

Hudson Global, Inc.
Form 10-Q
July 28, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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

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

DELAWARE 59-3547281
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

1325 Avenue of the Americas, New York, NY 10019
(Address of principal executive offices) (Zip Code)
(212) 351-7300
(Registrant's telephone number, including area code)

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

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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 June 30, 2016
Common Stock - \$0.001 par value	33,611,474

HUDSON GLOBAL, INC.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HUDSON GLOBAL, INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$113,067	\$122,743	\$214,294	\$247,060
Direct costs	66,228	72,521	126,193	148,934
Gross margin	46,839	50,222	88,101	98,126
Operating expenses:				
Selling, general and administrative expenses	48,315	53,550	91,957	105,716
Depreciation and amortization	805	974	1,493	2,085
Business reorganization expenses	144	2,060	781	3,403
Total operating expenses	49,264	56,584	94,231	111,204
Gain (loss) on sale and exit of businesses	—	20,005	—	20,005
Operating income (loss)	(2,425)	13,643	(6,130)	6,927
Non-operating income (expense):				
Interest income (expense), net	(101)	(369)	(155)	(449)
Other income (expense), net	(13)	(40)	(150)	(27)
Income (loss) from continuing operations before provision for income taxes	(2,539)	13,234	(6,435)	6,451
Provision for (benefit from) income taxes from continuing operations	808	460	482	331
Income (loss) from continuing operations	(3,347)	12,774	(6,917)	6,120
Income (loss) from discontinued operations, net of income taxes	209	1,103	292	919
Net income (loss)	\$(3,138)	\$13,877	\$(6,625)	\$7,039
Basic and diluted earnings (loss) per share:				
Basic and diluted earnings (loss) per share from continuing operations	\$(0.10)	\$0.38	\$(0.21)	\$0.18
Basic and diluted earnings (loss) per share from discontinued operations	0.01	0.03	0.01	0.03
Basic and diluted earnings (loss) per share	\$(0.09)	\$0.41	\$(0.20)	\$0.21
Weighted-average shares outstanding:				
Basic	33,252	33,525	33,434	33,296
Diluted	33,252	33,525	33,434	33,296

See accompanying notes to condensed consolidated financial statements.

HUDSON GLOBAL, INC.
 CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (LOSS)
 (in thousands, except per share amounts)
 (unaudited)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Comprehensive income (loss):				
Net income (loss)	\$(3,138)	\$13,877	\$(6,625)	\$7,039
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of income taxes	(1,833)	1,192	(1,164)	(1,571)
Pension liability adjustment	(9)	—	(7)	(19)
Total other comprehensive income (loss), net of income taxes	(1,842)	1,192	(1,171)	(1,590)
Comprehensive income (loss)	\$(4,980)	\$15,069	\$(7,796)	\$5,449

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$24,939	\$ 37,663
Accounts receivable, less allowance for doubtful accounts of \$792 and \$860, respectively	67,368	62,420
Prepaid and other	4,811	5,979
Current assets of discontinued operations	38	81
Total current assets	97,156	106,143
Property and equipment, net	7,385	7,928
Deferred tax assets, non-current	7,018	6,724
Other assets, non-current	4,369	4,154
Total assets	\$115,928	\$ 124,949
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$3,963	\$ 5,184
Accrued expenses and other current liabilities	43,138	40,344
Short-term borrowings	7,163	2,368
Accrued business reorganization expenses	1,757	2,252
Current liabilities of discontinued operations	596	1,443
Total current liabilities	56,617	51,591
Deferred rent and tenant improvement contributions	3,562	4,244
Income tax payable, non-current	2,240	2,279
Other non-current liabilities	4,752	5,655
Total liabilities	67,171	63,769
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 35,208 and 35,260 shares, respectively	34	34
Additional paid-in capital	481,942	480,816
Accumulated deficit	(438,313)	(428,287)
Accumulated other comprehensive income, net of applicable tax	9,121	10,292
Treasury stock, 1,597 and 646 shares, respectively, at cost	(4,027)	(1,675)
Total stockholders' equity	48,757	61,180
Total liabilities and stockholders' equity	\$115,928	\$ 124,949

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	\$(6,625)	\$7,039
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,493	2,085
Provision for (recovery of) doubtful accounts	113	111
Provision for (benefit from) deferred income taxes	(431)	(64)
Stock-based compensation	1,126	3,758
Gain on sale and exit of businesses	—	(21,373)
Other, net	189	175
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(6,319)	(11,215)
Decrease (increase) in prepaid and other assets	703	2,102
Increase (decrease) in accounts payable, accrued expenses and other liabilities	1,562	(5,470)
Increase (decrease) in accrued business reorganization expenses	(1,884)	(128)
Net cash used in operating activities	(10,073)	(22,980)
Cash flows from investing activities:		
Capital expenditures	(1,194)	(1,325)
Proceeds from sale of consolidated subsidiary, net of cash sold	—	7,894
Proceeds from sale of assets	32	16,815
Net cash provided by (used in) investing activities	(1,162)	23,384
Cash flows from financing activities:		
Borrowings under credit agreements	56,229	72,132
Repayments under credit agreements	(51,430)	(70,894)
Repayment of capital lease obligations	(42)	(24)
Dividend payments	(3,401)	—
Purchase of treasury stock	(2,352)	—
Purchase of restricted stock from employees	—	(163)
Net cash provided by (used in) financing activities	(996)	1,051
Effect of exchange rates on cash and cash equivalents	(493)	(603)
Net increase (decrease) in cash and cash equivalents	(12,724)	852
Cash and cash equivalents, beginning of the period	37,663	33,989
Cash and cash equivalents, end of the period	\$24,939	\$34,841
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$140	\$85
Net cash payments (refunds) during the period for income taxes	\$324	\$(98)

See accompanying notes to condensed consolidated financial statements.

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

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock	Total
	Shares	Value					
Balance at December 31, 2015	34,611	\$ 34	\$ 480,816	\$(428,287)	\$ 10,292	\$(1,675)	\$61,180
Net income (loss)	—	—	—	(6,625)	—	—	(6,625)
Other comprehensive income (loss), currency translation adjustments, net of applicable tax	—	—	—	—	(1,164)	—	(1,164)
Other comprehensive income (loss), pension liability adjustment	—	—	—	—	(7)	—	(7)
Cash dividends (\$0.10 per share)	—	—	—	(3,401)	—	—	(3,401)
Purchase of treasury stock	(948)	—	—	—	—	(2,352)	(2,352)
Stock-based compensation	(52)	—	1,126	—	—	—	1,126
Balance at June 30, 2016	33,611	\$ 34	\$ 481,942	\$(438,313)	\$ 9,121	\$(4,027)	\$48,757

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 United States of America ("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, 2015.

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. The Company's core service offerings include Permanent Recruitment, Temporary Contracting, Recruitment Process Outsourcing ("RPO") and Talent Management Solutions.

The Company operates in 12 countries with three reportable geographic business segments: Hudson Americas, Hudson Asia Pacific, and Hudson Europe. See Note 18 for further details regarding the reportable segments. Corporate expenses are reported separately from the reportable segments and pertain to certain functions, such as executive management, corporate governance, human resources, accounting, tax, marketing, information technology 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).

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.

Temporary Contracting: In Temporary Contracting, 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.

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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

RPO: Hudson RPO delivers both permanent recruitment and temporary contracting outsourced recruitment solutions tailored to the individual needs of primarily 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 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Stock Compensation (Topic 718)" ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment award transactions. ASU 2016-09 will be effective for the fiscal year beginning after December 15, 2016, including interim periods within that year. Early adoption is permitted. The Company is currently evaluating the impact to its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which amends the existing standards for lease accounting. This new standard requires the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about leasing arrangements including the amounts, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 will be effective for the Company on January 1, 2019 and will require modified retrospective application as of the beginning of the earliest year presented in the financial statements. Early adoption is permitted. The Company is currently evaluating the impact to its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In July 2015, the FASB amended the effective date of this ASU to fiscal years beginning after December 15, 2017 and early adoption is permitted only for fiscal years beginning after December 15, 2016. In March, April and May 2016, the FASB issued ASU 2016-08 "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU 2016-10 "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," and ASU 2016-12 "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" which provide further clarifications to be considered when implementing ASU 2014-09. The Company plans to adopt this guidance on January 1, 2018. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating the impact to its consolidated financial statements.

There are no other recently issued accounting pronouncements that have had, or that the Company believes will 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 – DIVESTITURES

Hudson Information Technology (US) business (the "US IT business")

On June 15, 2015, the Company completed the sale (the "US IT Business Sale") of substantially all of the assets (excluding working capital) of its US IT business to Mastech, Inc. (the "Purchaser"). The completion of the US IT Business Sale was effective June 14, 2015. The US IT Business Sale was pursuant to an Asset Purchase Agreement, dated as of May 8, 2015 (the "Agreement"), by and among the Company, Hudson Global Resources Management, Inc., a wholly owned subsidiary of the Company, and the Purchaser. At the closing of the U.S. IT Business Sale, the Company received from the Purchaser pursuant to the Agreement the purchase price of \$16,977 in cash. The US IT business pre-tax loss in accordance with ASC No. 205 "Reporting Discontinued Operations" ("ASC 205") for the three and six months ended June 30, 2015 was \$266 and \$7, respectively.

On the US IT Business Sale, for the six months ended June 30, 2015 the Company recognized a pre-tax gain of \$15,938, net of closing and other direct transaction costs. Income tax on the gain was \$11. For U.S. Federal income tax purposes, the gain is offset in full by net operating loss carryforwards. For state and local income tax purposes, the gain was mostly offset by net operating loss carryforwards. As the divestiture did not meet the requirements for classification as discontinued operations, the gain on sale is presented as a component of income (loss) from operations.

Netherlands business

On May 7, 2015, the Company entered into a Share Purchase Agreement and completed the sale (the "Netherlands Business Sale") of its Netherlands business to InterBalance Group B.V., effective April 30, 2015, in a management buyout for \$9,029, which included cash retained of \$1,135. As the divestiture did not reach the thresholds required to qualify as discontinued operations, the operations remain within the Company's continuing operations for all periods presented. The Netherlands pre-tax profit in accordance with ASC 205 for the three and six months ended June 30, 2015 was \$17 and \$373, respectively.

Exit of Businesses in Central and Eastern Europe

In February 2015, the Company's Board of Directors approved the exit of operations in certain countries within Central and Eastern Europe (Ukraine, Czech Republic and Slovakia). During the quarter ended June 30, 2015, the Company deemed the liquidation of its Central and Eastern Europe businesses to be substantially complete.

Luxembourg

In March 2015, the Company's management approved the exit of operations in Luxembourg. In the third quarter of 2015, the Company deemed the liquidation of its Luxembourg business to be substantially complete.

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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

NOTE 5 – DISCONTINUED OPERATIONS

Effective November 9, 2014, the Company completed the sale of substantially all of the assets and certain liabilities of its Legal eDiscovery business in the U.S. and United Kingdom ("U.K.") to Document Technologies, LLC and DTI of London Limited. In addition, in 2014, the Company ceased operations in Sweden, which was included within the Hudson Europe segment. The Company concluded that the divestiture of the Legal eDiscovery business and the cessation of operations in Sweden meet the criteria for discontinued operations set forth in ASC 205. The Company reclassified its discontinued operations for all periods presented and has excluded the results of its discontinued operations from continuing operations and from segment results for all periods presented.

The carrying amounts of the classes of assets and liabilities from the Legal eDiscovery business and Sweden operations included in discontinued operations were as follows:

	June 30, 2016			December 31, 2015		
	eDiscovery	Sweden	Total	eDiscovery	Sweden	Total
Total current assets	\$38	\$ —	\$38	\$49	\$ 32	\$81
Total liabilities (a)	\$586	\$ 10	\$596	\$1,439	\$ 4	\$1,443

(a) Total liabilities primarily consisted of restructuring liabilities for lease termination payments.

Reported results for the discontinued operations by period were as follows:

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	eDiscovery	Sweden	Total	eDiscovery	Sweden	Total
Revenue	\$—	\$ —	\$—	\$—	\$6	\$6
Gross margin	58	—	58	(192)	6	(186)
Reorganization expenses	(201)	—	(201)	(7)	(23)	(30)
Operating income (loss), excluding gain (loss) from sale of business	247	—	247	(230)	47	(183)
Gain (loss) from sale and liquidation of discontinued operations (1)	—	—	—	12	1,274	1,286
Income (loss) from discontinued operations before income taxes	247	—	247	(218)	1,321	1,103
Provision (benefit) for income taxes	38	—	38	—	—	—
Income (loss) from discontinued operations	\$209	\$ —	—\$209	\$(218)	\$1,321	\$1,103

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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	eDiscovery	Sweden	Total	eDiscovery	Sweden	Total
Revenue	\$—	\$—	\$—	\$(1)	\$6	\$5
Gross margin	59	—	59	(103)	6	(97)
Reorganization expenses	(341)	—	(341)	356	(29)	327
Operating income (loss), excluding gain (loss) from sale of business	357	(1)	356	(496)	18	(478)
Other non-operating income (loss), including interest	—	—	—	(8)	—	(8)
Gain (loss) from sale and liquidation of discontinued operations (1)	—	—	—	94	1,274	1,368
Income (loss) from discontinued operations before income taxes	357	(1)	356	(410)	1,292	882
Provision (benefit) for income taxes	64	—	64	(37)	—	(37)
Income (loss) from discontinued operations	\$293	\$ (1)	\$292	\$(373)	\$1,292	\$919

(1) During the quarter ended June 30, 2015, the Company deemed the liquidation of its Sweden business to be substantially complete. As such under ASC 830, "Foreign Currency Matters," for the three and six months ended June 30, 2015, the Company transferred the amount of the foreign entity's accumulated foreign currency translation gains and losses from accumulated other comprehensive income to income (loss) from discontinued operations.

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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

NOTE 6 – REVENUE, DIRECT COSTS AND GROSS MARGIN

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

	Three Months Ended June 30, 2016			
	Temporary Contracting	Permanent Recruitment	Other	Total
Revenue	\$72,035	\$ 29,491	\$11,541	\$113,067
Direct costs (1)	62,956	611	2,661	66,228
Gross margin	\$9,079	\$ 28,880	\$8,880	\$46,839

	Three Months Ended June 30, 2015			
	Temporary Contracting	Permanent Recruitment	Other	Total
Revenue	\$80,389	\$ 31,873	\$10,481	\$122,743
Direct costs (1)	69,101	697	2,723	72,521
Gross margin	\$11,288	\$ 31,176	\$7,758	\$50,222

	Six Months Ended June 30, 2016			
	Temporary Contracting	Permanent Recruitment	Other	Total
Revenue	\$137,890	\$ 56,062	\$20,342	\$214,294
Direct costs (1)	120,178	1,185	4,830	126,193
Gross margin	\$17,712	\$ 54,877	\$15,512	\$88,101

	Six Months Ended June 30, 2015			
	Temporary Contracting	Permanent Recruitment	Other	Total
Revenue	\$166,969	\$ 59,979	\$20,112	\$247,060
Direct costs (1)	142,717	1,182	5,035	148,934
Gross margin	\$24,252	\$ 58,797	\$15,077	\$98,126

Direct costs in Temporary Contracting 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. Permanent Recruitment and Other category include direct costs for out-of-pocket expenses and (1) third party suppliers. 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 under the caption "Selling, general and administrative expenses" in the Condensed Consolidated Statement of Operations.

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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

NOTE 7 – STOCK-BASED COMPENSATION

Incentive Compensation Plan

The Company maintains the Hudson Global, Inc. 2009 Incentive Stock and Awards Plan, as amended and restated May 24, 2016 (the "ISAP"), pursuant to which it can issue equity-based compensation incentives to eligible participants. The ISAP permits the granting of stock options, restricted stock, restricted stock units, and 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, restricted stock, restricted stock units and other types of equity-based awards. As determined by the Compensation Committee, equity awards also may be subject to immediate vesting upon the occurrence of certain events following a change in control of the Company. The Company primarily grants restricted stock and restricted stock units to its employees. A restricted stock unit is equivalent to one share of the Company's common stock and is payable only in common stock of the Company issued under the ISAP.

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. On May 24, 2016, the Company's stockholders approved an amendment and restatement of the ISAP to, among other things, increase the number of shares of the Company's common stock that are reserved for issuance by 2,400,000 shares. As of June 30, 2016, there were 2,559,784 shares of the Company's common stock available for future issuance under the ISAP.

The Company's stock plan agreements provide that a change in control of the Company will occur if, among other things, individuals who were directors as of the date of the agreement and any new director whose appointment or election was approved or recommended by a vote of at least two-thirds of the directors then in office who were either directors on the date of the agreement or whose appointment or election was previously so approved or recommended (each, a "continuing director") cease to constitute a majority of the Company's directors. A change in control occurred as of the Company's 2015 annual meeting of stockholders on June 15, 2015 under these agreements because continuing directors ceased to constitute a majority of the Company's directors. As a result, certain equity awards vested resulting in an accelerated stock-based compensation expense of \$2,541 for the three and six months ended June 30, 2015.

A summary of the quantity and vesting conditions for stock-based units granted to the Company's employees for the six months ended June 30, 2016 was as follows:

	Number of Restricted Stock Units Granted
Vesting conditions	
Performance and service conditions (1) (2)	500,000

(1) The performance conditions with respect to restricted stock units may be satisfied as follows:

- (a) For employees from the Americas, Asia Pacific and Europe 80% of the restricted stock units may be earned on the basis of performance as measured by a "regional adjusted EBITDA," and 20% of the restricted stock units may be earned on the basis of performance as measured by a "group adjusted EBITDA"; and

- (b) For employees from the Corporate office 100% of the restricted stock units may be earned on the basis of performance as measured by a "group adjusted EBITDA."

(2) To the extent restricted stock units are earned on the basis of performance, such restricted stock units will vest on the basis of service as follows:

- (a) One-third of the restricted stock units will vest on the first anniversary of the grant date;

- (b) One-third of the restricted stock units will vest on the second anniversary of the grant date; and
One-third of the restricted stock units will vest on the third anniversary of the grant date; provided that, in each
- (c) case, the employee remains employed by the Company from the grant date through the applicable service vesting date.

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HUDSON GLOBAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

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. The restricted stock units vest immediately upon grant and are credited to each of the non-employee director's retirement accounts under the Director Plan. Restricted stock units issued under the Director Plan contain the right to a dividend equivalent award in the form of additional restricted stock units. The dividend equivalent award is calculated using the same rate as the cash dividend paid on a share of the Company's common stock, and then divided by the closing price of the Company's common stock on the date the dividend is paid to determine the number of additional restricted stock units to grant. Dividend equivalent awards have the same vesting terms as the underlying awards. During the six months ended June 30, 2016, the Company granted 184,342 restricted stock units to its non-employee directors pursuant to the Director Plan.

For the three and six months ended June 30, 2016 and 2015, the Company's stock-based compensation expense related to stock options, restricted stock and restricted stock units were as follows:

	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Stock options	\$ 5	\$	—	