Hudson Global, Inc.
Form 10-Q
August 02, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018
or
o 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 x No o

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 x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | o | Accelerated filer | o |
| Non-accelerated filer | o (do not check if a smaller reporting company) | Smaller reporting company | x |
| | | Emerging growth company | o |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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, 2018 |
|---|---|
| Common Stock - $0.001 par value | 32,030,932 |

HUDSON GLOBAL, INC.
INDEX

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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | $17,015 | $14,517 | $33,230 | $28,472 |
| Direct costs | 6,214 | 3,812 | 12,275 | 7,765 |
| Gross margin | 10,801 | 10,705 | 20,955 | 20,707 |
| Operating expenses: | | | | |
| Salaries and related | 9,303 | 9,099 | 19,662 | 17,552 |
| Other selling, general and administrative | 2,755 | 1,995 | 5,208 | 3,872 |
| Depreciation and amortization | 2 | 79 | 2 | 160 |
| Business reorganization | — | 1 | — | (113) |
| Operating income (loss) | (1,259) | (469) | (3,917) | (764) |
| Non-operating income (expense): | | | | |
| Interest income (expense), net | 60 | (4) | 60 | (4) |
| Other income (expense), net | (45) | (15) | (112) | (53) |
| Income (loss) from continuing operations before provision for income taxes | (1,244) | (488) | (3,969) | (821) |
| Provision for income taxes from continuing operations | 109 | 246 | 281 | 392 |
| Income (loss) from continuing operations | (1,353) | (734) | (4,250) | (1,213) |
| Income (loss) from discontinued operations, net of income taxes | (11) | 1,960 | 13,607 | 1,125 |
| Net income (loss) | $(1,364) | $1,226 | $9,357 | $(88) |
| Basic and diluted earnings (loss) per share: | | | | |
| Basic and diluted earnings (loss) per share from continuing operations | $(0.04) | $(0.02) | $(0.13) | $(0.04) |
| Basic and diluted earnings (loss) per share from discontinued operations | — | 0.06 | 0.42 | 0.04 |
| Basic and diluted earnings (loss) per share | $(0.04) | $0.04 | $0.29 | $— |
| Weighted-average shares outstanding: | | | | |
| Basic | 32,277 | 32,048 | 32,212 | 32,104 |
| Diluted | 32,277 | 32,048 | 32,212 | 32,104 |

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 Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Comprehensive income (loss): | | | | |
| Net income (loss) | $(1,364) | $1,226 | $9,357 | $(88) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment, net of applicable income taxes | (429) | 1,221 | (96) | 2,620 |
| Pension liability adjustment, net of income taxes | — | 5 | — | 4 |
| Reclassification of currency translation adjustment included in income (loss) from discontinued operations, net of income taxes | — | — | (10,819) | — |
| Reclassification of pension liability adjustment included in income (loss) from discontinued operation, net of income taxes | — | — | (38) | — |
| Total other comprehensive income (loss), net of income taxes | (429) | 1,226 | (10,953) | 2,624 |
| Comprehensive income (loss) | $(1,793) | $2,452 | $(1,596) | $2,536 |

See accompanying notes to condensed consolidated financial statements.

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

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $38,641 | $ 5,580 |
| Accounts receivable, less allowance for doubtful accounts of $52 and $69, respectively | 14,201 | 11,545 |
| Prepaid and other | 1,010 | 388 |
| Current assets of discontinued operations | — | 79,530 |
| Total current assets | 53,852 | 97,043 |
| Property and equipment, net | 5 | 1 |
| Deferred tax assets, non-current | 292 | 324 |
| Other assets, non-current | 373 | 371 |
| Non-current assets of discontinued operations | — | 13,901 |
| Total assets | $54,522 | $ 111,640 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $806 | $ 1,193 |
| Accrued expenses and other current liabilities | 8,901 | 7,259 |
| Current liabilities of discontinued operations | 366 | 51,952 |
| Total current liabilities | 10,073 | 60,404 |
| Income tax payable, non-current | 1,978 | 1,682 |
| Other non-current liabilities | 578 | 192 |
| Non-current liabilities of discontinued operations | — | 6,210 |
| Total liabilities | 12,629 | 68,488 |
| 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 36,110 and 34,959 shares, respectively | 34 | 34 |
| Additional paid-in capital | 484,432 | 483,558 |
| Accumulated deficit | (434,062) | (443,419) |
| Accumulated other comprehensive income, net of applicable tax | (244) | 10,709 |
| Treasury stock, 4,079 and 3,800 shares, respectively, at cost | (8,267) | (7,730) |
| Total stockholders' equity | 41,893 | 43,152 |
| Total liabilities and stockholders' equity | $54,522 | $ 111,640 |

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, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $9,357 | $(88) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 682 | 1,353 |
| Provision for (recovery of) doubtful accounts | 30 | 33 |
| Provision for (benefit from) deferred income taxes | 219 | 34 |
| Stock-based compensation | 874 | 708 |
| Gain on sale of consolidated subsidiaries | (14,032) | — |
| Changes in assets and liabilities, net of effect of dispositions: | | |
| Decrease (increase) in accounts receivable | (9,451) | (9,828) |
| Decrease (increase) in prepaid and other assets | (582) | (1,080) |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities | (4,844) | 5,195 |
| Increase (decrease) in accrued business reorganization | (502) | (1,087) |
| Net cash used in operating activities | (18,249) | (4,760) |
| Cash flows from investing activities: | | |
| Capital expenditures | (284) | (425) |
| Proceeds from sale of consolidated subsidiaries, net of cash and restricted cash sold | 27,967 | — |
| Net cash provided by (used in) investing activities | 27,683 | (425) |
| Cash flows from financing activities: | | |
| Borrowings under credit agreements | 59,647 | 77,256 |
| Repayments under credit agreements | (51,682) | (78,923) |
| Repayment of capital lease obligations | (27) | (50) |
| Purchase of treasury stock | (3) | (522) |
| Purchase of restricted stock from employees | (534) | (5) |
| Net cash provided by (used in) financing activities | 7,401 | (2,244) |
| Effect of exchange rates on cash, cash equivalents and restricted cash | 228 | 719 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 17,063 | (6,710) |
| Cash, cash equivalents, and restricted cash, beginning of the period | 22,006 | 22,511 |
| Cash, cash equivalents, and restricted cash, end of the period | $39,069 | $15,801 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for interest | $(92) | $(211) |
| Cash received during the period for interest | $55 | $— |
| Net cash payments during the period for income taxes | $(131) | $(854) |

See accompanying notes to condensed consolidated financial statements.

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

| | Common stock Outstanding | | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Treasury stock | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Value | | | | | |
| Balance at December 31, 2017 | 31,159 | $ 34 | $ 483,558 | $ (443,419 ) | $ 10,709 | $ (7,730 ) | $ 43,152 |
| Net income (loss) | — | — | — | 9,357 | — | — | 9,357 |
| Other comprehensive income (loss), net of applicable tax | — | — | — | — | (10,953 ) | — | (10,953 ) |
| Purchase of treasury stock | (2 ) | — | — | — | — | (3 ) | (3 ) |
| Purchase of restricted stock from employees | (277 ) | — | — | — | — | (534 ) | (534 ) |
| Stock-based compensation | 1,151 | — | 874 | — | — | — | 874 |
| Balance at June 30, 2018 | 32,031 | $ 34 | $ 484,432 | $ (434,062 ) | $ (244 ) | $ (8,267 ) | $ 41,893 |

See accompanying notes to condensed consolidated financial statements.

Index

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 Article 8 of Regulation S-X of the United States Securities and Exchange Commission ("SEC") for interim financial reporting 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, 2017.

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. Certain prior period amounts have been reclassified to conform to the current year presentation with no material impact on the condensed consolidated financial statements.

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. During the first quarter of 2018, the Company’s core service offerings included Permanent Recruitment, Contracting, Recruitment Process Outsourcing ("RPO"), and Talent Management Solutions. On March 31, 2018 the Company completed the sale of its Recruitment and Talent Management ("RTM") businesses in three separate transactions and retained its RPO business. The first quarter results for the RTM businesses are reported as discontinued operations. For more information, see Note 5.

As a result of the divestiture of the RTM businesses, the Company now operates directly in nine countries with three reportable geographic business segments: Hudson Americas, Hudson Asia Pacific, and Hudson Europe. See Note 13 for further details regarding the reportable segments.

The Company’s core service offering following the divestiture is RPO. The Company delivers RPO permanent recruitment and contracting outsourced recruitment solutions tailored to the individual needs of primarily mid-to-large-cap multinational companies. The Company's RPO 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. The Company's RPO services include complete recruitment outsourcing, project-based outsourcing, contingent workforce solutions, and recruitment consulting.

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).

- 6 -

HUDSON GLOBAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(unaudited)

NOTE 3 – ACCOUNTING PRONOUNCEMENTS
Adoption of New Accounting Pronouncements

On January 1, 2018, we adopted Accounting Standards Updates ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") and a series of related accounting standard updates designed to create improved revenue recognition and disclosure comparability in financial statements. For more information, see Note 4.

On January 1, 2018, we retroactively adopted ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the Financial Accounting Standards Board (the "FASB") Emerging Issues Task Force)." This ASU requires the statements of cash flows to present the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents are now included with cash and cash equivalents when reconciling the beginning of period and end of period amounts presented on the statements of cash flows. The retrospective application of this new accounting guidance resulted in a decrease of $247 in "Decrease (increase) in prepaid and other assets" in Net Cash used in Operating Activities, an increase of $1,189 in "Cash, Cash Equivalents, and Restricted Cash, beginning of the period," and an increase of $942 in "Cash, Cash Equivalents, and Restricted Cash, end of period" in our accompanying consolidated statement of cash flows for the six months ended June 30, 2017 from what was previously presented in our Quarterly Report on Form 10-Q for the six months ended June 30, 2017.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation: Scope of Modification Accounting" ("ASU 2017-09"), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity will account for the effects of a modification unless the fair value of the modified award is the same as the original award, the vesting conditions of the modified award are the same as the original award and the classification of the modified award as an equity instrument or liability instrument is the same as the original award. ASU 2017-09 is effective for all annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2017-09 on January 1, 2018. The adoption had no impact on the Company's condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"), which provides guidance on reclassification of certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), enacted on December 22, 2017. ASU No. 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the application of the Tax Act. Additionally, ASU No. 2018-02 requires financial statement preparers to disclose (1) a description of their accounting policy for releasing income tax effects from accumulated other comprehensive income, (2) whether they elect to reclassify the stranded income tax effects from the Tax Act, and (3) information about other income tax effects related to the application of the Tax Act that are reclassified from accumulated other comprehensive income to retained earnings, if any. The amendments in ASU 2018-02 are effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. 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"). This ASU requires a company to recognize lease assets and liabilities arising from operation leases in the statement of financial position. This ASU does not significantly change the previous lease guidance for how a lessee should recognize the recognition, measurement and presentation of expenses and cash flows arising from a lease. Additionally, the criteria for classifying a finance lease versus an operating lease are substantially the same as the previous guidance. In July 2018, the FASB issued ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements ("ASU 2018-11"). This ASU allows adoption of the standard as of the effective date without restating prior periods. The amendments in these ASUs are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. We plan to adopt this ASU on January 1, 2019. We expect the adoption of ASU 2016-02 will result in the recognition of right-of-use assets and lease liabilities on our consolidated balance sheets for operating leases.

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 condensed consolidated financial statements.

## NOTE 4 – REVENUE RECOGNITION

### Adoption of New Revenue Recognition Guidance

On January 1, 2018, the Company adopted ASU 2014-09 using the modified retrospective approach. Under this method, the guidance is applied only to the most current period presented in the financial statements. ASU 2014-09 outlines a single comprehensive revenue recognition model for revenue arising from contracts with customers and supersedes most of the previous revenue recognition guidance, including industry-specific guidance. Under ASU 2014-09, an entity recognizes revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. Our revenue recognition practices remained substantially unchanged as a result of adoption ASU 2014-09 and we did not have any significant changes in our business processes or systems.

### Nature of Services

We account for a contract when both parties to the contract have approved the contract, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. Revenues are recognized over time, using an output measure, as the control of the promised services is transferred to the client in an amount that reflects the consideration we expect to be entitled to in exchange for those services. The majority of our contracts are short-term in nature as they include termination clauses that allows either party to cancel within a short termination period, without cause. Revenue includes billable travel and other reimbursable costs and are reported net of sales or use taxes collected from clients and remitted to taxing authorities.

We generally determine standalone selling prices based on the prices included in the client contracts, using expected cost plus margin, or other observable prices. The price as specified in our client contracts is generally considered the standalone selling price as it is an observable input that depicts the price as if sold to a similar client in similar circumstances. Certain client contracts have variable consideration, including usage based fees that increase the transaction price and volume rebates or other similar items that generally reduce the transaction price. We estimate variable consideration using the expected value method based on the terms of the client contract and historical evidence. These amounts may be constrained and are only included in revenue to the extent we do not expect a significant reversal when the uncertainty associated with the variable consideration is resolved. Our estimated amounts of variable consideration subject to constraints are not material and we do not believe that there will be significant changes to our estimates.

We record accounts receivable when our right to consideration becomes unconditional. Contract assets primarily relate to our rights to consideration for services provided that they are conditional on satisfaction of future performance obligations. A contract liability for deferred revenue is recorded when consideration is received, or is unconditionally due, from a client prior to transferring control of services to the client under the terms of a contract. Deferred revenue balances typically result from advance payments received from clients prior to transfer services. We do not have any material contract assets or liabilities as of and for the six months ended June 30, 2018.

Payment terms vary by client and the services offered. We consider payment terms that exceed one year to be extended payment terms. Substantially all of the Company's contracts include payment terms of 90 days or less and we do not extend payment terms beyond one year.

We primarily record revenue on a gross basis as a principal in the Consolidated Statements of Operations and Comprehensive Income based upon the following key factors:

- We maintain the direct contractual relationship with the client and are responsible for fulfilling the service promised to the client.

- We maintain control over our contractors while the services to the client are being performed, including our contractors' billing rates.

HUDSON GLOBAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(unaudited)

RPO Recruitment. We provide complete recruitment outsourcing, project-based outsourcing and recruitment consulting for clients' permanent staff hires. We recognize revenue for our RPO recruitment over time in an amount that reflects the consideration we expect to be entitled to and have an enforceable right to payment in exchange for our services. The client simultaneously receives and consumes the benefits of the services as they are provided. The transaction prices contains both fixed fee and variable usage based consideration. Variable usage based consideration is constrained by candidates accepting offers of permanent employment. We recognized revenue on the fixed fee as the performance obligations are satisfied and usage based fees as the constraint is lifted. We do not incur incremental costs to obtain our RPO recruitment contracts. The costs to fulfill these contracts are expensed as incurred.

RPO Contracting. We provide RPO clients with a range of outsourced professional contract staffing services and managed service provider services offered sometimes on a standalone basis and sometimes as part of a blended total talent solution. We recognize revenue for our RPO contracting services over time as services are performed in an amount that reflects the consideration we expect to be entitled to and have an enforceable right to payment in exchange for our services, which is generally calculated as hours worked multiplied by the agreed-upon hourly bill rate. The client simultaneously receives and consumes the benefits of the services as they are provided. We do not incur incremental costs to obtain our RPO contracting contracts. The costs incurred to fulfill these contracts are expensed as incurred.

Unsatisfied performance obligations. As a practical expedient, we do not disclose the value of unsatisfied performance obligations for (i) contracts with an expected original duration of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Disaggregation of Revenue

The following table presents our disaggregated revenues from continuing operations by revenue source. For additional information on the disaggregated revenues by geographical segment, see Note 13 of the Notes to the Condensed Consolidated Financial Statements.

| | Three Months Ended June 30, 2018 | | |
|---|---|---|---|
| | RPO Recruitment | RPO Contracting | Total |
| Revenue | $11,696 | $ 5,319 | $17,015 |
| Direct costs (1) | 1,464 | 4,750 | 6,214 |
| Gross margin | $10,232 | $ 569 | $10,801 |

| | Three Months Ended June 30, 2017 | | |
|---|---|---|---|
| | RPO Recruitment | RPO Contracting | Total |
| Revenue | $10,987 | $ 3,530 | $14,517 |
| Direct costs (1) | 642 | 3,170 | 3,812 |
| Gross margin | $10,345 | $ 360 | $10,705 |

| | Six Months Ended June 30, 2018 | | |
|---|---|---|---|
| | | | Total |

| | RPO Recruitment | RPO Contracting | |
|---|---|---|---|
| Revenue | $23,385 | $ 9,845 | $33,230 |
| Direct costs (1) | 3,482 | 8,793 | 12,275 |
| Gross margin | $19,903 | $ 1,052 | $20,955 |

| | Six Months Ended June 30, 2017 | | |
|---|---|---|---|
| | RPO Recruitment | RPO Contracting | Total |
| Revenue | $21,055 | $ 7,417 | $28,472 |
| Direct costs (1) | 1,090 | 6,675 | 7,765 |
| Gross margin | $19,965 | $ 742 | $20,707 |

(1) Direct costs in RPO 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

(in thousands, except share and per share amounts)

direct costs. The region where services are provided, the mix of RPO recruitment and RPO contracting, 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 "Salaries and related" in the Condensed Consolidated Statement of Operations.

## NOTE 5 – DISCONTINUED OPERATIONS

On March 31, 2018, the Company completed the sale of its RTM Businesses in Belgium, Europe (excluding Belgium) and Asia Pacific ("APAC") in separate transactions (the "Sale Transactions") to Value Plus NV, Morgan Philips Group S.A., and Apache Group Holdings Pty Limited, respectively. The gross proceeds from the sale were $38,960. In addition $17,626 of debt was assumed by the buyers.

The following is a reconciliation of the gross proceeds to the net proceeds as presented in the statement of cash flows for the six months ended June 30, 2018.

| | |
|---|---|
| Gross proceeds | $38,960 |
| Add: purchase price adjustments | 149 |
| Less: cash and restricted cash sold | (9,547 ) |
| Less: transaction costs | (1,595 ) |
| Net cash proceeds as presented in the statement of cash flows | $27,967 |

The divestiture generated a pre-tax gain of $14,032 for the six months ended June 30, 2018, which includes a benefit of $10,819 reclassification adjustment relating to the net foreign currency translation gains previously included in accumulated other comprehensive income. The pre-tax gain is subject to adjustment for various purchase price adjustments.

The RTM businesses met the criteria for discontinued operations set forth in Accounting Standards Codification ("ASC") 205 on March 31, 2018 subsequent to approval of the sale by our stockholders. 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 RTM businesses included in discontinued operations were as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Cash | $ — | $ 15,460 |
| Accounts receivable | — | 60,333 |
| Prepaid and other current assets | — | 3,737 |
| Total current assets | — | 79,530 |
| Property and equipment, net | — | 6,251 |
| Deferred tax assets, non-current | — | 6,080 |
| Other assets, non-current | — | 1,570 |