PRGX GLOBAL, INC.
Form 10-Q
November 08, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 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 0-28000
PRGX Global, Inc.
(Exact name of registrant as specified in its charter)

Georgia	58-2213805
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 Galleria Parkway	30339-5986
Suite 100	(Zip Code)
Atlanta, Georgia	
(Address of principal executive offices)	

Registrant’s telephone number, including area code: (770) 779-3900
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 ý 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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 definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

¨ Large accelerated filer
ý Accelerated filer
¨ Non-accelerated filer (Do not check if a smaller reporting company)
¨ Smaller reporting company

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

Common shares of the registrant outstanding at November 4, 2016 were 21,804,173.

Table of Contents

PRGX GLOBAL, INC.
FORM 10-Q
For the Quarter Ended September 30, 2016
INDEX

	Page No.
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	1
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015	1
Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2016 and 2015	2
Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015	3
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	27
Item 4. Controls and Procedures	28
Part II. Other Information	
Item 1. Legal Proceedings	29
Item 1A. Risk Factors	29
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3. Defaults Upon Senior Securities	29
Item 4. Mine Safety Disclosures	29
Item 5. Other Information	30
Item 6. Exhibits	31
Signatures	32

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
PRGX GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	$35,137	$33,365	$101,661	$103,345
Operating expenses:				
Cost of revenue	22,367	23,507	67,444	70,785
Selling, general and administrative expenses	9,883	8,284	28,351	25,413
Depreciation of property and equipment	1,376	1,255	3,824	3,828
Amortization of intangible assets	393	517	1,182	2,017
Total operating expenses	34,019	33,563	100,801	102,043
Operating income (loss)	1,118	(198)	860	1,302
Foreign currency transaction (gains) losses on short-term intercompany balances	(165)	654	(976)	1,930
Interest (income), net	(14)	(8)	(55)	(103)
Other (income) loss	(168)	1,612	(140)	1,612
Income (loss) from continuing operations before income tax	1,465	(2,456)	2,031	(2,137)
Income tax expense (benefit)	(685)	421	(21)	1,172
Net income (loss) from continuing operations	$2,150	$(2,877)	$2,052	$(3,309)
Discontinued Operations:				
Income (loss) from discontinued operations	$133	$(532)	$(914)	$(1,961)
Other (income) loss	—	—	—	—
Income tax expense (benefit)	—	—	—	—
Net income (loss) from discontinued operations	$133	$(532)	$(914)	$(1,961)
Net income (loss)	$2,283	$(3,409)	$1,138	$(5,270)
Basic earnings (loss) per common share (Note B)				
Basic earnings (loss) from continuing operations	$0.10	$(0.11)	$0.09	$(0.13)
Basic earnings (loss) from discontinued operations	0.01	(0.03)	(0.04)	(0.07)
Total basic earnings (loss) per common share	$0.11	$(0.14)	$0.05	$(0.20)
Diluted earnings (loss) per common share (Note B)				
Diluted earnings (loss) from continuing operations	$0.10	$(0.11)	$0.09	$(0.13)
Diluted earnings (loss) from discontinued operations	0.01	(0.03)	(0.04)	(0.07)
Total diluted earnings (loss) per common share	$0.11	$(0.14)	$0.05	$(0.20)
Weighted-average common shares outstanding (Note B):				
Basic	21,847	25,167	22,084	26,015
Diluted	21,874	25,167	22,114	26,015

1

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$2,283	$(3,409)	$1,138	$(5,270)
Foreign currency translation adjustments	(242)	(844)	(729)	(692)
Comprehensive income (loss)	$2,041	$(4,253)	$409	$(5,962)

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PRGX GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,170	$ 15,122
Restricted cash	99	48
Receivables:		
Contract receivables, less allowances of $942 in 2016 and $930 in 2015:		
Billed	26,654	26,576
Unbilled	1,819	1,967
	28,473	28,543
Employee advances and miscellaneous receivables, less allowances of $564 in 2016 and $681 in 2015	1,710	1,740
Total receivables	30,183	30,283
Prepaid expenses and other current assets	3,657	2,323
Total current assets	47,109	47,776
Property and equipment	63,473	59,747
Less accumulated depreciation	(51,242)	(48,167)
Property and equipment, net	12,231	11,580
Goodwill	11,712	11,810
Intangible assets, less accumulated amortization of $35,850 in 2016 and $35,708 in 2015	5,477	6,684
Noncurrent portion of unbilled receivables	822	656
Deferred income taxes	2,864	1,361
Other assets	505	524
Total assets	$ 80,720	$ 80,391
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 6,968	$ 5,966
Accrued payroll and related expenses	11,049	11,278
Refund liabilities	7,892	7,887
Deferred revenue	804	965
Other current liabilities	39	39
Total current liabilities	26,752	26,135
Noncurrent refund liabilities	791	752
Other long-term liabilities	1,866	1,089
Total liabilities	29,409	27,976
Commitments and contingencies (Note G)		
Shareholders' equity (Note B):		
Common stock, no par value; $.01 stated value per share. Authorized 50,000,000 shares; 21,804,173 shares issued and outstanding at September 30, 2016 and 22,681,656 shares issued and outstanding at December 31, 2015	218	227
Additional paid-in capital	574,028	575,532
Accumulated deficit	(523,000)	(524,138)
Accumulated other comprehensive income	65	794

Total shareholders' equity	51,311	52,415
Total liabilities and shareholders' equity	$ 80,720	$ 80,391

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PRGX GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income (loss)	$1,138	$(5,270)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,017	5,875
Amortization of deferred loan costs	—	(100)
Stock-based compensation expense	3,224	4,530
Loss on sale of assets/investments	—	1,561
Deferred income taxes	(1,475)	61
Foreign currency transaction (gains) losses on short-term intercompany balances	(976)	1,930
Changes in operating assets and liabilities:		
Restricted cash	(51)	(45)
Billed receivables	(451)	6,843
Unbilled receivables	(18)	1,815
Prepaid expenses and other current assets	(1,274)	211
Other assets	(44)	(40)
Accounts payable and accrued expenses	1,287	(822)
Accrued payroll and related expenses	(35)	(2,861)
Refund liabilities	44	(581)
Deferred revenue	(161)	(645)
Other long-term liabilities	(51)	(99)
Net cash provided by operating activities	6,174	12,363
Cash flows from investing activities:		
Purchases of property and equipment, net of disposal proceeds	(4,648)	(3,169)
Net cash used in investing activities	(4,648)	(3,169)
Cash flows from financing activities:		
Restricted stock repurchased from employees for withholding taxes	(218)	(311)
Proceeds from option exercises	132	45
Repurchase of common stock	(3,762)	(17,261)
Net cash used in financing activities	(3,848)	(17,527)
Effect of exchange rates on cash and cash equivalents	370	(1,729)
Net decrease in cash and cash equivalents	(1,952)	(10,062)
Cash and cash equivalents at beginning of period	15,122	25,735
Cash and cash equivalents at end of period	$13,170	$15,673
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$40	$51
Cash paid during the period for income taxes, net of refunds received	$1,068	$734

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PRGX GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A – Basis of Presentation

The accompanying Condensed Consolidated Financial Statements (Unaudited) of PRGX Global, Inc. and its wholly owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

Except as otherwise indicated or unless the context otherwise requires, "PRGX," "we," "us," "our" and the "Company" refer to PRGX Global, Inc. and its subsidiaries. For further information, refer to the Consolidated Financial Statements and Notes thereto included in the Company's Form 10-K for the year ended December 31, 2015.

New Accounting Standards

A summary of the new accounting standards issued by the Financial Accounting Standards Board ("FASB") and included in the Accounting Standards Codification ("ASC") that apply to PRGX is set forth below:

FASB ASC Update No. 2016-09 - In March 2016, the FASB issued Accounting Standards Update 2016-09, Stock Compensation (Topic 718). The standard requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The standard also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the standard allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The standard will become effective for the Company beginning January 1, 2017 with early adoption permitted. The Company is currently assessing the impact adoption of this standard will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

FASB ASC Update No. 2016-05 - In March 2016, the FASB issued Accounting Standards Update 2016-05, Derivatives and Hedging (Topic 815). The standard clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The standard will become effective for the Company beginning January 1, 2018. The Company is currently assessing the impact adoption of this standard will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

FASB ASC Update No. 2016-02 - In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842). The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. The standard requires lessors to classify leases as either sales-type, finance or operating. A sales-type lease occurs if the lessor transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor does not convey risks and rewards or control, an operating lease results. The standard will become effective for the Company beginning January 1, 2019. The Company is currently assessing the impact adoption of this standard will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

5

Table of Contents

PRGX GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note B – Earnings (Loss) Per Common Share

The following tables set forth the computations of basic and diluted loss per common share for the three and nine months ended September 30, 2016 and 2015 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Basic and diluted earnings (loss) per common share:	2016	2015	2016	2015
Numerator:				
Net earnings (loss) from continuing operations:	$2,150	$(2,877)	$2,052	$(3,309)
Net earnings (loss) from discontinued operations:	$133	$(532)	$(914)	$(1,961)
Denominator:				
Weighted-average basic common shares outstanding:	21,847	25,167	22,084	26,015
Effect of dilutive securities from stock-based compensation plans	27	—	30	—
Weighted-average diluted common shares outstanding:	21,874	25,167	22,114	26,015
Basic earnings (loss) per common share from continuing operations:	$0.10	$(0.11)	$0.09	$(0.13)
Basic earnings (loss) per common share from discontinued operations:	$0.01	$(0.03)	$(0.04)	$(0.07)
Total basic earnings (loss) per common share	$0.11	$(0.14)	$0.05	$(0.20)
Diluted earnings (loss) per common share from continuing operations:	$0.10	$(0.11)	$0.09	$(0.13)
Diluted earnings (loss) per common share from discontinued operations:	$0.01	$(0.03)	$(0.04)	$(0.07)
Total diluted earnings (loss) per common share	$0.11	$(0.14)	$0.05	$(0.20)

For those periods presented that generated a net loss, basic and diluted net loss per share is the same, as any additional common stock and equivalents would be anti-dilutive. For the three months ended September 30, 2016, weighted-average common shares outstanding excludes from the computation of diluted earnings (loss) per common share anti-dilutive shares underlying options that totaled 2.8 million shares and anti-dilutive shares underlying restricted stock units totaling 2.7 million. For the nine months ended September 30, 2016, weighted-average common shares outstanding excludes from the computation of diluted earnings (loss) per common share anti-dilutive shares underlying options that totaled 2.8 million and anti-dilutive shares underlying restricted stock units totaling 2.0 million. For the three and nine months ended September 30, 2015, weighted-average common shares outstanding excludes from the computation of diluted earnings (loss) per common share anti-dilutive shares underlying options that totaled 3.6 million.

We repurchased 21,998 shares of our common stock during the three months ended September 30, 2016 for $0.1 million, and 903,544 shares of our common stock during the nine months ended September 30, 2016 for $3.8 million. We repurchased 1,735,277 shares of our common stock during the three months ended September 30, 2015 for $6.9 million, and 3,912,037 shares of our common stock during the nine months ended September 30, 2015 for $17.3 million.

Pursuant to exercises of outstanding stock options, we issued no shares of our common stock in the three months ended September 30, 2016 and 46,896 shares of our common stock having a value of less than $0.1 million in the nine months ended September 30, 2016. We issued no shares of our common stock in the three months ended September 30, 2015 and 12,863 shares of our common stock having a value less than $0.1 million in the nine months ended September 30, 2015.

Table of Contents
PRGX GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note C – Stock-Based Compensation
Awards were outstanding in the relevant periods pursuant to two Company stock-based compensation plans: (1) the 2006 Management Incentive Plan ("2006 MIP") and (2) the 2008 Equity Incentive Plan ("2008 EIP") (collectively, the "Plans"). We describe the Plans in the Company's Annual Report on Form 10–K for the fiscal year ended December 31, 2015. For all periods presented herein, awards outside the Plans are referred to as inducement awards.
2008 EIP Awards and Inducement Awards
Stock options granted under the 2008 EIP generally have a term of seven years and vest in equal annual increments over the vesting period, which typically is three years for employees and one year for directors. The following table summarizes stock option grants during the nine months ended September 30, 2016 and 2015:

Grantee Type	# of Options Granted	Vesting Period	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
2016				
Director	175,000	1 year or less	$ 5.04	$ 2.72
Employee inducements (1)	60,000	3 years	$ 4.79	$ 2.88
2015				
Director	249,273	1 year or less	$ 4.49	$ 2.44
Director	17,092	3 years	$ 3.99	$ 1.33
Employee inducements (2)	135,000	3 years	$ 5.51	$ 1.42

(1) The Company granted non-qualified stock options outside its existing stock-based compensation plans in the first nine months of 2016 in connection with an employee joining the Company.
(2) The Company granted non-qualified stock options outside its existing stock-based compensation plans in the first nine months of 2015 to three employees in connection with the employees joining the Company.

Nonvested stock awards, including both restricted stock and restricted stock units, granted under the 2008 EIP generally are nontransferable until vesting and the holders are entitled to receive dividends with respect to the nonvested shares. Prior to vesting, the grantees of restricted stock are entitled to vote the shares, but the grantees of restricted stock units are not entitled to vote the shares. Generally, nonvested stock awards with time-based vesting criteria vest in equal annual increments over the vesting period, which typically is three years for employees and one year for directors. Nonvested stock awards with performance-based vesting criteria vest in accordance with specific performance criteria associated with the awards.

Table of Contents
PRGX GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes nonvested stock awards granted during the nine months ended September 30, 2016 and 2015:

Grantee Type	# of Shares Granted	Vesting Period	Weighted Average Grant Date Fair Value
2016			
Employee group [1]	1,250,750	2 years	$ 4.88
Employee inducements [2]	100,000	2 years	$ 4.94
2015			
Director	4,273	1 year or less	$ 4.02
Director	17,092	3 years	$ 3.99
Employee group [3]	2,448,333	2 years	$ 3.99
Employee inducements [4]	10,000	3 years	$ 5.29

(1) The Company granted nonvested performance-based stock awards (restricted stock units) in the first six months of 2016 to five executive officers, three senior business leaders and certain other employees.

(2) The Company granted nonvested performance-based stock awards (restricted stock units) outside its existing stock-based compensation plans in the second and third quarters of 2016 to three employees in connection with the employees joining the Company.

(3) The Company granted nonvested performance-based stock awards (restricted stock units) in the first quarter of 2015 to eight executive officers totaling 1,325,000 units. During the third quarter of 2015, the company granted nonvested performance-based stock awards (restricted stock units) to key employees totaling 1,123,333 units.

(4) The Company granted nonvested stock awards (restricted stock) outside its existing stock-based compensation plans in the first quarter of 2015 to two employees in connection with the employees joining the Company.

2006 MIP Performance Units

On June 19, 2012, seven executive officers of the Company were granted 154,264 Performance Units under the 2006 MIP, comprising all of the then remaining available awards under the 2006 MIP. The awards had an aggregate grant date fair value of $1.2 million and vest ratably over three years. Upon vesting, the Performance Units will be settled by the issuance of Company common stock equal to 60% of the number of Performance Units being settled and the payment of cash in an amount equal to 40% of the fair market value of that number of shares of common stock equal to the number of Performance Units being settled. During the six months ended June 30, 2015, an aggregate of 16,530 Performance Units were settled, which resulted in the issuance of 9,918 shares of common stock and cash payments of less than $0.1 million. All Performance Units were settled as of June 2015. For further information regarding the Performance Units, refer to Note 11 in the Company's Form 10-K for the year ended December 31, 2015.

Performance-Based Restricted Stock Units

On August 3, 2016, a senior leader of the Company was granted 10,000 PBUs outside of the existing stock-based compensation plan as an inducement for employment. Upon vesting, the PBUs will be settled by the issuance of Company common stock equal to 43% of the number of PBUs being settled and the payment of cash in an amount equal to the fair market value of that number of shares of common stock equal to 57% of the number of PBUs being settled. The PBUs vest and become payable based on revenue and the cumulative adjusted EBITDA that the Company (excluding the Healthcare Claims Recovery Audit business) achieves for the two-year performance period ending December 31, 2017. At the threshold performance level, 35% of the PBUs will become vested and payable; at the target performance level, 100% of the PBUs will become vested and payable; and at the maximum performance level, 150% of the PBUs will become vested and payable. If performance falls between the stated performance levels, the percentage of PBUs that shall become vested and payable will be based on straight line interpolation between such stated performance levels (although the PBUs may not become vested and payable for more than 150% of the PBUs and no PBUs shall become vested and payable if performance does not equal or exceed the threshold performance level).

On June 27, 2016, certain employees of the Company were granted 641,750 performance-based restricted stock units ("PBUs") under the 2008 EIP. Upon vesting, the PBUs will be settled by the issuance of Company common stock equal to 40% of the number of PBUs being settled and the payment of cash in an amount equal to the fair market value of that number of shares of common stock equal to 60% of the number of PBUs being settled. The PBUs vest and become payable based on revenue and the cumulative adjusted EBITDA that the Company (excluding the Healthcare Claims Recovery Audit business) achieves for the two-year performance period ending December 31, 2017. At the threshold performance level, 35% of the PBUs will become vested and payable; at the target performance level, 100% of the PBUs will become vested and payable; and at the maximum performance level, 150% of the PBUs will become vested and payable. If performance falls between the stated performance levels, the percentage of PBUs that shall become vested and payable will be based on straight line interpolation between such stated performance levels (although the PBUs may not become vested and payable for more than 150% of the PBUs and no PBUs shall become vested and payable if performance does not equal or exceed the threshold performance level).

On June 20, 2016, a senior leader of the Company was granted 30,000 PBUs outside of the existing stock-based compensation plan as an inducement for employment. Upon vesting, the PBUs will be settled by the issuance of Company common stock equal to 40% of the number of PBUs being settled and the payment of cash in an amount equal to the fair market value of that number of shares of common stock equal to 60% of the number of PBUs being settled. The PBUs vest and become payable based on revenue and the cumulative adjusted EBITDA that the Company (excluding the Healthcare Claims Recovery Audit business) achieves for the two-year performance period ending December 31, 2017. At the threshold performance level, 35% of the PBUs will become vested and payable; at the target performance level, 100% of the PBUs will become vested and payable; and at the maximum performance level, 150% of the PBUs will become vested and payable. If performance falls between the stated performance levels, the percentage of PBUs that shall become vested and payable will be based on straight line interpolation between such stated performance levels (although the PBUs may not become vested and payable for more than 150% of the PBUs and no PBUs shall become vested and payable if performance does not equal or exceed the threshold performance level).

On May 5, 2016, an executive officer of the Company was granted 60,000 PBUs outside of the existing stock-based compensation plan as an inducement for employment. Upon vesting, the PBUs will be settled by the issuance of Company common stock equal to 43% of the number of PBUs being settled and the payment of cash in an amount equal to the fair market value of that number of shares of common stock equal to 57% of the number of PBUs being settled. The PBUs vest and become payable based on revenue and the cumulative adjusted EBITDA that the Company (excluding the Healthcare Claims Recovery Audit business) achieves for the two-year performance period ending December 31, 2017. At the threshold performance level, 35% of the PBUs will become vested and payable; at the target performance level, 100% of the PBUs will become vested and payable; and at the maximum performance level, 150% of the PBUs will become vested and payable. If performance falls between the stated performance levels, the percentage of PBUs that shall become vested and payable will be based on straight line interpolation between such stated performance levels (although the PBUs may not become vested and payable for more than 150% of the PBUs and no PBUs shall become vested and payable if performance does not equal or exceed the threshold performance level).

On March 31, 2016, five executive officers and three other senior leaders of the Company were granted 609,000 PBUs under the 2008 EIP. Upon vesting, the PBUs will be settled by the issuance of Company common stock equal to 43% of the number of PBUs being settled and the payment of cash in an amount equal to the fair market value of that number of shares of common stock equal to 57% of the number of PBUs being settled. The PBUs vest and become payable based on revenue and the cumulative adjusted EBITDA that the Company (excluding the Healthcare Claims Recovery Audit business) achieves for the two-year performance period ending December 31, 2017. At the threshold performance level, 35% of the PBUs will become vested and payable; at the target performance level, 100% of the PBUs will become vested and payable; and at the maximum performance level, 150% of the PBUs will become vested and payable. If performance falls between the stated performance levels, the percentage of PBUs that shall become vested and payable will be based on straight line interpolation between such stated performance levels (although the PBUs may not become vested and payable for more than 150% of the PBUs and no PBUs shall become vested and payable if performance does not equal or exceed the threshold performance level).

On September 28, 2015, certain employees of the Company were granted 1,208,333 PBUs under the 2008 EIP. Upon vesting, the PBUs will be settled by the issuance of Company common stock equal to 25% of the number of PBUs being settled and the payment of cash in an amount equal to 75% of the fair market value of that number of shares of common stock equal to the number of PBUs being settled. The PBUs vest and become payable based on the cumulative adjusted EBITDA that the Company (excluding the Healthcare Claims Recovery Audit business) achieves for the two-year performance period ending December 31, 2016. At the threshold performance level, 35% of the PBUs will become vested and payable and at the target performance level, 100% of the PBUs will become vested and payable. If performance falls between the stated performance levels, the percentage of PBUs that shall become vested and payable will be based on straight line interpolation between such stated performance levels (although the PBUs may not become vested and payable for more than 100% of the PBUs and no PBUs shall become vested and payable if performance does not equal or exceed the threshold performance level).

On March 30, 2015, eight executive officers of the Company were granted 1,325,000 performance-based restricted stock units (“PBUs”) under the 2008 EIP. Upon vesting, the PBUs will be settled by the issuance of Company common stock equal to 50% of the number of PBUs being settled and the payment of cash in an amount equal to 50% of the fair market value of that number of shares of common stock equal to the number of PBUs being settled. The PBUs vest and become payable based on the cumulative adjusted EBITDA that the Company (excluding the Healthcare Claims Recovery Audit business) achieves for the two-year performance period ending December 31, 2016. At the threshold performance level, 35% of the PBUs will become vested and payable; at the target performance level, 100% of the PBUs will become vested and payable; and at the maximum performance level, 200% of the PBUs will become vested and payable. If performance falls between the stated performance levels, the percentage of PBUs that shall become vested and payable will be based on straight line interpolation between such stated performance levels (although the PBUs may not become vested and payable for more than 200% of the PBUs and no PBUs shall become vested and payable if performance does not equal or exceed the threshold performance level).

Stock Appreciation Rights

On April 27, 2016, the Company's Chief Executive Officer was granted stock appreciation rights (“SARs”) covering 200,000 shares of the Company’s common stock under the 2008 EIP. The SARs were issued with an initial value per share equal to $4.71. The SARs will vest and become payable in cash in a lump sum (net of applicable withholdings) on June 30, 2018, subject to the Chief Executive Officer’s continued employment through such date. Upon vesting, the Company will pay an amount equal to the excess of (i) the fair market value, as of June 30, 2018, of the shares of the Company’s common stock with respect to the SARs that have become vested and payable over (ii) the aggregate initial value of such SARs.

On August 3, 2016, a senior leader of the Company was granted 10,000 PBUs outside of the existing stock-based compensation plan as an inducement for employment. Upon vesting, the PBUs will be settled by the issuance of Company common stock equal to 43% of the number of PBUs being settled and the payment of cash in an amount equal to the fair market value of that number of shares of common stock equal to 57% of the number of PBUs being settled. The PBUs vest and become payable based on revenue and the cumulative adjusted EBITDA that the Company (excluding the Healthcare Claims Recovery Audit business) achieves for the two-year performance period ending December 31, 2017. At the threshold performance level, 35% of the PBUs will become vested and payable; at the target performance level, 100% of the PBUs will become vested and payable; and at the maximum performance level, 150% of the PBUs will become vested and payable. If performance falls between the stated performance levels, the percentage of PBUs that shall become vested and payable will be based on straight line interpolation between such stated performance levels (although the PBUs may not become vested and payable for more than 150% of the PBUs and no PBUs shall become vested and payable if performance does not equal or exceed the threshold performance level).

Selling, general and administrative expenses for the three months ended September 30, 2016 and 2015 include $1.4 million related to stock-based compensation charges. Selling, general and administrative expenses for the nine months ended September 30, 2016 and 2015 include $3.2 million and $4.5 million, respectively, related to stock-based compensation charges. At September 30, 2016, there was $6.6 million of unrecognized stock-based compensation expense related to stock options, restricted stock awards and restricted stock unit awards, which we expect to recognize over a weighted-average period of 1.21 years. The unrecognized stock-based compensation expense related to restricted stock unit awards with performance vesting criteria is based on our estimate of both the number of shares of the Company's common stock that will ultimately be issued and cash payments that will be made when the restricted stock units are settled.

Table of Contents
PRGX GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note D – Operating Segments and Related Information

We conduct our operations through the following three reportable segments:
Recovery Audit Services – Americas represents recovery audit services (other than Healthcare Claims Recovery Audit services) provided in the United States of America (“U.S.”), Canada and Latin America.
Recovery Audit Services – Europe/Asia-Pacific represents recovery audit services (other than Healthcare Claims Recovery Audit services) provided in Europe, Asia and the Pacific region.
Adjacent Services represents data transformation, data analytics and associated advisory services.
Additionally, Corporate Support includes the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to the three reportable segments.
During the fourth quarter of 2015, PRGX entered into agreements with third parties to fulfill its Medicare recovery audit contractor ("RAC") program subcontract obligations to audit Medicare payments and provide support for claims appeals and assigned its remaining Medicaid contract to another party. The Company will continue to incur certain expenses while the current Medicare RAC contracts are still in effect. As a result, the Healthcare Claims Recovery Audit services business has been reported as Discontinued Operations in accordance with US GAAP.

Discontinued operations information for the three months ended September 30, 2016 and 2015 is as follows:
Results of Discontinued Operations (in thousands)

Three Months Ended September 30,	2016	2015
Revenue, net	$5	$558
Cost of sales	(128)	880
Selling, general and administrative expense	(4)	203
Depreciation and amortization	4	7
Gain (loss) from discontinued operations before income taxes	133	(532)
Income tax expense	—	—
Net gain (loss) from discontinued operations	$133	$(532)

Discontinued operations information for the nine months ended September 30, 2016 and 2015 is as follows:
Results of Discontinued Operations (in thousands)

Nine Months Ended September 30,	2016	2015
Revenue, net	$(11)	$999
Cost of sales	712	2,300
Selling, general and administrative expense	180	630
Depreciation and amortization	11	30
Loss from discontinued operations before income taxes	(914)	(1,961)
Income tax expense	—	—
Net loss from discontinued operations	$(914)	$(1,961)

Table of Contents

PRGX GLOBAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

We evaluate the performance of our reportable segments based upon revenue and measures of profit or loss we refer to as EBITDA and Adjusted EBITDA. We define Adjusted EBITDA as earnings from continuing operations before interest and taxes ("EBIT"), adjusted for depreciation and amortization ("EBITDA"), and then further adjusted for unusual and other significant items that management views as distorting the operating results of the various segments from period to period. Such adjustments include restructuring charges, stock-based compensation, bargain purchase gains, acquisition-related charges and benefits (acquisition transaction costs, acquisition obligations classified as compensation, and fair value adjustments to acquisition-related contingent consideration), tangible and intangible asset impairment charges, certain litigation costs and litigation settlements, certain severance charges and foreign currency transaction gains and losses on short-term intercompany balances viewed by management as individually or collectively significant. We do not have any inter-segment revenue.

Segment information for the three and nine months ended September 30, 2016 and 2015 (in thousands) is as follows:

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia-Pacific	Adjacent Services	Corporate Support	Total
Three Months Ended September 30, 2016					
Revenue	$ 25,719	$ 8,736	$ 682	$ —	$ 35,137
Net income from continuing operations					$ 2,150
Income tax (benefit)					(685)
Interest (income), net					(14)
EBIT	$ 7,371	$ 1,274	$ (1,089)	$ (6,105)	$ 1,451
Depreciation of property and equipment	935	141	300	—	1,376
Amortization of intangible assets	373	—	20	—	393
EBITDA	$ 8,679	$ 1,415	$ (769)	$ (6,105)	$ 3,220
Other (income) loss	—	—	(168)	—	(168)
Foreign currency transaction (gains) losses on short-term intercompany balances	120	(227)	1	(59)	(165)
Transformation severance and related expenses	95	188	139	(2)	420
Stock-based compensation	—	—	—	1,424	1,424
Adjusted EBITDA	$ 8,894	$ 1,376	$ (797)	$ (4,742)	$ 4,731

Table of Contents
PRGX GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia-Pacific	Adjacent Services	Corporate Support	Total
Three Months Ended September 30, 2015					
Revenue	$23,981	$ 8,052	$1,332	$—	$33,365
Net (loss) from continuing operations					$(2,877)
Income tax expense					421
Interest (income), net					(8)
EBIT	$5,255	$ 365	$(2,373)	$(5,711)	$(2,464)
Depreciation of property and equipment	947	148	160	—	1,255
Amortization of intangible assets	437	47	33	—	517
EBITDA	$6,639	$ 560	$(2,180)	$(5,711)	$(692)
Other (income) loss	—	—	1,612	—	1,612
Foreign currency transaction (gains) losses on short-term intercompany balances	393	287	(714)	688	654
Transformation severance and related expenses	101	—	—	272	373
Stock-based compensation	—	—	—	1,381	1,381
Adjusted EBITDA	$7,133	$ 847	$(1,282)	$(3,370)	$3,328

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia-Pacific	Adjacent Services	Corporate Support	Total
Nine Months Ended September 30, 2016					
Revenue	$72,408	$ 26,683	$2,570	$—	$101,661
Net income (loss) from continuing operations					$2,052
Income tax expense (benefit)					(21)
Interest (income), net					(55)
EBIT	$17,364	$ 4,032	$(2,645)	$(16,775)	$1,976
Depreciation of property and equipment	2,863	379	582	—	3,824
Amortization of intangible assets	1,118	—	64	—	1,182
EBITDA	$21,345	$ 4,411	$(1,999)	$(16,775)	$6,982
Other (income) loss	—	—	(140)	—	(140)
Foreign currency transaction (gains) losses on short-term intercompany balances	(108)	(787)	(7)	(74)	(976)
Transformation severance and related expenses	516	284	138	241	1,179
Stock-based compensation	—	—	—	3,224	3,224
Adjusted EBITDA	$21,753	$ 3,908	$(2,008)	$(13,384)	$10,269

Table of Contents
PRGX GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia-Pacific	Adjacent Services	Corporate Support	Total
Nine Months Ended September 30, 2015					
Revenue	$ 71,748	$ 27,307	$4,290	$—	$ 103,345
Net income (loss) from continuing operations					$ (3,309)
Income tax expense					1,172
Interest (income), net					(103)
EBIT	$ 15,838	$ 1,719	$ (5,019)	$ (14,778)	$ (2,240)
Depreciation of property and equipment	2,895	454	479	—	3,828
Amortization of intangible assets	1,319	600	98	—	2,017
EBITDA	$ 20,052	$ 2,773	$ (4,442)	$ (14,778)	$ 3,605
Other income (loss)	—	—	1,612	—	1,612
Foreign currency transaction (gains) losses on short-term intercompany balances	651	1,359	7	(87)	1,930
Transformation severance and related expenses	265	268	30	308	871
Stock-based compensation	—	—	—	4,530	4,530
Adjusted EBITDA	$ 20,968	$ 4,400	$ (2,793)	$ (10,027)	$ 12,548

Table of Contents
PRGX GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note E – Debt

On January 19, 2010, we entered into a four-year revolving credit and term loan agreement (the "2010 Credit Agreement") with SunTrust Bank ("SunTrust"). Subsequent modifications of the 2010 Credit Agreement were entered into with SunTrust. Most recently, on December 23, 2014, we entered into an amended and restated revolving credit agreement (the "Credit Facility") with SunTrust. The Credit Facility is guaranteed by the Company and all of its material domestic subsidiaries and secured by substantially all of the assets of the Company.

The amount available for borrowing under the Credit Facility is $20.0 million, and as of September 30, 2016 we had no outstanding borrowings. With the Credit Facility provision of a fixed applicable margin of 1.75% plus a specified index rate based on one-month LIBOR, the interest rate that would have applied at September 30, 2016 had any borrowings been outstanding was approximately 2.27%. We also must pay a commitment fee of 0.25% per annum, payable quarterly, on the unused portion of the Credit Facility.

The Credit Facility includes customary affirmative, negative, and financial covenants binding on the Company, including delivery of financial statements and other reports, maintenance of existence, and transactions with affiliates. The negative covenants limit the ability of the Company, among other things, to incur debt, incur liens, make investments, sell assets or declare or pay dividends on its capital stock. The financial covenants included in the Credit Facility, among other things, limit the amount of capital expenditures the Company can make, set forth maximum leverage and net funded debt ratios for the Company and a minimum fixed charge coverage ratio, and also require the Company to maintain minimum consolidated earnings before interest, taxes, depreciation and amortization. In addition, the Credit Facility includes customary events of default. The Company was in compliance with the covenants in its Credit Facility as of September 30, 2016.

On November 1, 2016, the Company borrowed $4.5 million under the Credit Facility to close the acquisition of Lavante. The Company also intends to utilize the Credit Facility in order to close the acquisition of substantially all of the assets of Cost & Compliance Associates, LLC, which is expected to occur later in the fourth quarter of 2016 (See Note I - Subsequent Events for details).

Note F – Fair Value of Financial Instruments

We state cash equivalents at cost, which approximates fair market value. The carrying values for receivables from clients, unbilled services, accounts payable, deferred revenue and other accrued liabilities reasonably approximate fair market value due to the nature of the financial instrument and the short term maturity of these items.

We had no debt outstanding as of September 30, 2016 and December 31, 2015. We will consider the factors used in determining the fair value of debt to be Level 3 inputs (significant unobservable inputs) in future periods.

Note G – Commitments and Contingencies

Legal Proceedings

We are party to a variety of legal proceedings arising in the normal course of business. While the results of these proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our financial position, results of operations or cash flows.

Table of Contents
PRGX GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note H – Income Taxes

Reported income tax expense in each period primarily results from taxes on the income of foreign subsidiaries. The effective tax rates generally differ from the expected tax rate due primarily to the Company's deferred tax asset valuation allowance on the domestic earnings and taxes on income of foreign subsidiaries.

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service in the U.S. and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

We apply a "more-likely-than-not" recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We refer to GAAP for guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In accordance with FASB ASC 740, our policy for recording interest and penalties associated with tax positions is to record such items as a component of income before income taxes. A number of years may elapse before a particular tax position is audited and finally resolved or when a tax assessment is raised. The number of years subject to tax assessments also varies by tax jurisdiction.

The tax benefit for the three months ended September 30, 2016 is primarily generated by the adjustment of the deferred tax asset valuation allowance at certain foreign subsidiaries.

Note I – Subsequent Events

On October 6, 2016, the Company entered into an Asset Purchase Agreement with Cost & Compliance Associates, LLC, Cost & Compliance Associates Limited (collectively, "C&CA" or the "Sellers") and Robert F. Donohue, pursuant to which the Company agreed to purchase substantially all of the assets of C&CA . C&CA is engaged in the business of marketing and providing accounts payable recovery audit services, contract compliance audit services and related advisory and data analytics services to commercial enterprises. The closing of the transactions contemplated by the Purchase Agreement is subject to certain closing conditions, including obtaining various third party consents.

Under the terms of the Asset Purchase Agreement, the Company will pay up to $11.0 million in cash at closing subject to a calculation based on the extent to which specified third party consents are obtained and a customary working capital adjustment. The Company may be required to pay earnout consideration in cash over a period of two years, based on the performance of the acquired businesses following closing. The aggregate consideration to be paid to the Sellers under the terms of the Asset Purchase Agreement cannot exceed $18.0 million.

On October 31, 2016, the Company completed the acquisition of Lavante, Inc. ("Lavante") pursuant to an Agreement and Plan of Merger with Lavante, PointGuard Ventures I, L.P. and Krish Panu, as Stockholder Representative, pursuant to which the Company acquired Lavante for a purchase price of $4.25 million in cash as adjusted for Lavante's current working capital and as further adjusted for amounts withheld for potential future payment to Lavante stockholders upon the receipt of specified third party consents and waivers. Under the terms of the Agreement and Plan of Merger, the Company also may be required to pay earnout consideration in cash based on revenue received by PRGX and its subsidiaries (including Lavante) from SIM services from closing through December 31, 2018.

Lavante is a software-as-a-service-based procure-to-pay supplier information management (SIM) and recovery audit services firm, based in San Jose, California.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

PRGX Global, Inc. is a global leader in recovery audit and spend analytics services. We conduct our operations through three reportable segments: Recovery Audit Services – Americas, Recovery Audit Services – Europe/Asia-Pacific and Adjacent Services. The Recovery Audit Services – Americas segment represents recovery audit services we provide in the U.S., Canada and Latin America. The Recovery Audit Services – Europe/Asia-Pacific segment represents recovery audit services we provide in Europe, Asia and the Pacific region. The Adjacent Services segment includes advisory and analytics (data transformation and cost harmonization) and Supplier Information Management ("SIM") services. We include the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to the three reportable segments in Corporate Support.

Recovery auditing is a business service focused on finding overpayments created by errors in payment transactions, such as missed or inaccurate discounts, allowances and rebates, vendor pricing errors, erroneous coding and duplicate payments. Recovery audit services are part of the broader Procure-to-Pay ("P2P") services market space, focused on the payment side of the P2P market.

Generally, we earn our recovery audit revenue by identifying overpayments made by our clients, assisting our clients in recovering the overpayments from their vendors, and collecting a specified percentage of the recoveries from our clients as our fee. The fee percentage we earn is based on specific contracts with our clients that generally also specify: (a) time periods covered by the audit; (b) the nature and extent of services we are to provide; and (c) the client's responsibilities to assist and cooperate with us. Clients generally recover claims by either taking credits against outstanding payables or future purchases from the relevant vendors, or receiving refund checks directly from those vendors. The manner in which a claim is recovered by a client is often dictated by industry practice. In addition, many clients establish client-specific procedural guidelines that we must satisfy prior to submitting claims for client approval. Our recovery audit business also includes contract compliance services which focus on auditing supplier billings against large and complex services, construction and licensing contracts. Such services include verification of the accuracy of third party reporting, appropriateness of allocations and other charges in cost or revenue sharing types of arrangements, adherence to contract covenants and other risk mitigation requirements and numerous other reviews and procedures to assist our clients with proper monitoring and enforcement of the obligations of their contractors. For some services we provide, such as certain of our services in our Adjacent Services segment, we earn our compensation in the form of a fixed fee, a fee per hour, or a fee per other unit of service.

We earn the vast majority of our recovery audit revenue from clients in the retail industry due to many factors, including the high volume of transactions and the complicated pricing and allowance programs typical in this industry. Changes in consumer spending associated with economic fluctuations generally impact our recovery audit revenue to a lesser degree than they affect individual retailers due to several factors, including:

- Diverse client base – our clients include a diverse mix of discounters, grocery, pharmacy, department and other stores that tend to be impacted to varying degrees by general economic fluctuations, and even in opposite directions from each other depending on their position in the market and their market segment;
- Motivation – when our clients experience a downturn, they frequently are more motivated to use our services to recover prior overpayments to make up for relatively weaker financial performance in their own business operations;
- Nature of claims – the relationship between the dollar amount of recovery audit claims identified and client purchases is non-linear. Claim volumes are generally impacted by purchase volumes, but a number of other factors may have an even more significant impact on claim volumes, including new items being purchased, changes in discount, rebate, marketing allowance and similar programs offered by vendors and changes in a client's or a vendor's information processing systems; and
- Timing – the client purchase data on which we perform our recovery audit services is historical data that typically reflects transactions between our clients and their vendors that took place 3 to 15 months prior to the data being provided to us for audit. As a result, we generally experience a delayed impact from economic changes that varies by client and the impact may be positive or negative depending on the individual clients' circumstances.

While the net impact of the economic environment on our recovery audit revenue is difficult to determine or predict, we believe that for the foreseeable future, our revenue will remain at a level that will allow us to continue investing in our growth strategy. Included in our growth strategy are our investments in technology platforms and improved operational processes within our retail recovery audit business. In addition, we continue to pursue the expansion of our business beyond retail recovery audit services by growing the portion of our business that provides recovery audit services to enterprises other than retailers; growing our contract compliance service offerings; expanding into new industry verticals, such as resources; and

Table of Contents

growing our Adjacent Services. We believe that our recovery audit business platform uniquely positions us to create value for clients and gives us a competitive advantage over other players in the broader P2P market for four fundamental reasons:

a) We already have the data - we serve a large and impressive list of very large, multinational companies in our core recovery audit business, which requires access to and processing of these clients' detailed P2P data on a daily, weekly or at least periodic basis;
b) We know the data and underlying processes - the work we do in recovery audit requires that we fully understand our clients' systems, buying practices, receiving and payment procedures, as well as their suppliers' contracting, performance and billing practices;
c) We take a different perspective in analyzing the data - we look horizontally across our clients' processes and organizational structures versus vertically, which is how most companies are organized and Enterprise Resource Planning systems are designed; and
d) Our contingent fee recovery audit value proposition minimizes our clients' cost of entry and truly aligns us with our clients.

We have processes in place to mitigate the financial impact arising from fluctuations in our businesses. These processes include reviewing and monitoring financial and operational results through our internal reporting, devoting substantial efforts to develop an improved service delivery model to enable us to more cost effectively serve our clients and maintaining the flexibility to control the compensation-related portions of our cost structure.
As our clients' data volumes and complexity levels continue to grow, we are using our deep data management experience to develop new actionable insight solutions, as well as to develop custom analytics and data transformation services. Taken together, our deep understanding of our clients' P2P data and our technology-based solutions provide multiple routes to help our clients achieve greater profitability. Our Adjacent Services business targets client functional and process areas where we have established expertise, enabling us to provide services to finance, merchandising and procurement executives to improve working capital, optimize purchasing leverage in vendor pricing negotiations, improve insight into product margin and true cost of goods for resale, identify and manage risks associated with vendor compliance, improve quality of vendor master data and improve visibility and diagnostics of direct and indirect spend. Our Adjacent Services include our global SIM services offering.

Discontinued Operations

As of December 31, 2015, the Company discontinued its Healthcare Claims Recovery Audit business. PRGX entered into agreements with third parties to fulfill its Medicare RAC program subcontract obligations to audit Medicare payments and provide support for claims appeals and assigned its remaining Medicaid contract to another party. The Company will continue to incur certain expenses while the current Medicare RAC contracts are still in effect. The discussions and financial results in this Report have been adjusted to reflect the discontinued business.

Non-GAAP Financial Measures
EBIT, EBITDA and Adjusted EBITDA are all “non-GAAP financial measures” presented as supplemental measures of the Company's performance. They are not presented in accordance with accounting principles generally accepted in the United States, or GAAP. The Company believes these measures provide additional meaningful information in evaluating its performance over time, and that the rating agencies and a number of lenders use EBITDA and similar measures for similar purposes. In addition, a measure similar to Adjusted EBITDA is used in the restrictive covenants contained in the Company's secured credit facility. However, EBIT, EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of the Company's results as reported under GAAP. In addition, in evaluating EBIT, EBITDA and Adjusted EBITDA, you should be aware that, as described above, the adjustments may vary from period to period and in the future the Company will incur expenses such as those used in calculating these measures. The Company's presentation of these measures should

not be construed as an inference that future results will be unaffected by unusual or nonrecurring items. We include a reconciliation of net loss to each of EBIT, EBITDA and Adjusted EBITDA and a calculation of Adjusted EBITDA by segment below in “Adjusted EBITDA”.

Results of Operations from Continuing Operations

The following table sets forth the percentage of revenue represented by certain items in the Company’s Condensed Consolidated Statements of Operations from continuing operations (Unaudited) for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Cost of revenue	63.7	70.5	66.3	68.5
Selling, general and administrative expenses	28.1	24.8	27.9	24.6
Depreciation of property and equipment	3.9	3.8	3.8	3.7
Amortization of intangible assets	1.1	2.1	1.2	2.2
Total operating expenses	96.8	101.2	99.2	99.0
Operating income (loss)	3.2	(1.2)	0.8	1.0
Foreign currency transaction losses (gains) on short-term intercompany balances	(0.5)	2.0	(1.0)	1.9
Interest income, net	—	—	(0.1)	(0.1)
Other income (loss)	(0.5)	4.8	(0.1)	1.6
Income (loss) before income taxes	4.2	(8.0)	2.0	(2.4)
Income tax expense	(1.9)	1.3	—	1.1
Net income (loss) from continuing operations	6.1 %	(9.3)%	2.0 %	(3.5)%

Three and Nine Months Ended September 30, 2016 Compared to the Corresponding Period of the Prior Year

Revenue. Revenue was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Recovery Audit Services – Americas	$25,719	$23,981	$72,408	$71,748
Recovery Audit Services – Europe/Asia-Pacific	8,736	8,052	26,683	27,307
Adjacent Services	682	1,332	2,570	4,290
Total	$35,137	$33,365	$101,661	$103,345

Consolidated revenue from continuing operations increased for the three months ended September 30, 2016 by $1.8 million, or 5.3%, compared to the same period in 2015. Total consolidated revenue from continuing operations decreased for the nine months ended September 30, 2016 by $1.7 million, or 1.6%, compared to the same period in 2015. On a constant dollar basis, adjusted for changes in foreign exchange ("FX") rates and excluding revenue associated with a large U.S. based customer that filed bankruptcy in the third quarter of 2015, consolidated revenue from continuing operations increased 7.4% for the three months ended September 30, 2016 and increased 1.7% for the nine months ended September 30, 2016 compared to the same periods in 2015.

Below is a discussion of our revenue for our three reportable segments.

Recovery Audit Services – Americas revenue increased by $1.7 million, or 7.2%, for the third quarter of 2016 compared to the third quarter of 2015. For the nine months ended September 30, 2016, revenue increased by $0.7 million, or 0.9%, compared to the same period in the prior year. On a constant dollar basis, adjusted for changes in FX rates and after reducing revenue in the 2015 periods to adjust for a large U.S. client who filed bankruptcy in August

2015, revenue increased by 7.3% for the third quarter of 2016 and increased 2.9% during the first nine months of 2016 compared to the corresponding periods in 2015. The 7.3% increase for the three-month period on a constant dollar basis, and adjusted for the large U.S. client bankruptcy, was due to a net increase of 8.6% for existing and new clients which was primarily the result of our continued investments in our technology platforms and our focus on operational improvements, which include the implementation at certain clients of our audit acceleration programs and/or our audit maturity model. These programs are designed to improve audit performance and standardized processes and tools. These increases were partially offset by a decrease of 1.2% for exited clients. The 2.9% net increase for the nine month period on a constant dollar basis, and adjusted for the large U.S. client bankruptcy, was due to a net revenue increase of 3.4% for existing and new clients partially offset by a decrease of 0.5% for exited clients.

Recovery Audit Services – Europe/Asia-Pacific revenue increased by $0.7 million, or 8.5%, for the three months ended September 30, 2016 compared to the same period in 2015. For the nine months ended September 30, 2016, revenue decreased by $0.6 million, or 2.3%, compared to the same period in the prior year. On a constant dollar basis, adjusted for changes in FX rates, Recovery Audit Services - Europe/Asia-Pacific revenue increased by 14.8% for the third quarter of 2016 and increased by 3.1% during the first nine months of 2016 compared to the same periods in 2015. The 14.8% increase on a constant dollar basis for the three-month period included net increases in revenue of 16.8% for new and existing clients. These increases were partially offset by a net decrease in revenue of 2.0% attributable to exited clients. The 3.1% net increase in revenue on a constant dollar basis for the nine-month period included a net increase of 4.4% for new and existing clients, which was partially offset by a net decrease in revenue of 1.3% for exited clients.

Adjacent Services revenue decreased by $0.7 million, or 48.8%, for the three months ended September 30, 2016 and decreased $1.7 million, or 40.1%, for the nine months ended September 30, 2016 compared to the same periods in 2015. On a constant dollar basis, adjusted for changes in FX rates and excluding revenue for the 2015 periods from the document services business we sold in August 2015, Adjacent Services revenue decreased 34.2% for the third quarter of 2016 and 10.5% for the first nine months of 2016 compared to the same periods in 2015 due primarily to timing delays in the contracting process on several projects.

Cost of Revenue (“COR”). COR consists principally of fixed auditor salaries, compensation paid to various types of hourly support staff and salaries for operational managers, commissions and other forms of variable compensation we pay to our auditors based primarily on the level of overpayment recoveries and/or profit margins derived therefrom and client service managers for our recovery audit services and our Adjacent Services businesses. COR also includes other direct and indirect costs incurred by these personnel, including office rent, travel and entertainment, telephone, utilities, maintenance and supplies and clerical assistance. A significant portion of the components comprising COR is variable and will increase or decrease with increases or decreases in revenue.

COR was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Recovery Audit Services – Americas	$14,787	$15,139	$44,737	$45,272
Recovery Audit Services – Europe/Asia-Pacific	6,284	5,883	18,657	18,927
Adjacent Services	1,296	2,485	4,050	6,586
Total	$22,367	$23,507	$67,444	$70,785

COR as a percentage of revenue from continuing operations was 63.7% and 71.9% for the three months ended September 30, 2016 and 2015, respectively, and 66.3% and 70.0% for the nine months ended September 30, 2016 and 2015, respectively. The improvement of approximately 780 basis points in COR as a percentage of revenue for the third quarter of 2016 and approximately 400 basis points in COR as a percentage of revenue for the nine-month period of 2016 is primarily due to the increase in revenue and the positive financial impact of operational process improvements, partially offset by costs associated with senior leadership and audit staff personnel that were not in place in the prior periods.

COR as a percentage of revenue for Recovery Audit Services – Americas was 57.5% and 63.1% for the three months ended September 30, 2016 and 2015, respectively, and 61.8% and 63.1% for the nine months ended September 30, 2016 and 2015, respectively. The improvement in COR as a percentage of revenue for the three and nine months ended September 30, 2016 compared to the same periods in 2015 is primarily due to the increase in revenue for the three and nine month periods as well as the financial impact of our operational process improvements, partially offset by the costs associated with additional senior leadership and audit staff personnel that were not in place in the prior periods.

COR as a percentage of revenue for Recovery Audit Services – Europe/Asia-Pacific was 71.9% and 73.1% for the three months ended September 30, 2016 and 2015, respectively, and 69.9% and 69.3% for the nine months ended September 30, 2016 and 2015, respectively. The improvement in COR as a percentage of revenue for the quarter is due primarily to the increased revenue which was partially offset by costs associated with senior leadership and audit staff personnel that were not in place in the prior period.

COR as a percentage of revenue for Recovery Audit Services – Europe/Asia-Pacific is generally higher than COR as a percentage of revenue for Recovery Audit Services – Americas primarily due to differences in service delivery models, scale and geographic fragmentation. The Recovery Audit Services – Europe/Asia-Pacific segment generally has higher fixed costs as it serves fewer clients in each geographic market and on average generates lower revenue per client than those served by the Company's Recovery Audit Services – Americas segment.

Adjacent Services COR relates primarily to our continued investments in service delivery, which consist mainly of fixed personnel costs. Adjacent Services COR as a percentage of revenue was 190.0% and 186.6% for the three months ended September 30, 2016 and 2015, respectively, and 157.6% and 153.5% for the nine months ended September 30, 2016 and 2015, respectively. Adjacent Services COR improved 47.8% and 38.5% in the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015 due primarily to the removal of costs associated with the document services business we sold in the third quarter of 2015, as well as reductions in the use of outside contractors.

Selling, General and Administrative Expenses ("SG&A"). SG&A expenses for all segments other than Corporate Support include the expenses of sales and marketing activities, information technology services and allocated corporate data center costs, human resources, legal, accounting, administration, foreign currency transaction gains and losses other than those relating to short-term intercompany balances and gains and losses on asset disposals. Corporate Support SG&A represents the unallocated portion of SG&A expenses which are not specifically attributable to our segment activities and include the expenses of information technology services, the corporate data center, human resources, legal, accounting, treasury, administration and stock-based compensation charges.

SG&A expenses were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Recovery Audit Services – Americas	$2,132	$1,810	$6,434	$5,773
Recovery Audit Services – Europe/Asia-Pacific	1,265	1,322	4,402	4,248
Adjacent Services	321	129	666	527
Subtotal for reportable segments	3,718	3,261	11,502	10,548
Corporate Support	6,165	5,023	16,849	14,865
Total	$9,883	$8,284	$28,351	$25,413

Recovery Audit Services – Americas SG&A increased by $0.3 million, or 17.8%, for the three months ended September 30, 2016 and increased by $0.7 million, or 11.4%, for the nine months ended September 30, 2016 compared to the same periods in 2015. The increase for the three-month period is due primarily to increased sales personnel and adjustments to bad debt expense. The increase in the nine-month period is mainly due to an increased use of outside contractors and adjustments to bad debt expense.

Recovery Audit Services – Europe/Asia-Pacific SG&A decreased $0.1 million, or 4.3%, in the three months ended September 30, 2016 and increased $0.2 million, or 3.6%, in the nine months ended September 30, 2016 compared to the same periods in 2015. The three month period decrease is due mainly to the impact of FX rates. The increase for the nine month period is due mainly to additional facility costs and adjustments to bad debt expense.

Adjacent Services SG&A increased $0.2 million in the three months ended September 30, 2016 and increased $0.1 million in the nine months ended September 30, 2016 compared to the same periods in 2015.

Corporate Support SG&A increased $1.1 million, or 22.7%, for the three months ended September 30, 2016 and increased $2.0 million, or 13.3%, for the nine months ended September 30, 2016 compared to the same periods in 2015. These increases are primarily due to increases in legal expense, U.S. healthcare benefit costs and incentive compensation expenses. Partially offsetting these increased expenses were reductions in unallocated SG&A expenses.

Depreciation of property and equipment. Depreciation of property and equipment was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Recovery Audit Services – Americas	$935	$947	$2,863	$2,895
Recovery Audit Services – Europe/Asia-Pacific	141	148	379	454
Adjacent Services	300	160	582	479
Total	$1,376	$1,255	$3,824	$3,828

The increase in depreciation for the three months ended September 20, 2016 relates primarily to the mix and timing of our capital expenditures and the associated useful lives for such purchases. Depreciation for the nine months ended September 30, 2016 was flat when compared to the same period in 2015.

Amortization of intangible assets. Amortization of intangible assets was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Recovery Audit Services – Americas	$373	$437	$1,118	$1,319
Recovery Audit Services – Europe/Asia-Pacific	—	47	—	600
Adjacent Services	20	33	64	98
Total	$393	$517	$1,182	$2,017

The decreases in amortization expense for the three and nine months ended September 30, 2016 compared to the same periods in 2015 are primarily due to the end of the finite lives of certain intangible assets and the disposition of intangible assets as a result of the sale of our document services business in the third quarter of 2015.

Foreign Currency Transaction (Gains) Losses on Short-Term Intercompany Balances. Foreign currency transaction gains and losses on short-term intercompany balances result from fluctuations in the exchange rates for foreign currencies and the U.S. dollar and the impact of these fluctuations, primarily on balances payable by our foreign subsidiaries to their U.S. parent. Substantial changes from period to period in foreign currency exchange rates may significantly impact the amount of such gains and losses. The strengthening of the U.S. dollar relative to other currencies results in recorded losses on short-term intercompany balances receivable from our foreign subsidiaries while the relative weakening of the U.S. dollar results in recorded gains. In the three months ended September 30, 2016, we recorded $0.2 million of foreign currency transaction gains on short-term intercompany balances and in the three months ended September 30, 2015, we recorded $0.7 million of foreign currency transaction losses on short-term intercompany balances. In the nine months ended September 30, 2016, we recorded $1.0 million of foreign currency transaction gains on short-term intercompany balances and in the nine months ended September 30, 2015 we recorded $1.9 million of losses on short-term intercompany balances.

Income Tax Expense. Our income tax expense amounts as reported in the accompanying Condensed Consolidated Financial Statements (Unaudited) do not reflect amounts that normally would be expected due to several factors. The most significant of these factors is that for U.S. tax reporting purposes we have net operating loss carryforwards and other tax attributes which created deferred tax assets on our balance sheet. We reduce our deferred tax assets by a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. Generally, these factors result in our recording no net income tax expense or benefit relating to our operations in the United States. The reported income tax benefit for the three and nine months ended September 30, 2016 was primarily the result of adjustments to net deferred assets in foreign entities. The income tax expense in the three and nine months ended September 30, 2015 primarily resulted from taxes on the income of certain of our foreign subsidiaries.

Adjusted EBITDA. We evaluate the performance of our reportable segments based upon revenue and measures of profit or loss we refer to as EBITDA and Adjusted EBITDA. We define Adjusted EBITDA as earnings from continuing operations before interest and taxes (“EBIT”), adjusted for depreciation and amortization (“EBITDA”), and then further adjusted for unusual and other significant items that management views as distorting the operating results of the various segments from period to period. Such adjustments include restructuring charges, stock-based compensation, bargain purchase gains, acquisition-related charges and benefits (acquisition transaction costs, acquisition obligations classified as compensation, and fair value adjustments to acquisition-related contingent consideration), tangible and intangible asset impairment charges, certain

litigation costs and litigation settlements, certain severance charges and foreign currency transaction gains and losses on short-term intercompany balances viewed by management as individually or collectively significant.
Reconciliations of net income (loss) to each of EBIT, EBITDA and Adjusted EBITDA for the periods included in this report are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$2,283	$(3,409)	$1,138	$(5,270)
Income tax expense	(685)	421	(21)	1,172
Interest (income), net	(14)	(8)	(55)	(103)
EBIT	$1,584	$(2,996)	$1,062	$(4,201)
Depreciation of property and equipment	1,381	1,262	3,835	3,858
Amortization of intangible assets	393	517	1,182	2,017
EBITDA	$3,358	$(1,217)	$6,079	$1,674
Foreign currency transaction (gains) losses on short-term intercompany balances	(165)	654	(976)	1,930
Other (gains) losses	(168)		(140)	
Transformation severance and related expenses	138	845	1,233	1,554
Loss on sale/disposal of assets	—	1,612	—	1,612
Stock-based compensation	1,424	1,381	3,224	4,530
Adjusted EBITDA	$4,587	$3,275	$9,420	$11,300

Transformation severance and related expenses decreased $0.7 million for the three months ended September 30, 2016 and $0.3 million for the nine months ended September 30, 2016 compared to the same periods in 2015.
Transformation severance and related expenses fluctuate with staff reductions and lease expenses associated with vacating office space across all segments in order to reduce our cost structure.
Stock-based compensation was essentially unchanged for the three months ended September 30, 2016 compared to the prior year and decreased $1.3 million, or 28.8%, for the nine months ended September 30, 2016 compared to the same period in 2015 due to the reduced level of performance based restricted stock units granted in 2016.
We include a detailed calculation of Adjusted EBITDA by segment in Note D of “Notes to Consolidated Financial Statements” in Item 1 of this Form 10-Q. A summary of Adjusted EBITDA by segment for the three and nine months ended September 30, 2016 and 2015 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Recovery Audit Services – Americas	$8,894	$7,133	$21,754	$20,968
Recovery Audit Services – Europe/Asia-Pacific	1,376	847	3,908	4,400
Adjacent Services	(797)	(1,282)	(2,008)	(2,793)
Subtotal for reportable segments	9,473	6,698	23,654	22,575
Corporate Support	(4,742)	(3,370)	(13,384)	(10,027)
Total	$4,731	$3,328	$10,270	$12,548

Recovery Audit Services – Americas Adjusted EBITDA increased $1.8 million, or 24.7%, in the three months ended September 30, 2016 and $0.8 million, or 3.7%, for the nine months ended September 30, 2016 compared to the same periods in 2015 due primarily to increased revenue.
Recovery Audit Services – Europe/Asia-Pacific Adjusted EBITDA for the three months ended September 30, 2016 increased $0.5 million, or 62.5%, compared to the same period in 2015 due mainly to improved revenue. Adjusted EBITDA decreased $0.5 million, or 11.2%, for the nine months ended September 30, 2016 compared to the same period in 2015 due mainly to investments in senior leadership in the 2016 period.

22

Adjacent Services Adjusted EBITDA improved $0.5 million for the three months ended September 30, 2016 and $0.8 million for the nine months ended September 30, 2016 compared to the same periods in 2015 due primarily to reductions in costs associated with the reduced revenue.

Corporate Support Adjusted EBITDA decreased by $1.4 million, or 40.7%, for the three months ended September 30, 2016 compared to the same period in 2015. This decrease in Adjusted EBITDA is due primarily to increased legal costs, U.S. healthcare benefit costs and incentive compensation expenses. Adjusted EBITDA for the nine-month period ended September 30, 2016 declined $3.4 million, or 33.4%, compared to the same period in 2015 due mainly to increased legal expenses, US healthcare benefit costs and incentive compensation expenses.

Liquidity and Capital Resources

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less from the date of purchase. We place our temporary cash investments with high credit quality financial institutions. At times, certain investments may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit or otherwise may not be covered by FDIC insurance. Some of our cash and cash equivalents are held at banks in jurisdictions outside the U.S. that have restrictions on transferring such assets outside of these countries on a temporary or permanent basis. Such restricted net assets are not material to our consolidated net assets.

As of September 30, 2016, we had $13.2 million in cash and cash equivalents, of which $3.5 million was held in U.S. bank accounts, and no borrowings outstanding against our $20.0 million revolving credit facility.

Operating Activities. Net cash provided by operating activities was $6.2 million and $12.4 million during the nine months ended September 30, 2016 and 2015, respectively. These amounts consist of two components, specifically, net loss adjusted for certain non-cash items (such as depreciation, amortization, stock-based compensation expense, and deferred income taxes) and changes in assets and liabilities, primarily working capital, as follows (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Net gain (loss)	$1,138	$(5,270)
Adjustments for certain non-cash items	5,790	13,857
	6,928	8,587
Changes in operating assets and liabilities	(754)	3,776
Net cash provided by operating activities	$6,174	$12,363

The change in net cash provided by operating activities resulted primarily from timing differences between increased revenue and the resulting collections of accounts receivable, adjustments in the outstanding balances due to foreign currency fluctuations and the timing of payments on certain large payables. We include an itemization of these changes in our Condensed Consolidated Statements of Cash Flows (Unaudited) in Item 1 of this Form 10-Q.

Investing Activities. Net cash used for property and equipment capital expenditures was $4.6 million and $3.2 million during the nine months ended September 30, 2016 and 2015, respectively. These capital expenditures primarily related to investments we made to upgrade our information technology infrastructure and audit tools.

Capital expenditures are discretionary and we currently expect to continue to make capital expenditures to enhance our information technology infrastructure and proprietary audit tools in 2016. Should we experience changes in our operating results, we may alter our capital expenditure plans.

Financing Activities. Net cash used by financing activities was $3.8 million for the nine months ended September 30, 2016 and $17.5 million for the same period in 2015. The decrease in net cash used by financing activities in the nine months ended September 30, 2016 compared to same period in 2015 is primarily due to the reduced level of repurchased common stock in 2016.

Secured Credit Facility

On January 19, 2010, we entered into a four-year revolving credit and term loan agreement with SunTrust Bank ("SunTrust"). The SunTrust credit facility initially consisted of a $15.0 million committed revolving credit facility and a $15.0 million term loan. The SunTrust term loan required quarterly principal payments of $0.8 million beginning in March 2010, and

a final principal payment of $3.0 million due in January 2014 that we paid in December 2013. The SunTrust credit facility is guaranteed by the Company and all of its material domestic subsidiaries and secured by substantially all of the assets of the Company.
On January 17, 2014, we entered into an amended and restated SunTrust credit facility that increased the committed revolving credit facility from $15.0 million to $25.0 million, lowered the applicable margin to a fixed rate of 1.75%, eliminated the provision limiting availability under the revolving credit facility based on eligible accounts receivable, increased our stock repurchase program limits, and extended the scheduled maturity of the revolving credit facility to January 16, 2015 (subject to earlier termination as provided therein).
On December 23, 2014, we entered into an amendment of the SunTrust credit facility that reduced the committed revolving credit facility from $25.0 million to $20.0 million. The credit facility bears interest at a rate per annum comprised of a specified index rate based on one-month LIBOR, plus an applicable margin (1.75% per annum). The credit facility includes two financial covenants (a maximum leverage ratio and a minimum fixed charge coverage ratio) that apply only if we have borrowings under the credit facility that arise or remain outstanding during the final 30 calendar days of any fiscal quarter. These financial covenants also will be tested, on a modified pro forma basis, in connection with each new borrowing under the credit facility. This amendment also extended the scheduled maturity of the revolving credit facility to December 23, 2017 and lowered the commitment fee to 0.25% per annum, payable quarterly, on the unused portion of the revolving credit facility.
As of September 30, 2016, we had no outstanding borrowings under the SunTrust credit facility. With the provision of a fixed applicable margin of 1.75% per the amended and restated SunTrust credit facility, the interest rate that would have applied at September 30, 2016 had any borrowings been outstanding was approximately 2.27%.
The SunTrust credit facility includes customary affirmative, negative, and financial covenants binding on the Company, including delivery of financial statements and other reports, maintenance of existence, and transactions with affiliates. The negative covenants limit the ability of the Company, among other things, to incur debt, incur liens, make investments, sell assets or declare or pay dividends on its capital stock. The financial covenants included in the SunTrust credit facility, among other things, limit the amount of capital expenditures the Company can make, set forth maximum leverage and net funded debt ratios for the Company and a minimum fixed charge coverage ratio, and also require the Company to maintain minimum consolidated earnings before interest, taxes, depreciation and amortization. In addition, the SunTrust credit facility includes customary events of default. The Company was in compliance with the covenants in the SunTrust credit facility as of September 30, 2016.
We believe that we will have sufficient borrowing capacity and cash generated from operations to fund our capital and operational needs for at least the next twelve months.
Stock Repurchase Program
On February 21, 2014, our Board of Directors authorized a stock repurchase program under which we may repurchase up to $10.0 million of our common stock from time to time through March 31, 2015. On March 25, 2014, our Board of Directors authorized a $10.0 million increase to the stock repurchase program. In October 2014, our Board of Directors authorized a
$20.0 million increase to the stock repurchase program. In October 2015, our Board of Directors authorized a $10.0 million increase to the stock repurchase program, increasing the total stock repurchase authorization since the inception of the program to $50.0 million, and extended the duration of the program to December 31, 2016. From the February 2014 announcement of the Company’s current stock repurchase program through September 30, 2016, the Company has repurchased 8.6 million shares, or 28.7%, of its common stock outstanding on the date of the announcement, for an aggregate cost of approximately $44.5 million. For the nine months ended September 30, 2016, we repurchased 0.9 million shares under this program for an aggregate cost of $3.8 million. These shares were retired and accounted for as a reduction to Shareholders' equity in the Condensed Consolidated Balance Sheet (Unaudited). Direct costs incurred to acquire the shares are included in the total cost of the shares.

The timing and amount of future repurchases, if any, will depend upon the Company’s stock price, the amount of the Company’s available cash, regulatory requirements, and other corporate considerations. The Company may initiate, suspend or discontinue purchases under the stock repurchase program at any time.

Off-Balance Sheet Arrangements

As of September 30, 2016, the Company did not have any material off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of the SEC’s Regulation S-K.

Table of Contents

Critical Accounting Policies

We describe the Company’s significant accounting policies in Note 1 of Notes to Consolidated Financial Statements of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. We consider certain of these accounting policies to be “critical” to the portrayal of the Company’s financial position and results of operations, as they require the application of significant judgment by management. As a result, they are subject to an inherent degree of uncertainty. We identify and discuss these “critical” accounting policies in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. Management bases its estimates and judgments on historical experience and on various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. On an ongoing basis, management evaluates its estimates and judgments, including those considered “critical”. Management has discussed the development, selection and evaluation of accounting estimates, including those deemed “critical,” and the associated disclosures in this Form 10-Q with the Audit Committee of the Board of Directors.

Table of Contents

Forward-Looking Statements

Some of the information in this Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which statements involve substantial risks and uncertainties including, without limitation, statements regarding: (1) future results of operations or of the Company’s financial condition, (2) the adequacy of the Company’s current working capital and other available sources of funds, (3) the Company's goals and plans for the future, including its strategic initiatives and growth opportunities, (4) expectations regarding future revenue trends, and (5) the expected impact of the Company’s decision to exit the Company's Healthcare Claims Recovery Audit Services business. All statements that cannot be assessed until the occurrence of a future event or events should be considered forward-looking. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and can be identified by the use of forward-looking words such as “may,” “will,” “expect,” “anticipate,” “believe,” “estimate” and “contin similar words. Risks and uncertainties that may potentially impact these forward-looking statements include, without limitation, those set forth under Part I, Item 1A “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and its other periodic reports filed with the Securities and Exchange Commission. The Company disclaims any obligation or duty to update or modify these forward-looking statements.

There may be events in the future, however, that the Company cannot accurately predict or over which the Company has no control. The risks and uncertainties listed in this section, as well as any cautionary language in this Form 10-Q, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should be aware that the occurrence of any of the events denoted above as risks and uncertainties and elsewhere in this Form 10-Q could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Market Risk. Our reporting currency is the U.S. dollar, although we transact business in various foreign locations and currencies. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we provide our services. Our operating results are exposed to changes in exchange rates between the U.S. dollar and the currencies of the other countries in which we operate. When the U.S. dollar strengthens against other currencies, the value of foreign functional currency revenue decreases. When the U.S. dollar weakens, the value of the foreign functional currency revenue increases. Overall, we are a net receiver of currencies other than the U.S. dollar and, as such, benefit from a weaker dollar. We therefore are adversely affected by a stronger dollar relative to major currencies worldwide. During the three months ended September 30, 2016, we recognized $3.1 million of operating income from operations located outside the U.S., virtually all of which was originally accounted for in currencies other than the U.S. dollar. Upon translation into U.S. dollars, such operating income would increase or decrease, assuming a hypothetical 10% change in weighted-average foreign currency exchange rates against the U.S. dollar, by $0.3 million for the three months ended September 30, 2016. We currently do not have any arrangements in place to hedge our foreign currency risk.

Interest Rate Risk. Our interest income and expense are sensitive to changes in the general level of U.S. interest rates. In this regard, changes in U.S. interest rates affect the interest earned on our cash equivalents as well as interest paid on amounts outstanding under our revolving credit facility, if any. As of September 30, 2016, we had no borrowings outstanding against our $20.0 million revolving credit facility. Interest on our revolving credit facility is payable monthly and accrues at an index rate using the one-month LIBOR rate plus an applicable margin of 1.75%. Assuming full utilization of the revolving credit facility, a hypothetical 100 basis point change in interest rates applicable to the revolver would result in an approximate $0.2 million change in annual pre-tax income.

Table of Contents

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2016.

There were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are party to a variety of legal proceedings arising in the normal course of business. While the results of these proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risks facing the Company as described in the Company's Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company's current credit facility prohibits the payment of any cash dividends on the Company's capital stock.

The following table sets forth information regarding the purchases of the Company's equity securities made by or on behalf of the Company or any affiliated purchaser (as defined in Exchange Act Rule 10b-18) during the three-month period ended September 30, 2016:

2016	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (millions of dollars)
July 1 - July 31	—	—	—	—
Aug 1 - Aug 31	21,998	4.74	21,998	—
Sept 1 - Sept 30	5,494	4.90	—	—
	27,492	$ 4.81	21,998	$ 5.5

(a) Shares purchased during the quarter include shares surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock and shares from the Company's stock repurchase program.

(b) On February 21, 2014, our Board of Directors authorized a stock repurchase program under which we may repurchase up to $10.0 million of our common stock from time to time through March 31, 2015. In March 2014, our Board of Directors authorized a $10.0 million increase to the stock repurchase program. In October 2014, our Board of Directors authorized a $20.0 million increase to the stock repurchase program. In October 2015, our Board of Directors authorized a $10.0 million increase to the stock repurchase program, increasing the total stock repurchase program since its inception to $50.0 million, and extended the duration of the program to December 31, 2016. From the February 2014 announcement through September 30, 2016, the Company repurchased a total of 8,627,072 shares, or 28.7%, of its common stock outstanding on the date of the announcement, for an aggregate purchase price of approximately $44.5 million. The timing and amount of repurchases, if any, will depend upon the Company's stock price, economic and market conditions, regulatory requirements, and other corporate considerations. The Company may initiate, suspend or discontinue purchases under the stock repurchase program at any time.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description
3.1	Restated Articles of Incorporation of the Registrant, as amended and corrected through August 11, 2006 (restated solely for the purpose of filing with the Commission) (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on August 17, 2006).
3.1.1	Articles of Amendment of the Registrant effective January 20, 2010 (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on January 25, 2010).
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on December 11, 2007).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 10-K for the year ended December 31, 2001).
4.2	See Restated Articles of Incorporation and Bylaws of the Registrant, filed as Exhibits 3.1 and 3.2, respectively.
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended September 30, 2016.
31.2	Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended September 30, 2016.
32.1	Certification of the Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, for the quarter ended September 30, 2016.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	PRGX GLOBAL, INC.	
November 8, 2016	By:	/s/ Ronald E. Stewart Ronald E. Stewart President, Chief Executive Officer, Director (Principal Executive Officer)
November 8, 2016	By:	/s/ Peter Limeri Peter Limeri Chief Financial Officer and Treasurer (Principal Financial Officer)

32