

PRGX GLOBAL, INC.
Form 10-Q
May 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 0-28000

PRGX Global, Inc.

(Exact name of registrant as specified in its charter)

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Georgia
(State or other jurisdiction of
incorporation or organization)

58-2213805
(I.R.S. Employer
Identification No.)

600 Galleria Parkway
Suite 100
Atlanta, Georgia
(Address of principal executive offices)

30339-5986
(Zip Code)

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 ☒ 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 ☒ 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 ☒ 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 ☒

Common shares of the registrant outstanding at April 25, 2013 were 28,847,299.

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PRGX GLOBAL, INC.

FORM 10-Q

For the Quarter Ended March 31, 2013

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

	Three Months Ended March 31,	
	2013	2012
Revenue	\$ 45,101	\$ 51,649
Operating expenses:		
Cost of revenue	30,407	34,218
Selling, general and administrative expenses	11,711	12,637
Depreciation of property and equipment	2,008	1,513
Amortization of intangible assets	1,276	2,327
Total operating expenses	45,402	50,695
Operating income (loss)	(301)	954
Foreign currency transaction (gains) losses on short-term intercompany balances	357	(339)
Interest expense (income), net	(217)	504
Earnings (loss) before income taxes	(441)	789
Income tax expense	56	497
Net earnings (loss)	\$ (497)	\$ 292
Basic earnings (loss) per common share <i>(Note B)</i>	\$ (0.02)	\$ 0.01
Diluted earnings (loss) per common share <i>(Note B)</i>	\$ (0.02)	\$ 0.01
Weighted-average common shares outstanding <i>(Note B)</i> :		
Basic	28,770	25,309
Diluted	28,770	25,765

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

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	Three Months Ended March 31,	
	2013	2012
Net earnings (loss)	\$ (497)	\$ 292
Foreign currency translation adjustments	(484)	416
Comprehensive income (loss)	\$ (981)	\$ 708

See accompanying Notes to Condensed Consolidated Financial Statements.

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PRGX GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents <i>(Note E)</i>	\$ 37,787	\$ 37,806
Restricted cash	129	65
Receivables:		
Contract receivables, less allowances of \$2,618 in 2013 and \$1,693 in 2012:		
Billed	26,973	32,626
Unbilled	11,311	12,501
	38,284	45,127
Employee advances and miscellaneous receivables, less allowances of \$387 in 2013 and \$538 in 2012	1,198	1,352
Total receivables	39,482	46,479
Prepaid expenses and other current assets	4,124	3,853
Total current assets	81,522	88,203
Property and equipment	58,642	56,924
Less accumulated depreciation and amortization	(39,087)	(37,350)
Property and equipment, net	19,555	19,574
Goodwill	13,611	13,669
Intangible assets, less accumulated amortization of \$28,552 in 2013 and \$27,720 in 2012	16,934	18,399
Noncurrent portion of unbilled receivables	1,074	1,391
Other assets	2,298	2,350
Total assets	\$ 134,994	\$ 143,586
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 11,674	\$ 14,136
Accrued payroll and related expenses	13,652	20,874
Refund liabilities	6,815	6,979
Deferred revenue	1,824	1,551
Current portion of debt <i>(Note F)</i>	5,250	3,000
Business acquisition obligations	3,098	4,218
Total current liabilities	42,313	50,758
Long-term debt <i>(Note F)</i>		3,000
Noncurrent business acquisition obligations		2,479
Noncurrent refund liabilities	1,050	1,159
Other long-term liabilities	1,226	1,538

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Total liabilities	44,589	58,934
Commitments and contingencies (<i>Note H</i>)		
Shareholders' equity (<i>Note B</i>):		
Common stock, no par value; \$.01 stated value per share. Authorized 50,000,000 shares; 28,850,338 shares issued and outstanding as of March 31, 2013 and 27,893,132 shares issued and outstanding as of December 31, 2012		
	289	279
Additional paid-in capital	600,769	594,045
Accumulated deficit	(513,697)	(513,200)
Accumulated other comprehensive income	3,044	3,528
Total shareholders' equity	90,405	84,652
	\$ 134,994	\$ 143,586

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)**

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net earnings (loss)	\$ (497)	\$ 292
Adjustments to reconcile net earnings (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	3,284	3,840
Amortization of deferred loan costs <i>(Note F)</i>	46	46
Stock-based compensation expense	1,318	1,401
Loss on sale of property and equipment		1
Deferred income taxes	(45)	(33)
Foreign currency transaction (gains) losses on short-term intercompany balances	357	(339)
Changes in assets and liabilities:		
Restricted cash	(64)	(59)
Billed receivables	5,163	3,199
Unbilled receivables	1,507	(2,012)
Prepaid expenses and other current assets	(313)	923
Other assets	20	29
Accounts payable and accrued expenses	(2,359)	(407)
Accrued payroll and related expenses	(6,985)	(5,182)
Refund liabilities	(273)	(44)
Deferred revenue	279	151
Noncurrent compensation obligations	197	167
Other long-term liabilities	(786)	1
Net cash provided by operating activities	849	1,974
Cash flows from investing activities:		
Business acquisition		(997)
Purchases of property and equipment, net of disposal proceeds	(2,207)	(1,967)
Net cash used in investing activities	(2,207)	(2,964)
Cash flows from financing activities:		
Repayments of long-term debt	(750)	(750)
Restricted stock repurchased from employees for withholding taxes	(430)	(209)
Proceeds from option exercises	336	38
Payments of deferred acquisition consideration	(1,656)	(650)
Net proceeds from issuance of common stock	4,118	
Net cash provided by (used in) financing activities	1,618	(1,571)
Effect of exchange rates on cash and cash equivalents	(279)	416
Net decrease in cash and cash equivalents	(19)	(2,145)
Cash and cash equivalents at beginning of period	37,806	20,337

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Cash and cash equivalents at end of period	\$ 37,787	\$ 18,192
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 71	\$ 93
Cash paid during the period for income taxes, net of refunds received	\$ 294	\$ 225

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 period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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 Footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2012.

Certain reclassifications have been made to the 2012 financial statements to conform to the presentations adopted in 2013.

New Accounting Standards

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

FASB ASC Update No. 2013-02. In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). ASU 2013-02 requires an entity to provide information about significant amounts reclassified out of accumulated other comprehensive income on the respective line items in net income if the amounts being reclassified are required under U.S. generally accepted accounting principles (GAAP) to be reclassified in their entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The Company adopted these changes prospectively as of its fiscal year beginning January 1, 2013. The adoption of ASU No. 2013-02 did not have a material impact on our consolidated results of operations, financial position or cash flows.

Note B Earnings (Loss) Per Common Share

The following tables set forth the computations of basic and diluted earnings (loss) per common share for the three months ended March 31, 2013 and 2012 (in thousands, except per share data):

	Three Months Ended March 31,	
	2013	2012
Basic earnings (loss) per common share:		
Numerator:		
Net earnings (loss)	\$ (497)	\$ 292
Denominator:		
Weighted-average common shares outstanding	28,770	25,309
Basic earnings (loss) per common share	\$ (0.02)	\$ 0.01

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

	Three Months Ended March 31,	
	2013	2012
Diluted earnings (loss) per common share:		
Numerator:		
Net earnings (loss)	\$ (497)	\$ 292
Denominator:		
Weighted-average common shares outstanding	28,770	25,309
Incremental shares from stock-based compensation plans		456
Denominator for diluted earnings (loss) per common share	28,770	25,765
Diluted earnings (loss) per common share	\$ (0.02)	\$ 0.01

Weighted-average shares outstanding excludes anti-dilutive shares underlying options that totaled 2.9 million shares and anti-dilutive Performance Units related to the Company's 2006 Management Incentive Plan that totaled 0.1 million from the computation of diluted earnings (loss) per common share for the three months ended March 31, 2013. Weighted-average shares outstanding excludes anti-dilutive shares underlying options that totaled 1.5 million shares from the computation of diluted earnings per common share for the three months ended March 31, 2012. The number of common shares we used in the basic and diluted earnings (loss) per common share computations include nonvested restricted shares of 0.8 million and 1.1 million for the three months ended March 31, 2013 and 2012, respectively, and nonvested restricted share units that we consider to be participating securities of 0.2 million for both the three months ended March 31, 2013 and 2012.

On December 11, 2012, we closed a public offering of 6,249,234 shares of our common stock, which consisted of 2,500,000 shares sold by us and 3,749,234 shares sold by certain selling shareholders, at a price to the public of \$6.39 per share. The net proceeds to us from the public offering, after deducting underwriting discounts and commissions and offering expenses, were \$14.7 million. We did not receive any proceeds from the sale of shares by the selling shareholders. In addition, the underwriters elected to exercise an overallotment option for an additional 687,385 shares, and completed the additional sale on January 8, 2013. The net proceeds to us from the overallotment, after deducting underwriting discounts and commission and offering expenses were \$4.1 million. We intend to use the net proceeds from the public offering for working capital and general corporate purposes, including potential acquisitions.

Note C Stock-Based Compensation

The Company currently has three stock-based compensation plans under which awards have been granted: (1) the Stock Incentive Plan, (2) the 2006 Management Incentive Plan (2006 MIP) and (3) the 2008 Equity Incentive Plan (2008 EIP) (collectively, the Plans). The Plans are described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

2008 EIP Awards

An amendment to the 2008 EIP was adopted by the Company's Board of Directors in April 2012 and approved at the Company's annual meeting of shareholders held on June 19, 2012. This amendment increased the number of shares reserved for issuance under the 2008 EIP by 2,200,000 shares to a total of 7,600,000 shares. 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. There were no stock option grants during the three months ended March 31, 2012. The following table summarizes stock option grants during the three months ended March 31, 2013:

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

Grantee	# of Options Granted	Vesting Period	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Type				
2013				
Director group	7,122	1 year or less	\$ 6.83	\$ 2.35
Director group	17,092	3 years	\$ 6.83	\$ 3.76
Employee	5,000	3 years	\$ 6.83	\$ 3.65
Employee inducement ⁽¹⁾	20,000	3 years	\$ 7.14	\$ 3.81

- (1) The Company granted non-qualified performance-based stock options outside its existing stock-based compensation plans in the first quarter of 2013 to one employee in connection with the employee joining the Company.

Nonvested stock awards, including both restricted stock and restricted stock units, 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 vest in equal annual increments over the vesting period, which typically is three years for employees and one year for directors. There were no nonvested stock awards (restricted stock and restricted stock units) granted during the three months ended March 31, 2012. The following table summarizes nonvested stock awards granted during the three months ended March 31, 2013:

Grantee	# of Shares Granted	Vesting Period	Weighted Average Grant Date Fair Value
Type			
2013			
Director group	7,122	1 year or less	\$ 6.83
Director group	17,092	3 years	\$ 6.83
Employee	5,000	3 years	\$ 6.83
Employee inducement ⁽¹⁾	20,000	3 years	\$ 7.14

- (1) The Company granted nonvested performance-based stock awards (restricted stock) outside its existing stock-based compensation plans in the first quarter of 2013 to one employee in connection with the employee joining the Company.

2006 MIP Performance Units

On June 19, 2012, seven senior officers of the Company were granted 154,264 Performance Units under the 2006 MIP, comprising all 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. On 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. As of March 31, 2013, all Performance Units were outstanding and none of the senior officers had vested in the awards.

Selling, general and administrative expenses for the three months ended March 31, 2013 and 2012 include \$1.3 million and \$1.4 million, respectively, related to stock-based compensation charges. At March 31, 2013, there was \$7.6 million of unrecognized stock-based compensation expense related to stock options, restricted stock awards, restricted stock unit awards, and Performance Unit awards which we expect to recognize over a weighted-average period of 1.6 years.

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 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.

New Services represents Profit Optimization services and Healthcare Claims Recovery Audit services.

Additionally, Corporate Support includes the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to the three reportable segments.

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 (loss) 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 transaction costs and acquisition obligations classified as compensation, 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 months ended March 31, 2013 and 2012 (in thousands) is as follows:

	Recovery Audit Services Americas	Recovery Audit Services Europe/Asia- Pacific	New Services	Corporate Support	Total
Three Months Ended March 31, 2013					
Revenue	\$ 26,242	\$ 11,017	\$ 7,842	\$	\$ 45,101
Net earnings (loss)					\$ (497)
Income tax expense					56
Interest expense (income), net					(217)
EBIT	\$ 5,454	\$ 441	\$ (1,161)	\$ (5,392)	(658)
Depreciation of property and equipment	1,368	112	528		2,008
Amortization of intangible assets	698	396	182		1,276
EBITDA	7,520	949	(451)	(5,392)	2,626
Foreign currency transaction (gains) losses on short-term intercompany balances	52	306		(1)	357
Acquisition obligations classified as compensation			56		56
Stock-based compensation				1,318	1,318
Adjusted EBITDA	\$ 7,572	\$ 1,255	\$ (395)	\$ (4,075)	\$ 4,357

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	New Services	Corporate Support	Total
Three Months Ended March 31, 2012					
Revenue	\$ 28,813	\$ 14,305	\$ 8,531	\$	\$ 51,649
Net earnings					\$ 292
Income tax expense					497
Interest expense, net					504
EBIT	\$ 5,561	\$ 1,657	\$ (798)	\$ (5,127)	1,293
Depreciation of property and equipment	915	40	558		1,513
Amortization of intangible assets	1,586	539	202		2,327
EBITDA	8,062	2,236	(38)	(5,127)	5,133
Foreign currency transaction gains on short-term intercompany balances	(63)	(257)	(19)		(339)
Acquisition obligations classified as compensation			101		101
Transformation severance and related expenses	90	57	95		242
Wage claim costs	249				249
Stock-based compensation				1,401	1,401
Adjusted EBITDA	\$ 8,338	\$ 2,036	\$ 139	\$ (3,726)	\$ 6,787

Note E Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less from 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.

Our cash and cash equivalents included short-term investments of approximately \$25.9 million as of March 31, 2013 and \$25.1 million as of December 31, 2012, of which approximately \$3.3 million and \$1.6 million, respectively, were held at banks outside of the United States, primarily in Brazil and Canada.

Note F Debt

Long-term debt consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
SunTrust term loan due quarterly through January 2014	\$ 5,250	\$ 6,000
Less current portion	5,250	3,000
Noncurrent portion	\$	\$ 3,000

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On January 19, 2010, we entered into a four-year revolving credit and term loan agreement with SunTrust Bank (SunTrust). The SunTrust credit facility consists of a \$15.0 million committed revolving credit facility and a \$15.0 million term loan. 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. Availability under the SunTrust revolver is based on eligible accounts receivable and other factors. As of March 31, 2013, we had no outstanding borrowings under the SunTrust revolver.

The SunTrust term loan requires quarterly principal payments of \$0.8 million beginning in March 2010, and a final principal payment of \$3.0 million due in January 2014. The loan agreement requires mandatory prepayments with the net cash proceeds from certain asset sales, equity offerings and insurance proceeds received by the Company. In connection with our equity offering in December 2012 (see *Note B, Earnings (Loss) Per Common Share*), we obtained a

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PRGX GLOBAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

waiver of the requirement to prepay the loan from SunTrust that enabled us to retain the net proceeds from the offering. The loan agreement also requires an annual additional prepayment contingently payable in April of each year based on excess cash flow (ECF) in the prior year if our leverage ratio as defined in the agreement exceeds a certain threshold. Our leverage ratio has remained below the threshold and ECF payments have not been required in any year.

Interest on both the revolver and term loan is payable monthly and accrues at an index rate using the one-month LIBOR rate, plus an applicable margin as determined by the loan agreement. The applicable interest rate margin varies from 2.25% per annum to 3.5% per annum, dependent on our consolidated leverage ratio, and is determined in accordance with a pricing grid under the SunTrust loan agreement. The applicable margin was 2.5% and the interest rate was approximately 2.70% at March 31, 2013. We also must pay a commitment fee of 0.5% per annum, payable quarterly, on the unused portion of the \$15.0 million SunTrust revolving credit facility. We made mandatory principal payments on the SunTrust term loan totaling \$0.8 million during the three months ended March 31, 2013. The Company was in compliance with the covenants in its SunTrust credit facility as of March 31, 2013.

Note G 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 recorded bank debt of \$5.3 million as of March 31, 2013 and \$6.0 million as of December 31, 2012 at the unpaid balances as of those dates based on the effective borrowing rates and repayment terms when originated. This debt is subject to variable rate terms, and we believe that its fair value is approximately equal to its carrying value. We consider the factors used in determining the fair value of this debt to be Level 3 inputs (significant unobservable inputs).

We recorded business acquisition obligations of \$3.1 million as of March 31, 2013 and \$6.7 million as of December 31, 2012 representing the fair value of deferred consideration and earn-out payments estimated to be due as of those dates. We determine the estimated fair values based on our projections of future revenue and profits or other factors used in the calculation of the ultimate payment to be made. The discount rate that we use to value the liability is based on specific business risk, cost of capital, and other factors. We consider these factors to be Level 3 inputs (significant unobservable inputs).

Note H 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 or results of operations.

Note I Business Acquisitions

During 2012, we acquired the assets of several third-party audit firms to which we had subcontracted a portion of our audit services in our Recovery Audit Services Europe/Asia-Pacific segment. We refer to the subcontractors as associates, and to the acquisitions as associate migrations. In an associate migration, we generally transfer all of the employees of the associate entity to PRGX, and continue to service the related clients with the same personnel as were providing services prior to the associate migration. We intend for the associate migrations to provide more standardization and centralization of our audit procedures, thereby increasing client service while also decreasing costs. Generally, revenue remains unchanged as a result of an associate migration, and expenses change from a fixed percentage of revenue to a variable amount based on actual employee and related costs. The 2012 associate migrations included CRC Management Consultants LLP (CRC) in January 2012 for a purchase price valued at \$1.0 million; QFS Ltd (QFS) in June 2012 for a purchase price valued at \$0.4 million; and Nordic Profit Provider AB (NPP) in November 2012 for a purchase price valued at \$0.1 million.

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

The allocation of the aggregate fair values of the assets acquired and purchase price for these associate migrations is summarized as follows (in thousands):

Fair values of net assets acquired:	
Equipment	\$ 10
Intangible assets, primarily non-compete agreements	171
Working capital, including work in progress	666
Goodwill	695
Fair value of net assets acquired	\$ 1,542
Fair value of purchase price	\$ 1,542

The following unaudited pro forma condensed financial information presents the combined results of operations of the Company, CRC, QFS, and NPP as if the acquisitions had occurred as of January 1, 2012. The unaudited pro forma financial information is not indicative of, nor does it purport to project, the future financial position or operating results of the Company. Pro forma adjustments included in these amounts consist primarily of amortization expense associated with the intangible assets recorded in the allocation of the purchase price. The unaudited pro forma financial information excludes acquisition and integration costs and does not give effect to any estimated and potential cost savings or other operating efficiencies that could result from the acquisition. Unaudited pro forma condensed financial information is as follows (in thousands):

	Three Months Ended March 31, 2012
Revenue	\$ 51,649
Net earnings	\$ 359

Note J Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions, and our effective tax rate is generally lower than the expected tax rate due to reductions of our deferred tax asset valuation allowance. We incurred income tax expense in the first quarter of 2013 despite having a loss before income taxes due to earnings we generated in certain of our foreign subsidiaries. We partially offset these foreign income taxes by reversing \$0.4 million of accruals made in prior years for uncertain tax positions. 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.

On March 17, 2006, the Company experienced an ownership change as defined under Section 382 of the Internal Revenue Code (IRC). This ownership change resulted in an annual IRC Section 382 limitation that limits the use of certain tax attribute carry-forwards. We currently are in the process of determining if we experienced an ownership change subsequent to March 17, 2006, but have not yet completed this analysis. Based on preliminary calculations we have made with the assistance of external advisors, we believe that any additional limitations on the usage of our loss carry-forwards that would be imposed if an additional ownership change has occurred would be minimal. We do not believe that an additional ownership change would have a material adverse impact on our financial position, results of operations or cash flows.

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

Overview

We conduct our operations through three reportable segments: Recovery Audit Services – Americas, Recovery Audit Services – Europe/Asia-Pacific and New Services. The Recovery Audit Services – Americas segment represents recovery audit services (other than Healthcare Claims 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 (other than Healthcare Claims Recovery Audit services) we provide in Europe, Asia and the Pacific region. The New Services segment includes Profit Optimization services as well as Healthcare Claims Recovery Audit 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. 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. For some services we provide, such as certain of our Profit Optimization services, we earn our compensation in the form of a flat 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 not have a significant adverse impact on our liquidity, and we have taken steps to mitigate any adverse impact of an economic downturn on our revenue and overall financial health. These steps include devoting substantial efforts to develop a lower cost service delivery model to enable us to more cost effectively serve our clients. Further, we continue to pursue our ongoing growth strategy to expand our business beyond our core recovery audit services to retailers by growing the portion of our business that provides recovery audit services to enterprises other than retailers and growing our New

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Services segment which includes our Healthcare Claims Recovery Audit services and our Profit Optimization services. Our Healthcare Claims Recovery Audit services include services we provide as a subcontractor to three of the four prime contractors in the Medicare Recovery Audit Contractor program (the Medicare RAC program) of the Centers for Medicare and Medicaid Services (CMS).

Despite the factors noted above and the strategies we have employed to mitigate the impact of macroeconomic issues on our business, our revenue was impacted negatively in the first quarter of 2013 by the challenging business climate, particularly in Europe. We experienced delays in claim approvals at certain clients and several clients in Europe recently entered administration (similar to bankruptcy), thereby delaying or ceasing our activities at those clients.

In addition, delays in claims processing resulting from changes to Medicare claims processing systems and a temporary drop in findings rates early in the first quarter negatively impacted our Healthcare Claims Recovery Audit revenue in the first quarter of 2013. We believe these issues have been addressed and will not have any further material impacts on the Company.

Separately, the current Medicare RAC program contracts are expected to end early in the third quarter of 2013, with new contracts expected to be awarded in the near future. Preliminary information regarding the transition from the current Medicare RAC program contracts to the new contracts suggests that there may not be any auditing under the current contracts for much of the second half of 2013. As a result, subject to further Medicare RAC program or timeline changes, we believe there will be a significant reduction in our revenue from this service line in the second half of 2013 compared to the same period in 2012. Additionally, if PRGX is awarded one of the five new Medicare RAC program contracts, the Company will incur significant costs by continuing to carry personnel without revenue during the ramp-up of the new program. Conversely, if the Company is not awarded a new contract, we anticipate that our Medicare RAC program revenue will decline significantly in the second half of 2013 and we will adjust our cost structure accordingly.

Results of Operations

The following table sets forth the percentage of revenue represented by certain items in the Company's Condensed Consolidated Statements of Income (Loss) (Unaudited) for the periods indicated:

	Three Months Ended March 31,	
	2013	2012
Revenue	100.0%	100.0%
Operating expenses:		
Cost of revenue	67.4	66.3
Selling, general and administrative expenses	26.0	24.4
Depreciation of property and equipment	4.5	2.9
Amortization of intangible assets	2.8	4.5
Total operating expenses	100.7	98.1
Operating income (loss)	(0.7)	1.9
Foreign currency transaction (gains) losses on short-term intercompany balances	0.8	(0.7)
Interest expense (income), net	(0.5)	1.0
Earnings (loss) before income taxes	(1.0)	1.6
Income tax expense	0.1	1.0
Net earnings (loss)	(1.1)%	0.6%

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Revenue. Revenue was as follows (in thousands):

		Three Months Ended March 31,	
		2013	2012
Recovery Audit Services	Americas	\$ 26,242	\$ 28,813
Recovery Audit Services	Europe/Asia-Pacific	11,017	14,305
New Services		7,842	8,531
Total		\$ 45,101	\$ 51,649

Total revenue decreased for the three months ended March 31, 2013 by \$6.5 million, or 12.7%, compared to the same period in 2012.

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

Recovery Audit Services – Americas revenue decreased by \$2.6 million, or 8.9%, for the first quarter of 2013 compared to the first quarter of 2012. One of the factors contributing to changes in our reported revenue is the strength of the U.S. dollar relative to foreign currencies. Changes in the average value of the U.S. dollar relative to foreign currencies impact our reported revenue. On a constant dollar basis, adjusted for changes in foreign exchange (FX) rates, revenue for the first quarter of 2013 decreased by 8.4% compared to the first quarter of 2012.

The decrease in our **Recovery Audit Services – Americas** revenue in the three months ended March 31, 2013 was due to a number of factors. Revenue declined 11.8% at our existing clients due to delays in claim approvals at large retail clients, cyclical impacts affecting our commercial business and individually significant claims recognized in the 2012 period with no similar claims in the 2013 period. Revenue from new clients was 2.7% of first quarter 2013 **Recovery Audit Services – Americas** revenue. The revenue impact from discontinued clients was negligible in the three months ended March 31, 2013.

Recovery Audit Services – Europe/Asia-Pacific revenue decreased by \$3.3 million, or 23.0%, for the three months ended March 31, 2013 compared to the same period in 2012. The strengthening of the U.S. dollar relative to foreign currencies in Europe, Asia and Australia negatively impacted reported revenue in the first quarter of 2013. On a constant dollar basis, adjusted for changes in FX rates, revenue for the first quarter of 2013 decreased by 21.4% compared to the first quarter of 2012. These decreases on a constant dollar basis are primarily attributable to weak economic conditions in Europe for an extended period, fewer claims identified and delays in claim approvals at continuing clients, resulting in a decrease in revenue of 17.2% compared to the same period in 2012. Additional declines were due to discontinued clients and clients that entered administration (comparable to bankruptcy in the U.S.) that resulted in declines of 3.5% and 10.8%, respectively. Revenue from new clients was 14.2% of first quarter 2013 **Recovery Audit Services – Europe/Asia – Pacific** revenue.

New Services revenue decreased by \$0.7 million, or 8.1%, for the three months ended March 31, 2013 compared to the same period in 2012. We generate **New Services** revenue from our Profit Optimization services and our Healthcare Claims Recovery Audit services, which we derive primarily from our participation in the Medicare RAC program. The decrease in revenue is due to a decline in our Healthcare Claims Recovery Audit revenue from the 2012 period, partially offset by an increase in our Profit Optimization services revenue. The decrease in Healthcare Claims Recovery Audit revenue is due to delays in claims processing resulting from changes to Medicare claims processing systems and a temporary drop in findings rates. The prime contracts for the Medicare recovery audit program are expected to end early in the third quarter of 2013, subject to an extension by CMS to allow for a more orderly transition to new recovery audit contractor contracts. Subject to further Medicare RAC program or timeline changes, we believe there will be a significant reduction in our expected revenue from this service line in the second half of 2013. We delivered a proposal in April 2013 to CMS for the new Medicare Part A/B Recovery Audit Contractor program. The exact decision timeline is not known, but contract awards could be announced as early as the second quarter of 2013.

The increase in our Profit Optimization revenue is due primarily to our generating greater revenues from our top clients in the first quarter of 2013 than in the first quarter of 2012.

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Cost of Revenue (COR). COR consists principally of 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, fixed auditor salaries, compensation paid to various types of hourly support staff and salaries for operational and client service managers for our recovery audit and our Profit Optimization 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 March 31,	
		2013	2012
Recovery Audit Services	Americas	\$ 14,350	\$ 15,952
Recovery Audit Services	Europe/Asia-Pacific	9,245	11,075
New Services		6,812	7,191
Total		\$ 30,407	\$ 34,218

COR as a percentage of revenue for Recovery Audit Services Americas was 54.7% and 55.4% for the three months ended March 31, 2013 and 2012, respectively. The decrease in COR as a percentage of revenue for the three months ended March 31, 2013 compared to the same period in 2012 is due primarily to cost savings driven by our Next-Generation Recovery Audit service delivery model and lower relative costs for the incremental revenue from new clients.

COR as a percentage of revenue for Recovery Audit Services Europe/Asia-Pacific was 83.9% and 77.4% for the three months ended March 31, 2013 and 2012, respectively. The deterioration in COR as a percentage of revenue primarily resulted from changes in the mix of audit revenue and from changes in our methods of providing audit services in Europe. We subcontract a portion of our audit services in Europe to third-party audit firms, which we refer to as the associate model. We generally earn lower margins from associate model audits than we earn from audits we perform ourselves, which we refer to as employee model audits. In the three month period ended March 31, 2013 compared to the same period in 2012, we generated a greater percentage of our revenue in this segment from employee model audits, which changed the mix of our revenue. However, this change negatively impacted our COR as a percentage of revenue due to the combination of higher fixed costs under the employee model and lower revenue generated in the quarter from the former associate model audits. Although we incur some increased costs during the migration process from associate model audits to employee model audits, we expect that the migrations ultimately will result in higher gross margins for this segment and for the Company as a whole.

The higher COR as a percentage of revenue for Recovery Audit Services Europe/Asia-Pacific (83.9% for the first quarter of 2013) compared to Recovery Audit Services Americas (54.7% for the first quarter of 2013) is due primarily to differences in service delivery models, scale and geographic fragmentation. The Recovery Audit Services Europe/Asia-Pacific segment generally 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.

New Services COR relates primarily to costs of Profit Optimization services and costs associated with the Medicare RAC program subcontracts. COR as a percentage of revenue for New Services was 86.9% and 84.3% for the three months ended March 31, 2013 and 2012, respectively. The deterioration in COR as a percentage of revenue for New Services is primarily due to the decrease in revenue in our Healthcare Claims Recovery Audit service line. Margins for our Profit Optimization services improved primarily due to cost savings initiatives we implemented in 2012.

Selling, General and Administrative Expenses (SG&A). SG&A expenses of the Recovery Audit and New Services segments 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 related to the Recovery Audit and New Services segments. 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.

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

		Three Months Ended March 31,	
		2013	2012
Recovery Audit Services	Americas	\$ 4,320	\$ 4,862
Recovery Audit Services	Europe/Asia-Pacific	517	1,251
New Services		1,481	1,397
Subtotal for reportable segments		6,318	7,510
Corporate Support		5,393	5,127
Total		\$ 11,711	\$ 12,637

Recovery Audit Services Americas SG&A decreased \$0.5 million, or 11.1%, for the three months ended March 31, 2013 from the comparable period in 2012. The decrease is due primarily to higher incentive compensation accruals in the 2012 period than in the 2013 period and wage claim costs incurred in 2012 with no comparable expenses in 2013, partially offset by higher provisions for bad debts in 2013.

Recovery Audit Services Europe/Asia-Pacific SG&A decreased \$0.7 million, or 58.7%, for the three months ended March 31, 2013 compared to the same period in 2012. The decrease is primarily due to a reduction in a business acquisition obligation resulting from decreased revenues and profitability generated by the acquired business.

New Services SG&A increased \$0.1 million, or 6.0%, in the three months ended March 31, 2013 compared to the same period in 2012. The increase is related to our growth in Healthcare Claims Recovery Audit activities and primarily is attributable to costs we incurred in connection with the proposal we submitted in April 2013 for the Medicare Part A/B Recovery Audit Contractor program.

Corporate Support SG&A increased \$0.3 million, or 5.2%, for the three months ended March 31, 2013 compared to the same period in 2012. This increase is due primarily to higher sales and marketing costs, partially offset by lower incentive compensation accruals and stock-based compensation charges for the three months ended March 31, 2013.

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

		Three Months Ended March 31,	
		2013	2012
Recovery Audit Services	Americas	\$ 1,368	\$ 915
Recovery Audit Services	Europe/Asia-Pacific	112	40
New Services		528	558
Total		\$ 2,008	\$ 1,513

The increase in depreciation relates primarily to improvements we made to our IT infrastructure and to an increase in the depreciation of capitalized software development costs as we place developed software in service.

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

**Three Months Ended
March 31,**

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		2013	2012
Recovery Audit Services	Americas	\$ 698	\$ 1,586
Recovery Audit Services	Europe/Asia-Pacific	396	539
New Services		182	202
Total		\$ 1,276	\$ 2,327

The decrease in amortization expense in our recovery audit segments is primarily due to the 2012 period including greater amortization of intangible assets recorded in connection with our recent acquisitions, including the December 2011 acquisition of BSI within Recovery Audit Services Americas, and a January 2012 associate migration within Recovery Audit Services Europe/Asia Pacific.

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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 March 31, 2013 and 2012, we recorded foreign currency transaction losses of \$0.4 million and foreign currency transaction gains of \$0.3 million, respectively, on short-term intercompany balances.

Net Interest Expense (Income). We recorded net interest income of \$0.2 million and net interest expense of \$0.5 million for the three months ended March 31, 2013 and 2012, respectively. Net interest income in 2013 is primarily due to the reversal of \$0.6 million of interest accruals made in prior years for interest on uncertain tax positions, as described in more detail under *Income Tax Expense* below.

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. Reported income tax expense for the three months ended March 31, 2013 and 2012 primarily results from taxes on the income of certain of our foreign subsidiaries. We also recorded the reversal of \$0.4 million of accruals made in previous years for uncertain tax positions in the first quarter of 2013. Together with the reversal of interest expense accruals described above, the total reduction to our reserves for uncertain tax positions in the first quarter of 2013 was \$1.0 million. This reduction is due to the imposition of limitations on our potential liability resulting from our entering into a voluntary disclosure agreement with one state.

Liquidity and Capital Resources

As of March 31, 2013, we had \$37.8 million in cash and cash equivalents and no borrowings under the revolver portion of our credit facility. The revolver had approximately \$8.3 million of calculated availability for borrowings. The Company was in compliance with the covenants in its SunTrust credit facility as of March 31, 2013.

Operating Activities. Net cash provided by operating activities was \$0.8 million and \$2.0 million during the three months ended March 31, 2013 and 2012, respectively. These amounts consist of two components, specifically, net earnings 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):

	Three Months Ended	
	March 31,	
	2013	2012
Net earnings (loss)	\$ (497)	\$ 292
Adjustments for certain non-cash items	4,960	4,916
	4,463	5,208
Changes in operating assets and liabilities	(3,614)	(3,234)
Net cash provided by operating activities	\$ 849	\$ 1,974

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Net earnings adjusted for certain non-cash items decreased by \$0.7 million in the first quarter of 2013 compared to the first quarter of 2012 due to the net loss incurred in the 2013 period. Changes in operating assets and liabilities also resulted in lower net cash provided by operating activities, due primarily to higher payments made in the first quarter of 2013 for incentive compensation than were made in the 2012 period, partially offset by a greater decrease in receivables in the first quarter of 2013. We include an itemization of these changes in our Condensed Consolidated Statements of Cash Flows (Unaudited) included in Item 1 of this

Form 10-Q.

Investing Activities. Net cash used for property and equipment capital expenditures was \$2.2 million and \$2.0 million during the three months ended March 31, 2013 and 2012, respectively. These capital expenditures primarily related to investments we made to upgrade our information technology infrastructure, develop our Next-Generation Recovery Audit service delivery model, and develop software relating to our participation in the Medicare RAC program and our Profit Optimization toolsets.

Capital expenditures are discretionary and we currently expect full year 2013 capital expenditures to decline slightly from the full year 2012 levels. Although we continue to enhance our Next-Generation Recovery Audit service delivery model and our Healthcare Claims Recovery Audit systems, we expect that these projects will require less development in 2013 than they did in 2012. We may alter our capital expenditure plans should we experience changes in our operating results which cause us to adjust our operating plans.

We made business acquisition payments of \$1.0 million in the three months ended March 31, 2012 relating to our acquisition of assets, principally work in progress, as part of an associate migration. We did not complete a business acquisition in the three months ended March 31, 2013.

Financing Activities. Net cash provided by financing activities was \$1.6 million for the three months ended March 31, 2013, and net cash used in financing activities was \$1.6 million for the three months ended March 31, 2012. The net cash provided by financing activities in the three months ended March 31, 2013 is due to the \$4.1 million of net proceeds we received from the issuance of common stock in January 2013. This issuance relates to the exercise of the overallotment option for an additional 685,375 shares by the underwriters of our December 2012 public offering (see *Common Stock Offering* below). We made mandatory payments of \$0.8 million on our term loan in each period. Payments of deferred acquisition consideration of \$1.7 million and \$0.7 million during the three months ended March 31, 2013 and 2012, respectively, include earn-out payments we made relating to the acquisition of The Johnsson Group, deferred compensation relating to the acquisition of Etesius Limited and additional working capital payments and earn-out payments related to the BSI acquisition.

Secured Credit Facility

On January 19, 2010, we entered into a four-year revolving credit and term loan agreement with SunTrust Bank (SunTrust). We used substantially all the funds from the SunTrust term loan to repay in full the \$14.1 million outstanding under our then-existing Ableco LLC term loan. The SunTrust credit facility consists of a \$15.0 million committed revolving credit facility and a \$15.0 million term loan. The SunTrust credit facility is guaranteed by the Company and its domestic subsidiaries and is secured by substantially all of our assets. Amounts available for borrowing under the SunTrust revolver are based on our eligible accounts receivable and other factors. Borrowing availability under the SunTrust revolver at March 31, 2013 was \$8.3 million. We had no borrowings outstanding under the SunTrust revolver as of March 31, 2013.

The SunTrust term loan requires quarterly principal payments of \$0.8 million from March 2010 through December 2013, and a final principal payment of \$3.0 million in January 2014. The loan agreement requires mandatory prepayments with the net cash proceeds from certain asset sales, equity offerings and insurance proceeds received by the Company. In connection with our equity offering in December 2012 (see

Common Stock Offering below), we obtained a waiver of the requirement to prepay the loan from SunTrust that enabled us to retain the net proceeds from the offering. The loan agreement also requires an additional annual prepayment contingently payable in April of each year based on excess cash flow (ECF) in the prior year if our leverage ratio, as defined in the agreement, exceeds a certain threshold. Our leverage ratio has remained below the threshold and ECF payments have not been required in any year and we do not anticipate one being required in 2013.

Interest on both the revolver and term loan is payable monthly and accrues at an index rate based on the one-month LIBOR rate, plus an applicable margin as determined by the loan agreement. The applicable interest rate margin varies from 2.25% per annum to 3.5% per annum, depending on our consolidated leverage ratio, and is determined in accordance with a pricing grid under the SunTrust loan agreement. The applicable margin was 2.5% and the interest rate was approximately 2.70% at March 31, 2013. We also must pay a commitment fee of 0.5% per annum, payable quarterly, on the unused portion of the \$15.0 million SunTrust revolving credit facility.

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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, repurchase shares of its capital stock 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.

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.

Common Stock Offering

On December 11, 2012, we closed our public offering of 6,249,234 shares of our common stock, which consisted of 2,500,000 shares sold by us and 3,749,234 shares sold by certain selling shareholders, at a price to the public of \$6.39 per share. The net proceeds to us from the public offering, after deducting underwriting discounts and commissions and offering expenses, were \$14.7 million. We did not receive any proceeds from the sale of shares by the selling shareholders. In addition, the underwriters elected to exercise an overallotment option for an additional 687,385 shares, and we completed the sale of these additional shares on January 8, 2013. The net proceeds to us from the exercise of the overallotment option, after deducting underwriting discounts and commission and offering expenses, were \$4.1 million. We intend to use the net proceeds from the public offering for working capital and general corporate purposes, including potential acquisitions.

Off-Balance Sheet Arrangements

As of March 31, 2013, 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.

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, 2012. 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, 2012. 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.

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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, (1) statements that contain projections of the Company's future results of operations or of the Company's financial condition, (2) statements regarding the adequacy of the Company's current working capital and other available sources of funds, (3) statements regarding goals and plans for the future, including the Company's strategic initiatives and growth opportunities, (4) expectations regarding future revenue trends, and (5) the anticipated impact of the Company's participation in the Medicare RAC program. 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 continue or 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, 2012 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.

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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 March 31, 2013, we recognized \$2.1 million of operating income from operations located outside the U.S., virtually all of which we accounted for originally 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 approximately \$0.2 million for the three months ended March 31, 2013. 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 our debt. We had \$5.3 million outstanding under a term loan and \$8.3 million of calculated borrowing availability under our revolving credit facility as of March 31, 2013, but had no amounts drawn under the revolving credit facility as of that date. Interest on both the revolver and the term loan are payable monthly and accrue at an index rate using the one-month LIBOR rate plus an applicable margin as determined by the loan agreement. The applicable interest rate margin varies from 2.25% per annum to 3.5% per annum. The applicable margin was 2.5% and the interest rate was approximately 2.70% at March 31, 2013. 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 \$0.1 million change in annual pre-tax income. A hypothetical 100 basis point change in interest rates applicable to the term loan would result in an approximate \$0.1 million change in annual pre-tax income.

In order to mitigate some of this interest rate risk, we entered into an interest rate swap agreement with SunTrust Bank in October 2010 under which we pay additional interest on a notional amount of \$3.8 million through December 31, 2013 to the extent that the one-month LIBOR rate is below 1.23%, and receive payments from SunTrust Bank to the extent the index exceeds this level. The notional amount is equal to the final two payments due under the term loan in December 2013 and January 2014. Currently, one month LIBOR is below 1.23% and we are paying a minimal amount of additional interest under this agreement. Should one month LIBOR rates increase above the 1.23% level, we will incur additional interest expense on all of the amounts outstanding under our credit facility, but will offset a portion of this additional expense with the income we earn from the swap agreement.

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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 March 31, 2013.

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2013 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 or results of operations.

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, 2012.

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 March 31, 2013:

		Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (millions of dollars)
2013					
January 1	January 31	58,227	\$ 6.74		\$
February 1	February 28	4,830	\$ 6.97		\$
March 1	March 31		\$		\$
		63,057	\$ 6.75		

(a) All shares purchased during the quarter were surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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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.
4.3	Shareholder Protection Rights Agreement, dated as of August 9, 2000, between the Registrant and Rights Agent (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on August 9, 2000).
4.3.1	First Amendment to Shareholder Protection Rights Agreement, dated as of March 12, 2002, between the Registrant and Rights Agent (incorporated by reference to Exhibit 4.3 to the Registrant's Form 10-Q for the quarterly period ended June 30, 2002).
4.3.2	Second Amendment to Shareholder Protection Rights Agreement, effective as of August 16, 2002, between the Registrant and Rights Agent (incorporated by reference to Exhibit 4.3 to the Registrant's Form 10-Q for the quarterly period ended September 30, 2002).
4.3.3	Third Amendment to Shareholder Protection Rights Agreement, effective as of November 7, 2005, between the Registrant and Rights Agent (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on November 14, 2005).
4.3.4	Fourth Amendment to Shareholder Protection Rights Agreement, effective as of November 14, 2005, between the Registrant and Rights Agent (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on November 30, 2005).
4.3.5	Fifth Amendment to Shareholder Protection Rights Agreement, effective as of March 15, 2006, between the Registrant and Rights Agent (incorporated by reference to Exhibit 4.9 to the Registrant's Form 10-K for the year ended December 31, 2005).
4.3.6	Sixth Amendment to Shareholder Protection Rights Agreement, effective as of September 17, 2007, between the Registrant and Rights Agent (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on September 21, 2007).
4.3.7	Seventh Amendment to Shareholder Protection Rights Agreement, effective as of August 9, 2010, between the Registrant and Rights Agent (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on August 9, 2010).
4.3.8	Eighth Amendment to Shareholder Protection Rights Agreement, effective as of August 4, 2011, between the Registrant and Rights Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the quarterly period ended June 30, 2011).
4.3.9	Ninth Amendment to Shareholder Protection Rights Agreement, effective as of August 2, 2012, between the Registrant and Rights Agent (incorporated by reference to Exhibit 4.3.9 to the Registrant's Form 10-Q for the quarterly period ended June 30, 2012).
10.1	Separation Agreement dated March 14, 2013, by and between Catherine Lafiandra and the Registrant.
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended March 31, 2013.
31.2	Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended March 31, 2013.
32.1	Certification of the Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, for the quarter ended March 31, 2013.

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101 The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Income (Loss), (ii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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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.

May 7, 2013

By: */s/ Romil Bahl*
Romil Bahl
President, Chief Executive Officer, Director

(Principal Executive Officer)

May 7, 2013

By: */s/ Robert B. Lee*
Robert B. Lee
Chief Financial Officer and Treasurer

(Principal Financial Officer)