

Hudson Global, Inc.  
Form 10-Q  
May 07, 2013

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

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FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

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

Commission file number: 000-50129

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

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DELAWARE  
(State or other jurisdiction of incorporation or organization)

59-3547281  
(IRS Employer Identification No.)

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

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

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

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

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

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

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

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

| Class                            | Outstanding on March 31, 2013 |
|----------------------------------|-------------------------------|
| Common Stock - \$0.001 par value | 32,625,097                    |

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

HUDSON GLOBAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 AND OTHER COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share amounts)

(Unaudited)

|  | Three Months Ended March 31, |            |
|--|------------------------------|------------|
|  | 2013                         | 2012       |
| Revenue  | \$ 165,678                   | \$ 200,590 |
| Direct costs   | 109,001                      | 127,382    |
| Gross margin   | 56,677                       | 73,208     |
| Operating expenses:  |                              |            |
| Selling, general and administrative expenses                       | 61,589                       | 74,465     |
| Depreciation and amortization                                      | 1,648                        | 1,505      |
| Business reorganization expenses                                   | 1,982                        | 940        |
| Operating income (loss)  | (8,542)                      | (3,702)    |
| Non-operating income (expense):                                    |                              |            |
| Interest income (expense), net                                     | (146)                        | (161)      |
| Other income (expense), net  | 270                          | (4)        |
| Income (loss) before provision for income taxes                    | (8,418)                      | (3,867)    |
| Provision for (benefit from) income taxes                          | (177)                        | (646)      |
| Net income (loss)  | \$(8,241)                    | \$(3,221)  |
| Earnings (loss) per share:   |                              |            |
| Basic  | \$(0.25)                     | \$(0.10)   |
| Diluted  | \$(0.25)                     | \$(0.10)   |
| Weighted-average shares outstanding:                               |                              |            |
| Basic  | 32,344                       | 31,765     |
| Diluted  | 32,344                       | 31,765     |
| Comprehensive income (loss):                                       |                              |            |
| Net income (loss)  | \$(8,241)                    | \$(3,221)  |
| Other comprehensive income (loss):                                 |                              |            |
| Foreign currency translation adjustment, net of income taxes       | (1,762)                      | 1,790      |
| Amortization of prior service costs - defined benefit pension plan | 15                           | —          |
| Total other comprehensive income (loss), net of income taxes       | (1,747)                      | 1,790      |
| Comprehensive income (loss)  | \$(9,988)                    | \$(1,431)  |

See accompanying notes to condensed consolidated financial statements.

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

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| Current assets:   |                   |                      |
| Cash and cash equivalents   | \$32,510          | \$38,653             |
| Accounts receivable, less allowance for doubtful accounts of \$1,135 and \$1,167, respectively            | 103,023           | 107,216              |
| Prepaid and other   | 11,807            | 11,543               |
| Total current assets  | 147,340           | 157,412              |
| Property and equipment, net   | 18,910            | 20,050               |
| Deferred tax assets, non-current  | 10,218            | 9,816                |
| Other assets  | 5,984             | 6,190                |
| Total assets  | \$182,452         | \$193,468            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                   |                      |
| Current liabilities:  |                   |                      |
| Accounts payable  | \$7,878           | \$9,292              |
| Accrued expenses and other current liabilities  | 56,422            | 55,960               |
| Short-term borrowings   | —                 | —                    |
| Accrued business reorganization expenses  | 2,944             | 1,916                |
| Total current liabilities   | 67,244            | 67,168               |
| Other non-current liabilities   | 6,959             | 7,853                |
| Deferred rent and tenant improvement contributions  | 7,533             | 8,061                |
| Income tax payable, non-current   | 3,848             | 3,845                |
| Total liabilities   | 85,584            | 86,927               |
| Commitments and contingencies   |                   |                      |
| Stockholders' equity:   |                   |                      |
| Preferred stock, \$0.001 par value, 10,000 shares authorized; none issued or outstanding                  | —                 | —                    |
| Common stock, \$0.001 par value, 100,000 shares authorized; issued 32,785 and 33,100 shares, respectively | 33                | 33                   |
| Additional paid-in capital  | 474,046           | 473,372              |
| Accumulated deficit   | (395,268)         | (387,027)            |
| Accumulated other comprehensive income  | 18,789            | 20,536               |
| Treasury stock, 160 and 79 shares, respectively, at cost  | (732)             | (373)                |
| Total stockholders' equity  | 96,868            | 106,541              |
| Total liabilities and stockholders' equity  | \$182,452         | \$193,468            |

See accompanying notes to condensed consolidated financial statements.

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

|  | Three Months Ended March 31, |            |
|--|------------------------------|------------|
|  | 2013                         | 2012       |
| Cash flows from operating activities:  |                              |            |
| Net income (loss)  | \$(8,241                     | ) \$(3,221 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                              |            |
| Depreciation and amortization  | 1,648                        | 1,505      |
| Provision for (recovery of) doubtful accounts  | 15                           | 3          |
| Provision for (benefit from) deferred income taxes   | (476                         | ) (1,339   |
| Stock-based compensation   | 674                          | 921        |
| Other, net   | 200                          | 117        |
| Changes in assets and liabilities:   |                              |            |
| Decrease (increase) in accounts receivable   | 2,003                        | 1,327      |
| Decrease (increase) in prepaid and other assets  | (431                         | ) 1,441    |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities                    | 45                           | (7,750     |
| Increase (decrease) in accrued business reorganization expenses                                    | 791                          | (241       |
| Net cash provided by (used in) operating activities  | (3,772                       | ) (7,237   |
| Cash flows from investing activities:  |                              |            |
| Capital expenditures   | (946                         | ) (1,809   |
| Net cash provided by (used in) investing activities  | (946                         | ) (1,809   |
| Cash flows from financing activities:  |                              |            |
| Borrowings under credit agreements   | 2,747                        | 36,561     |
| Repayments under credit agreements   | (2,747                       | ) (39,975  |
| Repayment of capital lease obligations   | (114                         | ) (118     |
| Purchase of restricted stock from employees  | (359                         | ) (389     |
| Net cash provided by (used in) financing activities  | (473                         | ) (3,921   |
| Effect of exchange rates on cash and cash equivalents  | (952                         | ) 595      |
| Net increase (decrease) in cash and cash equivalents   | (6,143                       | ) (12,372  |
| Cash and cash equivalents, beginning of the period   | 38,653                       | 37,302     |
| Cash and cash equivalents, end of the period   | \$32,510                     | \$24,930   |
| Supplemental disclosures of cash flow information:   |                              |            |
| Cash paid during the period for interest   | \$71                         | \$93       |
| Cash payments during the period for income taxes, net of refunds                                   | \$374                        | \$816      |

See accompanying notes to condensed consolidated financial statements.

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

|   | Common stock |       | Additional<br>paid-in<br>capital | Accumulated<br>deficit | Accumulated<br>other<br>comprehensive<br>income (loss) | Treasury<br>stock | Total     |
|---|--------------|-------|----------------------------------|------------------------|--|-------------------|-----------|
|   | Shares       | Value |                                  |                        |  |                   |           |
| Balance at December 31, 2012  | 33,021       | \$33  | \$473,372                        | \$(387,027 )           | \$ 20,536  | \$(373 )          | \$106,541 |
| Net income (loss)   | —            | —     | —                                | (8,241 )               | —  | —                 | (8,241 )  |
| Other comprehensive income<br>(loss), currency translation<br>adjustments | —            | —     | —                                | —                      | (1,762 )   | —                 | (1,762 )  |
| Other comprehensive income<br>(loss), pension liability<br>adjustment     | —            | —     | —                                | —                      | 15   | —                 | 15        |
| Purchase of restricted stock<br>from employees                            | (82 )        | —     | —                                | —                      | —  | (359 )            | (359 )    |
| Stock-based compensation  | (314 )       | —     | 674                              | —                      | —  | —                 | 674       |
| Balance at March 31, 2013   | 32,625       | \$33  | \$474,046                        | \$(395,268 )           | \$ 18,789  | \$(732 )          | \$96,868  |

See accompanying notes to condensed consolidated financial statements.

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

## NOTE 1 – BASIS OF PRESENTATION

These interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of Hudson Global, Inc. and its subsidiaries (the “Company”) filed in its Annual Report on Form 10-K for the year ended December 31, 2012.

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

## NOTE 2 – DESCRIPTION OF BUSINESS

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

The Company has operated as an independent publicly-held company since April 1, 2003 when the eResourcing division of Monster Worldwide, Inc., formerly TMP Worldwide, Inc., composed of 67 acquisitions made between 1999 and 2001, was spun off. As of March 31, 2013, the Company had approximately 2,000 employees operating in 20 countries with three reportable geographic business segments: Hudson Americas, Hudson Asia Pacific, and Hudson Europe. For the three months ended March 31, 2013 and 2012, the amounts and percentage of total of the Company’s gross margins from the three reportable segments were as follows:

|                     | For The Three Months Ended |       |                |                   |       |   |
|---------------------|----------------------------|-------|----------------|-------------------|-------|---|
|                     | March 31, 2013             |       | March 31, 2012 |                   |       |   |
|                     | Gross Margin (\$)          | %     | %              | Gross Margin (\$) | %     | % |
| Hudson Americas     | \$8,144                    | 14.4  | %              | \$11,831          | 16.2  | % |
| Hudson Asia Pacific | 21,492                     | 37.9  | %              | 29,313            | 40.0  | % |
| Hudson Europe       | 27,041                     | 47.7  | %              | 32,064            | 43.8  | % |
| Total               | \$56,677                   | 100.0 | %              | \$73,208          | 100.0 | % |

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





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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

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

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

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

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

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

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

NOTE 3 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity" ("ASU 2013-05"). ASU 2013-05 provides clarification regarding whether Subtopic 810-10, Consolidation - Overall, or Subtopic 830-30, Foreign Currency Matters - Translation of Financial Statements, applies to the release of cumulative translation adjustments into net income when a reporting entity either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in a subsidiary or group of assets that constitute a business within a foreign entity. ASU 2013-05 is effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. The Company's adoption of ASU 2013-05 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income", an amendment to FASB ASC Topic 220. ASU 2013-02 requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present either on the face of the statement of operations or in the notes to financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for the Company for annual

and interim periods beginning January 1, 2013. The Company's adoption of ASU 2013-02 did not have a material impact on the Company's Consolidated Financial Statements.

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

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

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

|                  | For The Three Months Ended |          |           | March 31, 2012        |          |           |
|------------------|----------------------------|----------|-----------|-----------------------|----------|-----------|
|                  | March 31, 2013             |          |           | March 31, 2012        |          |           |
|                  | Temporary Contracting      | Other    | Total     | Temporary Contracting | Other    | Total     |
| Revenue          | \$128,841                  | \$36,837 | \$165,678 | \$150,437             | \$50,153 | \$200,590 |
| Direct costs (1) | 106,366                    | 2,635    | 109,001   | 124,071               | 3,311    | 127,382   |
| Gross margin     | \$22,475                   | \$34,202 | \$56,677  | \$26,366              | \$46,842 | \$73,208  |

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

## NOTE 5 – STOCK-BASED COMPENSATION

## Incentive Compensation Plan

The Company maintains the Hudson Global, Inc. 2009 Incentive Stock and Awards Plan, as amended and restated on April 26, 2012, (the "ISAP") pursuant to which it can issue equity-based compensation incentives to eligible participants. The ISAP permits the granting of stock options and restricted stock as well as other types of equity-based awards. The Compensation Committee of the Company's Board of Directors (the "Compensation Committee") will establish such conditions as it deems appropriate on the granting or vesting of stock options or restricted stock. While the Company historically granted both stock options and restricted stock to its employees, since 2008 the Company has granted primarily restricted stock to its employees.

The Compensation Committee administers the ISAP and may designate any of the following as a participant under the ISAP: any officer or other employee of the Company or its affiliates or individuals engaged to become an officer or employee, consultants or other independent contractors who provide services to the Company or its affiliates and non-employee directors of the Company. As of March 31, 2013, there were 3,061,385 shares of the Company's common stock available for future issuance under ISAP.

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

For the three months ended March 31, 2013 and 2012, the Company's stock-based compensation expense related to stock options, restricted stock and restricted stock units were as follows:

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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

|                        | Three Months Ended<br>March 31, |       |
|------------------------|---------------------------------|-------|
|                        | 2013                            | 2012  |
| Stock options          | \$144                           | \$245 |
| Restricted stock       | 480                             | 625   |
| Restricted stock units | 50                              | 51    |
| Total                  | \$674                           | \$921 |

## Stock Options

As of March 31, 2013, the Company had approximately \$302 of unrecognized stock-based compensation expense related to outstanding unvested stock options. The Company expects to recognize that cost over a weighted average service period of 0.98 years.

Changes in the Company's stock options for the three months ended March 31, 2013 and 2012 were as follows:

|                                   | Three Months Ended<br>March 31, |  |                      |  |
|-----------------------------------|---------------------------------|--|----------------------|--|
|                                   | 2013                            |  | 2012                 |  |
|                                   | Number of<br>Options            | Weighted<br>Average<br>Exercise Price<br>per Share | Number of<br>Options | Weighted<br>Average<br>Exercise Price<br>per Share |
| Options outstanding at January 1, | 1,238,650                       | \$11.21  | 1,396,350            | \$11.36  |
| Granted                           | —                               | —  | —                    | —  |
| Expired                           | (12,700 )                       | 13.11  | (10,750 )            | 15.68  |
| Options outstanding at March 31,  | 1,225,950                       | 11.19  | 1,385,600            | 11.33  |
| Options exercisable at March 31,  | 825,950                         | \$14.11  | 973,100              | \$13.94  |

## Restricted Stock

As of March 31, 2013, the Company had approximately \$685 of unrecognized stock-based compensation expense related to outstanding unvested restricted stock. The Company expects to recognize that cost over a weighted average service period of 1.23 years.

Changes in the Company's restricted stock for the three months ended March 31, 2013 and 2012 were as follows:

|   | For The Three Months Ended<br>March 31,       |   |   |   |
|---|---|---|---|---|
|   | 2013  |   | 2012  |   |
|   | Number of<br>Shares of<br>Restricted<br>Stock | Weighted<br>Average<br>Grant Date<br>Fair Value | Number of<br>Shares of<br>Restricted<br>Stock | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Unvested restricted stock at January 1, | 1,028,916                                     | \$4.87  | 1,166,082                                     | \$5.12  |
| Granted                                 | —   | —   | 607,830                                       | 4.59  |
| Vested                                  | (300,263 )                                    | 5.35  | (366,299 )                                    | 5.04  |
| Forfeited                               | (329,460 )                                    | 4.59  | (100,347 )                                    | 5.61  |
| Unvested restricted stock at March 31,  | 399,193                                       | \$4.73  | 1,307,266                                     | \$4.86  |



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HUDSON GLOBAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

## Restricted Stock Units

As of March 31, 2013, the Company had approximately \$132 of unrecognized stock-based compensation expense related to outstanding unvested restricted stock units. The Company expects to recognize that cost over a weighted average service period of 1.5 years.

Changes in the Company's restricted stock units for the three months ended March 31, 2013 and 2012 were as follows:

|   | For The Three Months Ended                         |   |  |   |
|---|--|---|--|---|
|   | March 31,<br>2013                                  |   | 2012   |   |
|   | Number of<br>Shares of<br>Restricted<br>Stock Unit | Weighted<br>Average<br>Grant-Date<br>Fair Value | Number of<br>Shares of<br>Restricted<br>Stock Unit | Weighted<br>Average<br>Grant-Date<br>Fair Value |
| Unvested restricted stock units at January 1, | 100,000  | \$5.18  | 100,000  | \$5.18  |
| Granted                                       | —  | —   | —  | —   |
| Vested  | —  | —   | —  | —   |
| Unvested restricted stock units at March 31,  | 100,000  | \$5.18  | 100,000  | \$5.18  |

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

The Company maintains the Hudson Global, Inc. 401(k) Savings Plan (the "401(k) plan"). The 401(k) plan allows eligible employees to contribute up to 15% of their earnings to the 401(k) plan. The Company has the discretion to match employees' contributions up to 3% of the employees' earnings through a contribution of the Company's common stock to the 401(k) plan. Vesting of the Company's contribution occurs over a five-year period. For the three months ended March 31, 2013 and 2012, the Company's expenses and contributions to satisfy the prior years' employer-matching liability for the 401(k) plan were as follows:

|  | For The Three Months Ended |        |
|--|----------------------------|--------|
|  | March 31,<br>2013          | 2012   |
| (\$ in thousands, except otherwise stated)   |                            |        |
| Expense recognized for the 401(k) plan   | \$190                      | \$193  |
| Contributions to satisfy prior years' employer-matching liability                      |                            |        |
| Number of shares of the Company's common stock issued (in thousands)                   | —                          | 124    |
| Market value per share of the Company's common stock on contribution date (in dollars) | \$—                        | \$5.35 |
| Non-cash contribution made for employer matching liability                             | \$—                        | \$666  |
| Additional cash contribution made for employer-matching liability                      | \$651                      | \$—    |
| Total contribution made for employer-matching liability                                | \$651                      | \$666  |

## NOTE 6 – INCOME TAXES

Under Accounting Standards Codification ("ASC") 270, "Interim Reporting", and ASC 740-270, "Income Taxes – Intra Tax Allocation", the Company is required to adjust its effective tax rate for each quarter to be consistent with the estimated annual effective tax rate. Jurisdictions with a projected loss for the full year where no tax benefit can be recognized are excluded from the calculation of the estimated annual effective tax rate. Applying the provisions of ASC 270 and ASC 740-270 could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.





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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

Effective Tax Rate

The benefit from income taxes for the three months ended March 31, 2013 was \$177 on a pre-tax loss of \$8,418, compared with a benefit from income taxes of \$646 on pre-tax loss of \$3,867 for the same period in 2012. The Company's effective income tax rate was 2.1% and 16.7% for the three months ended March 31, 2013 and 2012, respectively. The change in the effective tax rate was primarily attributable to the Company's inability to benefit from losses in certain foreign jurisdictions.

Uncertain Tax Positions

As of March 31, 2013 and December 31, 2012, the Company had \$3,848 and \$3,845, respectively, of unrecognized tax benefits, including interest and penalties, which if recognized in the future, would lower the Company's annual effective income tax rate. Accrued interest and penalties were \$711 and \$701 as of March 31, 2013 and December 31, 2012, respectively. Estimated interest and penalties are classified as part of the provision for income taxes in the Company's Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss) and totaled to a provision of \$19 and a benefit of \$97 for the three months ended March 31, 2013 and 2012, respectively.

In many cases, the Company's unrecognized tax benefits are related to tax years that remain subject to examination by the relevant tax authorities. Tax years with net operating losses ("NOLs") remain open until such losses expire or until the statutes of limitations for those years when the NOLs are used expire. As of March 31, 2013, the Company's open tax years, which remain subject to examination by the relevant tax authorities or are currently under income tax examination were principally as follows:

Year

Earliest tax years which remain subject to examination by the relevant tax authorities: