

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 63688 / January 10, 2011**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3226 / January 10, 2011**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-14182**

**In the Matter of**

**Hudson Highland Group, Inc.**

**Respondent.**

**ORDER INSTITUTING CEASE-AND-DESIST  
PROCEEDINGS PURSUANT TO SECTION  
21C OF THE SECURITIES EXCHANGE ACT  
OF 1934, MAKING FINDINGS, AND  
IMPOSING A CEASE-AND-DESIST ORDER  
AND A PENALTY**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Hudson Highland Group, Inc. (“Hudson” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order and a Penalty (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### **Summary**

This matter involves Hudson's failures to maintain appropriate internal controls and books and records relating to its sales tax liabilities. From the time of Hudson's spin-off in 2003 until 2007, Hudson's North America segment ("HNA") failed to consistently comply with tax laws that required the company to collect sales taxes from its customers and to remit them to the taxing jurisdictions. The reason for these failures is that HNA did not have accounting software capable of calculating the amounts of sales taxes owed. The sales tax laws mandated that if HNA failed to collect and remit the taxes as required, and if HNA's customers did not otherwise pay the taxes, HNA became liable for the outstanding sales taxes, plus potential interest and penalties. HNA's failures to consistently collect and remit the required taxes ultimately required Hudson to pay substantially all of the uncollected taxes (\$3.9 million) itself.

#### **Respondent**

1. Hudson Highland Group, Inc. was incorporated in Delaware on January 6, 2003. The company was spun off from Monster Worldwide, Inc. on March 31, 2003. Hudson's principal place of business is in New York, NY. Hudson provides professional staffing and talent management services worldwide. Hudson's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and trades on the NASDAQ.

#### **Background**

2. From the time of Hudson's spin-off from Monster Worldwide, Inc. in March 2003 until January 2007, HNA failed to consistently comply with tax laws that required it to collect sales taxes from its customers, and to remit them to the taxing jurisdictions as their fiduciary.<sup>2</sup> If HNA's customers did not pay the required sales taxes, either at the time of sale or subsequently, HNA became liable for its customers' tax liabilities, as well as potential interest and penalties.

3. HNA failed to consistently collect and remit the sales taxes as required because its accounting software was inadequate. The sales tax rates and the types of HNA services that were taxable varied by jurisdiction, and not all jurisdictions in which HNA did business applied sales tax to services. HNA's accounting software, however, was incapable of automatically applying these

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

<sup>2</sup> Hudson had contracted with a third party to prepare HNA's sales tax returns from the time of the spin-off until the end of 2004. Nevertheless, such arrangement did not relieve Hudson of its responsibility to maintain adequate books and records and internal accounting controls with respect to HNA's sales tax obligations.

variables to calculate the taxes owed. Moreover, HNA's staffing contracts were frequently executed with customers located in one taxing jurisdiction for work to be performed in one or more other taxing jurisdictions. Although the sales taxes required to be paid are based on the location of the work performed, HNA's accounting software did not track this information. HNA also did not track adequately which customers had "direct pay" permits with the taxing jurisdictions, pursuant to which the customers paid the required sales taxes directly rather than through HNA, and which customers had obtained specific exemptions from state sales tax.

4. In September 2003, Hudson's former Assistant Director of Tax began raising concerns to Hudson executives about the company's compliance with sales tax laws in various jurisdictions. Hudson's former Corporate Controller, HNA's General Counsel, and HNA's former CFO and Controller were all informed over the next few months of the issue.

5. HNA's failure to collect sales taxes from its customers resulted in the company itself having to pay the unpaid sales taxes. In January 2004, Hudson's former Assistant Director of Tax suggested to HNA's former CFO and to Hudson's former Corporate Controller that they discuss "accruing roughly \$150,000 - \$200,000 for various sales tax exposures" in at least four states. HNA had previously recorded a sales tax reserve, but the reserve was not allocated to specific states. HNA did not record any additional reserves in response to the suggestion by the former Assistant Director of Tax. At the time, HNA did not have systems that accurately recorded reserves for sales tax liabilities, nor did it change its systems to begin, as required, charging sales taxes to its clients and remitting them to the taxing jurisdictions.

6. In April 2004, the company hired a Big Four accounting firm ("accounting firm") to undertake a multi-phase review to assist HNA in determining its sales tax liabilities and to help HNA comply with the sales tax laws. The accounting firm did not, however, make meaningful progress on these efforts. The accounting firm was only able to prepare a preliminary report due to a high rate of staff turnover at HNA, which hindered the accounting firm's ability to get the documents it needed for the project, and problems with HNA's implementation of a new PeopleSoft accounting and management reporting system.

7. In November 2005, a pending state sales tax audit led HNA to assign its National Tax Manager, who was the company's own sales tax expert, to provide an estimate to HNA's accounting staff of HNA's sales tax liabilities and to implement an effective process for tracking HNA's sales tax obligations. The sales tax expert found this new assignment difficult because HNA's records were incomplete, requiring her team to reconstruct manually the sales data required to calculate the taxes owed. Even after quantifying the amount of sales taxes that HNA might owe to each taxing jurisdiction, to determine HNA's own potential exposure, the company had to determine whether any of its clients had already paid the required sales tax to the taxing jurisdiction through "direct pay" permits with the taxing authorities or had obtained specific exemptions from sales tax from the taxing authorities.

8. Hudson's CFO, who joined the company in December 2005, learned of HNA's possible sales tax deficiencies in February 2006. Starting in February 2006, Hudson's CFO, its former Corporate Controller, its former Director of Tax, and HNA's former CEO and current and former CFOs, closely monitored the company's efforts to quantify its sales tax liabilities.

9. As HNA completed the quantification of its historical sales tax liabilities, it recorded expenses during the period Q2FY06 through Q3FY07 to settle virtually all of its sales tax liabilities. Before Q2FY06, Hudson's books and records failed to accurately reflect the company's sales tax liabilities in any of the jurisdictions in which the company had failed to comply with the sales tax laws. Hudson's books and records did not accurately reflect the company's sales tax liabilities until Q2FY08. During the period 2006 through the first quarter of 2009, Hudson paid approximately \$3.9 million to various jurisdictions to settle its sales tax liabilities incurred during the period 2001 to 2007. HNA recovered from its customers about \$450,000 of the required sales taxes.

10. Although HNA hired a tax manager in September 2006 to work exclusively on completing the quantification of sales tax exposures and developing accounting systems to ensure timely payments of sales taxes, the manual system he developed for invoicing sales taxes was not fully implemented by HNA until January 2007. HNA was unable to install a comprehensive software package designed to invoice the appropriate sales tax, report sales tax liabilities, and prepare state sales tax returns until February 2008, following the completion of the PeopleSoft installation.

11. From Hudson's 2003 spin-off from Monster Worldwide, Inc. until 2007, HNA's accounting system was incapable of calculating the amounts of sales taxes that HNA owed without manual intervention.

12. As a result of the conduct described above, Hudson violated Section 13(b)(2)(B) of the Exchange Act, which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.

13. As a consequence of Hudson's inadequate internal controls during this period, Hudson's books and records did not accurately reflect its tax liabilities.

14. Also a result of the conduct described above, Hudson violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

#### **IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Hudson's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent Hudson cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

B. Pursuant to Section 21B of the Exchange Act, Respondent shall, within 14 days of the entry of this Order, pay a penalty of \$200,000 to the United States Treasury. If timely payment is not made, interest shall accrue pursuant to SEC Rule of Practice 600. Payment shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Hudson as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Lorin Reisner, Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, D.C. 20549.

By the Commission.

Elizabeth M. Murphy  
Secretary