American deserves a lot of credit because they have made enormous strides in that area as well.

So I think we have done a lot of work underneath the senior leadership. I think in every case, we have more experienced people that are committed to the success of our Company.

Mark Marcon - Robert W. Baird - Analyst

Okay. Then in terms of the guidance, you mentioned you expect some improvement in North America. But I wasn't clear in terms of whether you meant maybe we would get to breakeven in the third quarter. When we look at the third-quarter guidance, what are you presuming for -- what is the range that is possible in the Americas?

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

I will let Mary Jane give you the exact numbers, because I know she is prepared for this question. I would just underscore it's a combination of two things. I said I thought we would see signs, and I said underscore signs, of improvement.

Certainly the most important sign is the bottom line, of course, absolutely. But as important to me in terms of signs of improvement are the operational signs. You know, are we getting good assignments? Are we signing up good clients? Are we doing high-quality work?

Those are things that are very important, because they will drive the numbers over a period of time. That is what assures me that the numbers that we do see are sustainable. I think as you pointed out in your write-up, Mark, and it's a legitimate point, we are as troubled by the inconsistency of our performance as anybody else is.

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So those are some of the issues, to me, that I would come back to you, the analysts and the shareholders, to talk about next quarter. While the bottom line is very important, the drivers of that bottom line are actually more important to me, and I think should be to you.

But Mary Jane, I know you have thought about the implied North American component within our guidance.

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

Right, so with respect to the adjusted EBITDA for North America, first of all, one of the things we talked about was building in the trend that we saw in second quarter. Some of the projects that we saw move in the second quarter will be with us for the whole of the third quarter. Because we are not betting on the come with the revenue, I would expect that the second -- sorry, the third quarter would be something like flattish to second quarter, not flat to prior year.

Mark Marcon - Robert W. Baird - Analyst

On the top line or the bottom line?

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

Bottom line, on the EBITDA.

Mark Marcon - Robert W. Baird - Analyst

Okay. Great, thank you.

Operator

Mike Carney, Coker & Palmer.

Mike Carney - Coker & Palmer - Analyst

I always seem to have a lot of questions, but you're always good at answering them, so I will just try to take a couple here. First, Mary Jane, you said something about CapEx, but I kind of missed it. Was there some kind of implied guidance there?

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

We have talked all year about the fact that we expect CapEx to be sort of in the range of \$14 million-ish. All I was just updating, Mike, was that I still think it will be in roughly that range.

Mike Carney - Coker & Palmer - Analyst

Okay, for the full year, right? Okay. Then, in terms of PeopleSoft cost constrainer or getting rid of some of the costs, is that going to be primarily in North America or in corporate?

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

The cost reduction for PeopleSoft will be in North America.

Mike Carney - Coker & Palmer - Analyst

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Okay. Maybe you could, Jon, can you just tell us at this point or in the recent past, where have you been investing, if any, in terms of practices and geographies?

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

We have made very modest investments in the last quarter, maybe even here in the third quarter. We have opened a new office in Financial Solutions. The reason for opening the office, even though we have also made some closures, was the availability of a experienced team of people that joined our Company that we felt could be -- you know, proven track record of success and could be strong contributors to our business in the short term.

We continue to look at opportunities, particularly in Financial Solutions. I think I mentioned in the preannouncement call that in addition to Marc Bouchard taking on the leadership of Financial Solutions from JMT, the other three JMT partners have all stayed with the Company and taken on broader leadership roles.

So we have a much, much stronger team at the top of our Financial Solutions business, which gives us, I think, better capability to buttress our business. So to the extent that we have been investing -- and the way we invest as much as we can is by hiring people rather than buying things -- we have been looking at Financial Solutions.

We have also continued to open a couple of offices. I think we have opened one additional office in our Legal business. Again, we have very strong management team there. We have the capability of expanding. We don't want to expand too fast or too far ahead of our revenues. But it's very low cost in terms of organic expansion. So we have continued to invest in that area as well.

We continue to look in the European environment to fill out our service offering. In continental Europe our contracting business is limited right now basically to the Netherlands. We continue to look at opportunities, although we have not done anything, both in the Netherlands and in the other continental European countries because we think that is good opportunity for us for the future.

One of the biggest constraints right at the moment is until the last week or so the market has been very strong in terms of prices. So just like equities are up, prices for businesses are up, and we are not a very aggressive buyer in terms of pricing. So this might not be our best part of the cycle for buying things.

Mike Carney - Coker & Palmer - Analyst

Right, I hear you. That's great. In clarification on that, when you said Financial Solutions office, is that the Cleveland offices or was that something more recent?

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

We have something more recent. We opened in a suburb of Washington, D.C.

Mike Carney - Coker & Palmer - Analyst

Okay. Then, so in terms of in the US in Perm Recruitment, have you been hiring there?

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

I would not say that we have been hiring aggressively. We have certainly been hiring to replace attrition, but we have not been hiring aggressively in perm.

Mike Carney - Coker & Palmer - Analyst

The decline this quarter was just -- it would be the same on a productivity basis, essentially?

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

I'm sorry, say that again, Mike.

Mike Carney - Coker & Palmer - Analyst

The decline that we saw in the third quarter would be essentially the level of productivity, also.

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

I don't have that detail, yet from -- that is something I want to look at. I don't have the detail yet. I would say that that is my suspicion, sitting here today, is that that is true. But I haven't done the detailed analysis to confirm it.

Mike Carney - Coker & Palmer - Analyst

Okay, what about in the past quarters, when there was strong growth there, was it about the same in terms of productivity because you were not hiring that much? Or --?

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

Yes, I would say the growth in past quarters was driven by improvements in productivity. The question in my mind -- and this is just something I need to look at -- is it is normal to have some attrition in the business. We have not been aggressively replacing people. So I just have to look at the offset, the two things next to each other.

One thing I mentioned in my letter, which is a small impact but still an impact, was that with the divestiture of Highland, we have had an impact on our retained search business. So we sold Highland, which was an executive search, retained executive search business. But even within Hudson, at lower levels of -- lower salary levels, we also have a retained search business which we call Management Search. That has been a very nice, small business, but a very nice business. It is a business that I think has tremendous opportunity and I'm very fond of.

But we had a very close collaboration with Highland. When we -- to the extent that in most cases they were co-located with Highland, not with Hudson, and they had a good source of referrals. While we still get referrals from Highland, it is not the same when you don't own it. That is just the way the world works.

That has been a bit of an annoyance in the quarter. We are just going to have to work through that.

Mike Carney - Coker & Palmer - Analyst

Right, then also, are you hiring in Permanent Recruitment in Europe, in the European countries?

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

Not aggressively, but certainly selectively in countries. We have had very strong growth in the Benelux market, particularly in Belgium. We have very strong business there. They had a very good quarter. From memory, I would say their revenues were up more than 20%. They have been adding selectively to their workforce.

Mike Carney - Coker & Palmer - Analyst

But most of it is productivity gains, then?

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

Yes, we are being careful about hiring in the Permanent Recruitment business for two reasons. One is, a natural cautiousness that we all have. It is not the -- Christine Raynaud, who runs Europe, feels the same way. That is a very volatile, cyclical business, and you just kind of always wonder what is around the corner.

Certainly in the North American market there has been a fair amount of crosscurrents within the market from an economic perspective. I think from our planning perspective, we don't have any great crystal ball. But we are just cautious about hiring in the permanent business, so we pretty much do it on a productivity basis.

Mike Carney - Coker & Palmer - Analyst

Okay. You know, that is great to hear. Two quick questions. One, did you ever reopen an office in Germany? Two, do you still have the Dutch reintegration business, or was that kind of taken away when the business was down a lot?

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

Let me talk about Germany and then Mary Jane (technical difficulty) the reintegration, so she can comment on that. In Germany, we have not reopened offices in Germany, although we consistently look at acquisition opportunities in Germany. We would hope that some point in the future to be able to find a vehicle to re-enter the German market.

Obviously, it has been a very hot market for a number of the international companies. Although that -- I would say that much of that market has been driven by a part of the business that we don't participate in, which is lower-level clerical and technical.

But still, I think in all of continental Europe and I think you would see it particularly with the new election in France, there will be a trend towards greater flexibility in labor utilization. Which is a fancy way of saying people are going to use more contractors, particularly in professional services. Outside of IT and engineering, contractors are not used heavily in continental Europe in the core countries, France and Germany in particular, which are huge economies.

So we would like to get a foot in that market that we could grow. I think Christine very much has a very strong desire to find the right entry vehicle. As I say, we are in an era where prices are up, so that is an obstacle for us.

Reintegration I will just ask Mary Jane to comment on. One of the things that has happened in that business is that what used to be our reintegration business has been dramatically adversely affected by a change in legislation. So our business has evolved. This is one of those arcane things that is in the 10-Q and 10-K and nobody ever reads and takes seriously. Which is -- I have been writing it for 15 years. Which is to say that in continental Europe in particular, there is a risk factor with respect to changes imposed by legislation. We are not used to this in the American democracy. But in the European democracies, this happens from time to time. There has been a legislative change in the last year that has really had a dramatic adverse impact on the reintegration business. So our business has evolved.

With that, I will just ask Mary Jane maybe if she wants to make additional comments.

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

Well, as usual Jon has all the good facts. So the long and the short of it is -- it is still in our operations. It is still part of the Dutch business. As Jon said, it is, though, a different business than it was when we spun.

The fundamental reason for that is basically the source of the revenue is from the government programs that fund people coming back into the marketplace; and that has been changing. So at the present moment, it is still in our operating results, and we continue to evaluate our options with respect to that business.

Mike Carney - Coker & Palmer - Analyst

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Thanks.

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

Okay, Mike. Anything else?

Mike Carney - *Coker & Palmer - Analyst*

Oh, yes, but we'll have to catch a lot later.

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

That's a short list from you.

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

That is not bad, Mike. We will give other people a chance to ask questions, but maybe give us a call afterwards.

Operator

(OPERATOR INSTRUCTIONS) At this time, there are no further questions.

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

Thank you very much, operator. With that, we will conclude our Q&A period, and I will turn it over to David for final remarks.

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

Thank you, Jon. Thank you, everyone, for joining the Hudson Highland Group's second-quarter conference call this morning. If there are any further questions, please feel free to contact me or Mary Jane Raymond at any time. You can reach Mary Jane at 212-351-7232. You can reach me at 212-351-7216.

This call has been recorded and will be available later today by calling 1-800-642-1687 followed by the pass code 7025727. For calls outside the US, please dial 1-706-645-9291 followed by the same pass code. The archived call will remain available for the next seven days; and the webcast will be available on the investor section of our website, hhgroup.com. Thank you and have a great day.

Operator

This concludes today's conference. You may now disconnect.

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