

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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
(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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, No Par Value

The NASDAQ Stock Market LLC (The Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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

The aggregate market value, as of June 30, 2016, of common shares of the registrant held by non-affiliates of the registrant was approximately \$110.0 million, based upon the last sales price reported that date on The Nasdaq Global Select Market of \$5.22 per share. (Aggregate market value is estimated solely for the purposes of this report and shall not be construed as an admission for the purposes of determining affiliate status.)

Common shares of the registrant outstanding at March 6, 2017 were 21,910,591.

Documents Incorporated by Reference

Part III: Portions of Registrant's Proxy Statement relating to the Company's 2017 Annual Meeting of Shareholders.

PRGX GLOBAL, INC.

FORM 10-K

December 31, 2016

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Cautionary Statement Regarding Forward-Looking Statements

The following discussion includes “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are at times identified by words such as “plans,” “intends,” “expects,” or “anticipates” and words of similar effect and include statements regarding the Company’s financial and operating plans and goals. These forward-looking statements include any statements that cannot be assessed until the occurrence of a future event or events. 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.

These forward-looking statements are subject to risks, uncertainties and other factors, including but not limited to those discussed herein and below under Item 1A “Risk Factors.” Many of these risks are outside of our control and could cause actual results to differ materially from the results discussed in the forward-looking statements. Factors that could lead to material changes in our performance may include, but are not limited to:

- our ability to successfully execute our recovery audit growth strategy;
- our continued dependence on our largest clients for significant revenue;
- the use of internal recovery audit groups by our clients, reducing the amount of recoveries available to us;
- commoditization of our services and the effects of rate reductions;
- the significant control that our clients have over assertion or acceptance of recovery audit claims against their suppliers and the corresponding impact on our revenue;
- changes to Medicare and Medicaid recovery audit contractor (“RAC”) programs administered by the Centers for Medicare and Medicaid Services (“CMS”) and other government agencies, and our role in the national Medicare RAC program, the results of operations of which are reported in our discontinued operations;
- revenue that does not meet expectations or justify costs incurred;
- our ability to develop material sources of new revenue in addition to revenue from our core accounts payable recovery audit services;
- changes in the market for our services;
- client and vendor bankruptcies and financial difficulties;
- our ability to retain and attract qualified personnel and effectively manage our global workforce;
- our ability to protect and maintain the competitive advantage of our proprietary technology and intellectual property rights;
- our reliance on operations outside the U.S. for a significant portion of our revenue;
- our ability to effectively manage foreign currency fluctuations;
- the highly competitive environments in which our recovery audit services and Adjacent Services businesses operate and the resulting pricing pressure on those businesses;
- our ability to integrate recent and future acquisitions;
- our ability to realize operational cost savings and the transformation severance and related expenses we may incur to generate these savings;
- uncertainty in the global credit markets;
- our ability to maintain compliance with the financial and non-financial covenants in our financing arrangements;
- our tax positions and other factors that could affect our effective income tax rate or our ability to use our existing deferred tax assets;
- our ability to operate in compliance with changing data privacy requirements;
- our ability to comply with a variety of foreign laws and regulations, such as those relating to data protection and employment, as well as U.S. laws affecting operations outside of the United States;
- a cyber-security incident involving the misappropriation, loss or unauthorized disclosure or use of client data or other confidential information of our clients;
- effects of changes in accounting policies, standards, guidelines or principles;
- terrorist acts, acts of war and other factors over which we have little or no control;
or

- our ability to effectively develop, maintain, operate and improve our proprietary technology platforms and applications.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all such factors.

PART I

ITEM 1. Business

PRGX Global, Inc., together with its subsidiaries, is a global leader in recovery audit and spend analytics services, providing services within our clients' Source-to-Pay ("S2P") business processes. Our services include recovery audit, spend analytics and supplier information management ("SIM") services. We are based in the United States of America ("U.S.") and serve clients in more than 30 countries. PRGX Global, Inc. was incorporated in the State of Georgia in 1996. At the heart of our client services portfolio is the core capability of mining client data to deliver "actionable insights." Actionable insights allow our clients to improve their financial performance by reducing costs, improving business processes, managing risks and increasing profitability.

The vast majority of our revenue comes from recovery audit, a service based on the mining of a tremendous amount of our clients' purchasing-related data, looking for overpayments made to their third-party suppliers. PRGX is the world's leading provider of accounts payable recovery audit services principally to large businesses and government agencies with high volumes of transactions and complex pricing arrangements with vendors. We provide services to 75% of the top 20 global retailers and over 20% of the top 50 companies in the Fortune 500. We earn the largest portion of our revenue from our retail clients. Recovery audit in the retail industry is a mature service offering and we have been serving a number of our clients for decades. Pricing of merchandise for resale in the retail industry is extremely complex due to the high volume of promotions, allowances and rebates provided by suppliers. The second largest portion of our business is referred to within the recovery audit business as "commercial." Commercial recovery auditing is the delivery of recovery audit services to industries other than retail, such as telecommunications, automotive and industrial manufacturing, resources, financial services, and transportation. Recovery audit in the industries represented within commercial is typically less complex in terms of vendor pricing structure, scope of purchase transactions made available for audit and depth of audit programs within individual companies. "Contract compliance" auditing is a specific type of recovery auditing which is more heavily utilized by commercial clients and is expected to be a growing part of our business. This service offering focuses on auditing complex supplier billings against large services, construction and licensing contracts, and is relevant to a large portion of our client base. We continue to innovate through technological advances, new audit tools and expanded service offerings, including spend analytics and SIM services. These services target 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. These service offerings are increasingly important to our business and are applicable to clients in both retail and commercial industries.

PRGX is unique in that we are a global recovery audit services provider, serving clients in over 30 countries across a multitude of industries. 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 and is our largest segment in terms of clients served and revenue generated. The Recovery Audit Services - Europe/Asia-Pacific segment represents recovery audit services we provide in Europe, Asia and the Pacific region and is responsible for a significant portion of our revenue. Our Adjacent Services offerings are generally provided to clients on a global basis. We report the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to the three reportable segments in Corporate Support. For additional financial information relating to our reporting segments, see Note 2 - Operating Segments and Related Information of our Consolidated Financial Statements included in Item 8 of this Form 10-K.

In October 2016, we announced that we had entered into agreements to acquire Cost & Compliance Associates, LLC and Cost & Cost Compliance Associates Limited (together, "C&CA"), a commercial recovery audit and contract compliance firm with operations in the U.S. and the U.K., and Lavante, Inc. ("Lavante"), a Software-as-a-Service ("SaaS")-based SIM and recovery audit services firm based in San Jose, California. The Lavante acquisition closed in October 2016 and the C&CA acquisition closed in February 2017.

As of December 31, 2015, the Company discontinued its Healthcare Claims Recovery Audit ("HCRA") business. PRGX has 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.

The Recovery Audit Industry and PRGX

Many businesses and government agencies generate substantial volumes of payment transactions involving multiple vendors, numerous discounts and allowances, fluctuating prices and complex pricing arrangements or rate structures. Although these entities correctly process the vast majority of payment transactions, errors occur in a small percentage of transactions. These errors include, but are not limited to, missed or inaccurate discounts, allowances and rebates, vendor pricing errors, erroneous coding and duplicate payments. Many factors contribute to the errors, including communication failures between the purchasing and accounts payable departments, complex pricing arrangements or rate structures, personnel turnover and changes in information and accounting systems. In the aggregate, these transaction errors can represent meaningful amounts of reduced cash flow and lost profits for these entities. Recovery auditing is a business service focused on finding overpayments created by these errors. These audits are either accounts payable audits or contract compliance audits and entail comprehensive and customized data acquisition from the client, frequently including purchasing, receiving, point-of-sale, pricing and deal documentation, emails, and payment data.

PRGX, like most companies in the recovery audit services industry, generates the majority of its revenue through contingent fee arrangements, sharing a pre-determined percentage of successful claims or “recoveries” generated from an audit. There are certain recovery audit services or types of audits that are billed as a fixed fee or on a time and materials basis, but the vast majority of our revenue is generated through contingent fee contracts.

Recovery audit clients generally recover claims by either (a) taking credits against outstanding payables or future purchases from the involved vendors or service providers, or (b) receiving refund checks directly from those vendors or service providers. Industry practice generally dictates the manner in which a client receives the benefit for a recovery audit claim. In many cases, we must satisfy client-specific procedural guidelines before we can submit recovery audit claims for client approval.

Contracts with recovery audit clients generally vary in length from one year to three years, with some being evergreen. Most of our recovery audit contracts provide that the client may terminate the contract without cause prior to the completion of the term of the agreement by providing relatively short prior written notice of termination.

As businesses have evolved, PRGX and the recovery audit industry have evolved with them, innovating processes, error identification tools, and claim types to maximize recoveries. The following are a number of factors impacting recovery auditing:

- *Data Capture and Availability.* Businesses increasingly are using technology to manage complex procurement and accounts payable systems in an effort to realize greater operating efficiencies. Many businesses worldwide communicate with vendors electronically - whether by Electronic Data Interchange (“EDI”) or the Internet - to exchange inventory and sales data, transmit purchase orders, submit invoices, forward shipping and receiving information and remit payments. These systems capture more detailed data, which should further inform transactional reviews by recovery auditors.
- *Increased Role of Email Documentation in Client Transaction Data.* Clients and vendors increasingly document transaction terms in email correspondence that is not integrated into their financial or merchant deal systems, which increases opportunities for errors. To efficiently identify these errors, recovery audit firms must use sophisticated technology-based tools that are able to ingest and search through massive volumes of emails to identify potential errors that then are investigated by the auditors. A comprehensive recovery audit requires the effective use of technology-based email search tools and techniques.
- *Increasing Number of Auditable Claim Categories.* Traditionally, the focus of a recovery audit was on a simple, or “disbursement,” claim type, such as the duplicate payment of invoices. Enhancements to accounts payable software, particularly large enterprise software solutions used by many large companies, have reduced the extent to which these companies make simple disbursement errors. However, the introduction of creative vendor discount programs, complex pricing arrangements and activity-based incentives has led to an increase in auditable transactions and potential sources of error. These transactions are complicated to audit, as the underlying transaction data is difficult to access and recognizing mistakes can be complex. Recovery audit firms such as PRGX with significant industry-specific expertise and sophisticated technology are best equipped to audit these complicated claim categories.
- *Globalization.* As the operations of business enterprises become increasingly multi-national, they often seek service providers with a global reach. Sophistication in systems and processes varies markedly across the global network of suppliers which further drives the need for our services. PRGX serves clients in more than 30 countries and we believe we are the recovery audit service provider best suited to deliver multi-national audits.
- *Significant Promotional Activity.* Trade promotion spending is substantial within the retail trade and significant sums are being spent in categories with numerous transactions and a high potential for errors, such as scan downs, or discounts at the point of sale. Because of the high volume of trade promotion within retail, there are significant opportunities for mistakes and, therefore, auditable claims.

- *Technology Platform.* The ability to efficiently and cost effectively ingest large volumes of structured and unstructured data is critical to providing best in class recovery audit services. We believe we have developed the most sophisticated and highest performing large data processing infrastructure system in our industry. This system is based on the Hadoop open source technology standard and allows us to effectively process and manage our clients' data in large scale volumes and at superior speeds. We are achieving significant acceleration in data processing speeds for both structured and unstructured data sets, which supports our efforts to accelerate audit results and transform our core audit processes.

We expect the evolution of the recovery audit industry to continue. In particular, we expect that the industry will continue to move towards the electronic capture and presentation of data, more automated, centralized processing and auditing closer to the time of the payment transaction.

Adjacent Services

Our Adjacent Services business, targets client functional and process areas where we have established expertise, enabling us to provide services to our clients' finance, merchandising and procurement functions 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 PRGX OPTIX™ analytics solution and our SIM services offering, which includes the CIPS Sustainability Index ("CSI") offered in the United Kingdom through our strategic alliance with the Chartered Institute of Purchasing & Supply ("CIPS"). As our clients' supplier base, data volumes and complexity levels continue to grow, we are using our deep data management experience to develop new actionable insight solutions, compliance-related tools, analytics solutions and data transformation services. Taken together, our deep understanding of our clients' S2P data and our Adjacent Services solutions provide multiple routes to help our clients achieve greater profitability.

Clients

PRGX provides its services principally to large businesses and government agencies having a tremendous volume of payment transactions and complex procurement environments. Retailers continue to constitute the largest part of our client and revenue base. Our five largest clients contributed approximately 37.3% of our revenue from continuing operations in 2016, 34.5% in 2015 and 32.2% in 2014. We have one client, The Kroger Co., that accounted for approximately 11% of our revenue from continuing operations in 2016, while no client accounted for 10% or more of our revenue from continuing operations in 2015 or 2014.

Some organizations (primarily large retailers) maintain internal recovery audit departments to recover certain types of payment errors and identify opportunities to reduce costs. Despite having such internal resources, many companies also retain independent recovery audit firms, such as PRGX, due to their specialized knowledge, capabilities and focused technologies. In the U.S., Canada, the United Kingdom, France, Mexico, Brazil, and Australia, large retailers routinely engage independent recovery audit firms as a standard business practice. It is typical in the retail industry for large firms to engage a primary audit firm at one contingency fee rate and a secondary firm to audit behind the primary at a higher rate. Our commercial recovery audit clients are typically Fortune 1000 companies in industries other than retail and with multi-billion dollars of purchase transactions to be audited. These clients range from large multi-national manufacturing and resource companies, to large regional or national telecommunications and financial services institutions to global high tech software organizations. The audit specialty practice of contract compliance is a specific type of recovery auditing which is more heavily utilized by commercial clients and is expected to be a growing part of our business. This service offering focuses on auditing complex supplier billings against large services, construction and licensing contracts, and is relevant to a large portion of our client base.

The PRGX Strategy

PRGX is a global leader in recovery audit and spend analytics services. We provide recovery audit and other S2P services, including, spend analytics and SIM services. We principally offer these services to large businesses and government agencies having a tremendous volume of payment transactions and complex procurement environments. We plan to achieve revenue growth and higher profitability through the following strategy:

1. Grow and improve our core recovery audit business;
2. Differentiate our service offerings and capabilities;
3. Create adjacent service offerings, including SaaS solutions; and
4. Expand into new high potential industries and geographies.

Grow and improve our core recovery audit business

We continue to be the industry leader by introducing innovative concepts and audit processes. In addition, we are deploying global best practices and rolling out enhanced world class and proprietary audit tools to drive deeper recoveries and enable next generation audit concepts. We expect to achieve our objectives through process redesign coupled with investing in our technology infrastructure and aggressively rolling out new technologies across our global audits.

Differentiate our service offerings and capabilities

We plan to differentiate our service offerings and capabilities through enhancing our current services and implementing innovations such as:

- Audit acceleration. Our clients are constantly seeking to accelerate the audit process to deliver audit results closer to the time of the transaction to increase recovery yields, provide a greater opportunity to address process errors, and reduce supplier abrasion. We believe that our deep and broad business process experience across thousands of audits, together with our enhanced and new technology initiatives will put us in a unique position to achieve superior results for our clients.
- Global audit best practice programs. Our global programs take advantage of our operations that span over 30 countries to provide true global audit capabilities to multi-national companies. This unique perspective gives our clients visibility to their business practice variations around the world and creates value for our clients by allowing them to see their data in new ways.

Create adjacent and high value service offerings

We will continue to focus on new service offerings that complement our existing services and provide increased value to our customers.

Our Adjacent Services offerings, including PRGX OPTIX and SIM services, target client functional and process areas where we have established expertise, enabling us to provide services to support our clients' finance, merchandising and procurement functions. These services can be project-based (advisory services), which are typically billed on a rates and hours basis, or subscription-based (typically SaaS offerings), which are billed on a monthly basis. The Adjacent Services offerings assist our clients in improving many aspects of their businesses, including working capital, optimization of purchasing leverage in vendor pricing negotiations, improved insight into product margin and true cost of goods for resale, identification and management of risks associated with vendor compliance, improved quality of vendor master data and improved visibility and diagnostics of direct and indirect spend.

Expand into new high potential industries and geographies

Our plans include continuing to build our commercial recovery audit practice, which serves industries outside of retail in order to reduce our industry concentration. We have organized the commercial recovery audit practice into industry verticals such as resources, telecommunications, financial services and manufacturing, and are building focused practice areas with targeted service offerings for each industry.

Technology

PRGX uses advanced, proprietary information systems and processes and a large-scale technology infrastructure to conduct its audits of clients' payment transactions. The ability to efficiently and cost effectively ingest large volumes of structured and unstructured data is critical to providing best in class recovery audit and spend analytics services. We believe we have developed the most sophisticated and highest performing large data processing infrastructure system in the recovery audit industry. This system is based on the Hadoop open source technology standard and allows us to effectively process and manage our clients' data. We are achieving significant acceleration in data processing speeds for both structured and unstructured data sets, which supports our efforts to accelerate audit results, transform core audit processes and deliver actionable spend analytics insights.

We believe that our proprietary technology and processes serve as important competitive advantages over both our principal competitors and our clients' internal recovery audit functions. To sustain these competitive advantages, we continually invest in technology initiatives to deliver innovative solutions that improve both the effectiveness and efficiency of our services.

We design our data acquisition, data processing and data management processes with the objectives of maximizing efficiencies and productivity and maintaining the highest standards of transaction auditing and spend analytics accuracy. We also maintain sophisticated and highly reliable security standards and tools to protect all data under our control. At the beginning of a typical recovery audit or spend analytics engagement, we use a dedicated staff of data acquisition specialists and proprietary tools to acquire a wide array of transaction data from the client for the time period under review. We typically receive this data by secured electronic transmissions, digital media or paper. For paper-based data, we use a custom, proprietary imaging technology to scan the paper into electronic format. Upon receipt of the data, we secure, catalog, back up and convert it into standard, readable formats using third party and proprietary tools.

Our technology professionals clean and map massive volumes of structured and unstructured client data, primarily using high performance database and storage technologies, into standardized layouts at one of our secure data processing facilities. We also generate statistical reports to verify the completeness and accuracy of the data.

We then process the data using proprietary algorithms (business rules) leveraging over thirty years' experience to help uncover patterns or potential problems in clients' various transactions or transactional streams. We deliver this processed data to our auditors who, using our proprietary audit software, sort, filter and search the data to validate and identify actual transaction errors. We also maintain a secure database of audit information with the ability to query on multiple variables, including claim categories, industry codes, vendors and audit years, to facilitate the identification of additional recovery opportunities and provide recommendations for process improvements to clients.

Once we identify and validate transaction errors, we present the information to clients for approval and submission to vendors as "claims." We offer a proprietary web-based claim presentation and collaboration tool to help the client view, approve and submit claims to vendors.

In providing our spend analytics services, we use proprietary algorithms and technologies to clean and classify a client's vendor spend data down to the line item level. We then are able to present this information to the client as a multi-dimensional data cube over a web-based interface. We believe these proprietary algorithms and technologies provide us with a competitive advantage over many of our competitors.

As part of our Adjacent Services we offer the PRGX OPTIX suite of analytics tools. The PRGX OPTIX suite facilitates S2P business decisions through actionable, data-enabled insights that are delivered through four primary modules - Product, Payment, Spend and Supplier. Each of these modules is powered by the core PRGX OPTIX platform that provides the ability to process and visualize S2P data delivered via a SaaS interface. In addition to the PRGX OPTIX suite, we offer SIM services through our proprietary Lavante SIM platform. The SIM platform is designed to enable supplier master data harmonization, on-boarding, compliance with regulatory and client specified standards and requirements, as well as an enterprise level view of supplier performance. Lavante SIM is offered as a SaaS-based technology solution.

Competition

Accounts Payable Recovery Audit Services

We believe that the principal providers of domestic and international accounts payable recovery audit services in major markets worldwide consist of PRGX, two substantial competitors, and numerous other smaller competitors. The smaller recovery audit firms generally do not possess multi-country service capabilities and advanced technology infrastructure necessary to support our clients' large and complex purchasing and accounts payable operations. In addition, many of these firms have limited resources and may lack the experience and knowledge of national promotions, seasonal allowances and current recovery audit practices. As a result, we believe that compared to most other firms providing accounts payable recovery audit services, PRGX has competitive advantages based on its domestic and international presence, well-trained and experienced professionals, and advanced technology.

While we believe that PRGX has the greatest depth and breadth of audit expertise, data and technology capabilities, scale and global presence in the industry, we face competition from the following:

Client Internal Recovery Audit Departments. A number of large retailers (particularly those in the discount, grocery and drug store sectors) have developed an internal recovery audit process to review transactions prior to turning them over to external recovery audit firms. The scale and scope of these client internal organizations varies by client based on their level of in-house expertise and investment in required tools and technologies. Regardless of the level of recoveries made by internal recovery audit departments, virtually all large retail clients retain at least one (primary), and frequently two (primary and secondary), external recovery audit firms to capture errors not identified by their internal recovery audit departments.

Other Accounts Payable Recovery Audit Firms. The competitive landscape in the recovery audit industry is comprised of:

- Full-service accounts payable recovery audit firms. We believe that only two companies other than PRGX offer a full suite of U.S. and international recovery audit services;
- A large number of smaller accounts payable recovery firms which have a limited client base and which use less sophisticated tools to mine disbursement claim categories at low contingency rates. These firms are most common in the U.S. and U.K. markets. Competition in most international markets, if any, typically comes from small niche providers;
- Firms, including one of our two substantial competitors, that offer a hybrid of audit software tools and training for use by internal audit departments, or general accounts payable process improvement enablers; and
- Firms with specialized skills focused on recovery audit services for discrete sectors such as sales and use tax, telecom, freight or real estate.

Other Providers of Recovery Audit Services. The major international accounting firms provide recovery audit services; however, we believe their practices tend to be primarily focused on tax-related services.

Adjacent Services

Our Adjacent Services business faces competition from global and regional consulting firms; well-known ERP software vendors; procurement-specific software and SaaS providers and smaller, very specialized analytics providers. These competitors generally compete on the basis of the breadth of services, market reputations and integration with other services. We believe that we differentiate ourselves from our competitors through our in-depth knowledge of our clients' data, systems, and purchasing processes, along with advanced and specialized technology tools.

Hiring, Training and Compensation of Personnel

Many of our auditors and other professionals formerly held finance-related management positions in the industries we serve. Training primarily is provided in the field by our experienced professionals enabling newly hired personnel to develop and refine their skills and improve productivity. We also use various other training materials such as process manuals and documented policies and procedures to supplement the field training provided by our experienced professionals. We periodically upgrade our training programs based on feedback from auditors and changing industry protocols. Many of our professionals participate in one of our incentive compensation plans that link their compensation to the financial performance of their service offering(s).

Proprietary Rights

From time to time, we develop new software and methodologies that replace or enhance existing proprietary software and methodologies. We rely primarily on trade secret and copyright protection for our proprietary software and other proprietary information. We capitalize the costs incurred for the development of computer software that will be sold, leased, or otherwise marketed or that will be used in our operations beginning when technological feasibility has been established. We consider the costs associated with developing or replacing methodologies to be research and development costs and we expense them as incurred. Research and development costs, including the amortization of amounts previously capitalized, were approximately \$3.5 million in 2016, \$3.0 million in 2015 and \$3.1 million in 2014.

We own or have rights to various trademarks, trade names and copyrights, including U.S. and foreign registered trademarks and trade names and U.S. registered copyrights, that are valuable assets and important to our business. We monitor the status of our copyright and trademark registrations to maintain them in force and renew them as appropriate. The duration of our active trademark registrations varies based upon the relevant statutes in the applicable jurisdiction, but generally endure for as long as they are used. The duration of our active copyright registrations similarly varies based on the relevant statutes in the applicable jurisdiction, but generally endure for the full statutory period. Our trademarks and trade names are of significant importance and include, but are not limited to, the following: PRGX®, Discover Your Hidden Profits®, Thrive in the Data™, imDex™, Profit Discovery™, GET™; PRGX APTrax™, PRGX AuditTrax™, PRGX ClaimTrax™, PRGX MailTrax™, PRGX MerchTrax™, PRGX SpendTrax™, Lavante®, Lavante SIM™ and PRGX OPTIX™.

Regulation

Various aspects of our business, including, without limitation, our data flows and our data acquisition, processing and reporting protocols, are subject to extensive and frequently changing governmental regulation in the U.S. and the numerous other countries around the world where we operate. These regulations include extensive data protection and privacy requirements. In the U.S., we are subject to the provisions of the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) with respect to our discontinued HCRA business. Internationally, we must comply with the European Data Protection Directive that various members of the European Union have implemented, as well as with data protection laws that exist in many of the other countries where we serve clients. Failure to comply with such regulations may, depending on the nature of the noncompliance, result in the termination or loss of contracts, the imposition of contractual damages, civil sanctions, damage to our reputation or in certain circumstances, criminal penalties.

Employees

As of January 31, 2017, PRGX had approximately 1,500 employees, of whom approximately 600 were in the U.S. The majority of our employees are involved in our recovery audit business.

Website

PRGX makes available free of charge on its website, www.prgx.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports. PRGX makes all filings with the Securities and Exchange Commission (“SEC”) available on its website no later than the close of business on the date the filing was made. In addition, investors can access our filings with the Securities and Exchange Commission at www.sec.gov.

We also post certain corporate governance materials, including our Board of Directors committee charters and our Code of Conduct and Code of Ethics For Senior Financial Officers, on our website under the heading “Corporate Governance” on the “Investors” page. From time to time, we may update the corporate governance materials on our website as necessary to comply with rules issued by the SEC or NASDAQ, or as desirable to further the continued effective and efficient governance of our company.

ITEM 1A. Risk Factors

Revenue from our accounts payable recovery audit business generally has declined in the recent past. We must successfully execute our growth strategy in order to increase our revenue, and must lower our cost of delivery in order to maintain profitability.

Over time, our clients tend to resolve recurring transaction processing deficiencies. In addition, many of our clients have an internal staff that audits the transactions before we do. As the skills, experience and resources of our clients' internal recovery audit staffs improve, they will identify many overpayments themselves and reduce some of our audit recovery opportunities. In addition, our revenues are potentially impacted by competitive rate pressures, our dependency on clients to approve our claims on a timely basis, changes in audit scope by our clients and occasional loss of clients or movement from primary to secondary position. We must continually innovate new audit concepts, improve audit execution and develop new clients in order to prevent revenue declines and avoid losses in our business.

We depend on our largest clients for significant revenue, so losing a major client could adversely affect our revenue and liquidity.

We generate a significant portion of our revenue from our largest clients. Our five largest clients collectively accounted for 37.3% of our revenue from continuing operations in 2016, 34.5% in 2015 and 32.2% in 2014. We have one client, The Kroger Co., that accounted for approximately 11% of our revenue from continuing operations in 2016, while no client accounted for 10% or more of our revenue from continuing operations in 2015 or 2014. If we lose any of our major clients, our results of operations and liquidity could be materially and adversely affected.

Although we continually seek to diversify our client base, we may be unable to offset the effects of an adverse change in one of our key client relationships. For example, if our existing clients elect not to renew their contracts with us at the expiration of the current terms of those contracts, or reduce the services they purchase thereunder, our recurring revenue base will be reduced, which could have a material adverse effect on our business, financial position, results of operations, and cash flows. In addition, we could lose clients if: (i) they cancel their agreements with us; (ii) we fail to win a competitive bid at the time of contract renewal; (iii) the financial condition of any of our clients deteriorates; or (iv) our clients are acquired by, or acquire, companies with which we do not have contracts. Any of these could materially and adversely affect our business, financial position, results of operations, and cash flows.

Our strategy may not be successful.

As discussed in Item 1 "The PRGX Strategy," our objectives are to achieve higher profitability and growth by growing and improving our core recovery audit business, differentiating our service offerings and capabilities, creating adjacent service offerings (including SaaS solutions) and expanding into new high potential industries and geographies. These efforts are ongoing, and the results of our efforts will not be known until sometime in the future. Successful execution of our strategy requires sustained management focus, innovation, organization and coordination over time, as well as success in building relationships with third parties. If we are unable to execute our strategy successfully, our business, financial position, results of operations and cash flows could be adversely affected. In addition, execution of our strategy will require material investments and additional costs that may not yield incremental revenue and improved financial performance as planned.

Our acquisitions, investments, partnerships and strategic alliances may require significant resources and/or result in significant unanticipated losses, costs or liabilities.

Acquisitions have contributed and are expected to continue to contribute to our revenue. Although we cannot predict our rate of growth as the result of acquisitions with complete accuracy, we believe that additional acquisitions, investments and strategic alliances will be important to our growth strategy.

We may finance future acquisitions by issuing additional equity and/or debt. The issuance of additional equity in connection with any such transaction could be substantially dilutive to existing shareholders. The issuance of additional debt could increase our leverage substantially. In addition, announcement or implementation of future transactions by us or others could have a material effect on the price of our common stock. We could face financial risks associated with incurring significant debt. Additional debt may reduce our liquidity, curtail our access to financing markets, impact our standing with credit agencies and increase the cash flow required for debt service. Any incremental debt incurred to finance an acquisition could also place significant constraints on the operation of our business.

Furthermore, any future acquisitions of businesses or facilities could entail a number of additional risks, including:

- problems with effective integration of acquired operations;
- the inability to maintain key pre-acquisition business relationships;
- increased operating costs;
- the diversion of our management team from our other operations;

- problems with regulatory agencies;
- exposure to unanticipated liabilities;
- difficulties in realizing projected efficiencies, synergies and cost savings; and
- changes in our credit rating and financing costs.

The terms of our credit facility place restrictions on us, which create risks of default and reduce our flexibility.

Our current credit facility contains a number of affirmative, negative, and financial covenants that may limit our ability to take certain actions and require us to comply with specified financial ratios and other performance covenants. No assurance can be provided that we will not violate the covenants of our secured credit facility in the future. If we are unable to comply with our financial covenants in the future, our lenders could pursue their contractual remedies under the credit facility, including requiring the immediate repayment in full of all amounts outstanding, if any. Additionally, we cannot be certain that, if the lenders demanded immediate repayment of any amounts outstanding, we would be able to secure adequate or timely replacement financing on acceptable terms or at all.

Our ability to make payments due on debt we may have outstanding will depend upon our future operating performance, which is subject to general economic and competitive conditions and to financial, business and other factors, many of which we cannot control. If the cash flow from our operating activities is insufficient to make these payments, we may take actions such as delaying or reducing capital expenditures, attempting to restructure or refinance our debt, selling assets or operations or seeking additional equity capital. Some or all of these actions may not be sufficient to allow us to service our debt obligations and we could be required to file for bankruptcy. Further, we may be unable to take any of these actions on satisfactory terms, in a timely manner or at all. In addition, our credit agreements may limit our ability to take several of these actions. Our failure to generate sufficient funds to pay our debts or to undertake any of these actions successfully could materially and adversely affect our business, financial position, results of operations and cash flows.

We have incurred and will continue to incur significant costs in connection with our discontinued HCRA services business.

As of December 31, 2015, we discontinued the HCRA services business, but will continue to incur significant costs as it winds down. There are complex regulations governing many healthcare payments and recoupments, including a multi-layered scheme for provider appeals of overpayment determinations under the Medicare RAC program. These regulations, the terms of the Company's contracts and the complexity of Medicare and other healthcare data, systems and processes, generally make it more difficult and costly to exit this portion of our business. Finally, while we maintain reserves on our balance sheet, any appeals settlements which require us to repay a significant portion of our historical fees could materially and adversely impact our results of operations and cash flow.

We may be unable to protect and maintain the competitive advantage of our proprietary technology and intellectual property rights.

Our operations could be materially and adversely affected if we are not able to protect our proprietary software, audit techniques and methodologies, and other proprietary intellectual property rights. We generally rely on a combination of trade secret and copyright laws, nondisclosure and other contractual arrangements and technical measures to protect our proprietary rights. Although we presently hold U.S. registered copyrights on certain of our proprietary technology and certain U.S. and foreign registered trademarks, we may be unable to obtain similar protection on our other intellectual property. In addition, our foreign registered trademarks may not receive the same enforcement protection as our U.S. registered trademarks.

Additionally, to protect our confidential and trade secret information, we generally enter into nondisclosure agreements with our employees, consultants, clients and potential clients. We also limit access to, and distribution of, our proprietary information. Nevertheless, we may be unable to deter misappropriation or unauthorized dissemination of our proprietary information, detect unauthorized use and take appropriate steps to enforce our intellectual property rights. In spite of the level of care taken to protect our intellectual property, there is no guarantee that our sensitive proprietary information will not be improperly accessed or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

We could be subjected to claims of intellectual property infringement.

Although we are not aware of any infringement of our services and products on the intellectual property rights of others, the potential for intellectual property infringement claims continually increases as the universe of intellectual property continues to rapidly expand, and we are subject to the risk that someone else will assert a claim against us for violating their intellectual property rights. Any claim for intellectual property infringement, even if not meritorious, could be expensive to defend. If we were held liable for infringing third party intellectual property rights, we could incur substantial damage awards, and potentially be required to cease using the technology, produce non-infringing technology or obtain a license to use such technology. Such potential liabilities or increased costs could be material to us.

Cyber-security incidents, including data security breaches or computer viruses, could harm our business by disrupting our delivery of services, damaging our reputation or exposing us to liability.

We receive, process, store and transmit, often electronically, the confidential data of our clients and others. Unauthorized access to our computer systems or stored data could result in the theft or improper disclosure of confidential information, the deletion or modification of records or could cause interruptions in our operations. These cyber-security risks increase when we transmit information from one location to another, including transmissions over the Internet or other electronic networks. Despite implemented security measures, our facilities, systems and procedures, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, software viruses, misplaced or lost data, programming and/or human errors or other similar events which may disrupt our delivery of services or expose the confidential information of our clients and others. Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential information of our clients or others, whether by us or a third party, could (i) subject us to civil and criminal penalties, (ii) have a negative impact on our reputation, (iii) expose us to liability to our clients, third parties or government authorities, and (iv) cause our present and potential clients to choose another service provider. Any of these developments could have a material adverse effect on our business, results of operations, financial position, and cash flows.

Our ability to deliver our SaaS solutions is dependent on the development and maintenance of the infrastructure of the Internet by third parties.

The infrastructure of the Internet consists of multiple fragmented networks. Multiple third-party organizations run this infrastructure together under the governance of the Internet Corporation for Assigned Numbers and Names (ICANN) and the Internet Assigned Numbers Authority under the stewardship of ICANN. The Internet has experienced outages and other delays resulting from damage to portions of infrastructure, denial-of-service attacks or related cyber incidents, and the Internet could face outages and delays in the future. These outages and delays could reduce the level of Internet usage or result in fragmentation of the Internet, resulting in multiple separate networks lacking interconnection. These scenarios are outside of our control and could impair the delivery of our SaaS solutions to our clients. Resulting interruptions in our SaaS solutions or the ability of our clients to access our SaaS solutions could result in a loss of potential or existing clients and harm our business.

Our software and SaaS solutions may not be error-free and could result in claims of breach of contract and liabilities.

Our software and SaaS solutions are very complex and may not be error-free, especially when first released. Although we perform extensive testing, the failure of any solution to operate in accordance with its specifications, documentation or applicable license agreement could require us to correct the deficiency. If such deficiency cannot be corrected in accordance with the relevant contract for services, the deficiency could constitute a material breach of the contract allowing for the contract's termination and possibly subjecting us to liability. Also, we sometimes indemnify our clients against third-party infringement claims and certain other losses. If such claims for indemnification are made, even if they are without merit, they could be expensive to resolve. A significant judgment against us could have a material adverse impact on us.

Operational failures in our data processing facilities could harm our business and reputation.

An interruption of our SaaS hosting facilities or other data processing services, including an interruption caused by damage or destruction of communication lines or physical facilities or a failure of data processing equipment, could result in a loss of clients, difficulties in obtaining new clients and a reduction in revenue. In addition, we also may be liable to third parties or our clients because of such interruption. These risks would increase with longer service interruptions. Despite any disaster recovery and business continuity plans and precautions we have implemented (including insurance) to protect against the effects of service delivery interruptions, such interruptions could result in a material adverse effect on our business, results of operations, financial position, and cash flows.

Our investment of substantial capital in information technology systems, and a failure to successfully implement such systems could adversely affect our business.

We have invested and continue to invest substantial amounts in the development and implementation of information technology systems. Although investments are carefully planned, there can be no assurance that such systems will justify the related investments. If we fail to realize the benefits expected from our information technology system investments, or if we fail to do so within the envisioned time frame, it could have an adverse effect on our results of operations, financial position, and cash flows.

Client and vendor bankruptcies and financial difficulties could reduce our earnings.

Our clients generally operate in intensely competitive environments and, accordingly, bankruptcy filings by our clients are not uncommon. Bankruptcy filings by our large clients or the significant vendors who supply them or unexpectedly large vendor claim chargebacks lodged against one or more of our larger clients could have a materially adverse effect on our financial condition, results of operations, and cash flows. Similarly, our inability to collect our accounts receivable due to other financial difficulties of one or more of our large clients could adversely affect our financial position, results of operations, and cash flows.

Economic conditions which adversely impact our clients and their vendors in the retail industry in the United Kingdom and Europe may continue to have a negative impact on our revenue. Specifically, client liquidity and the liquidity of client vendors can have a significant impact on claim production, the claim approval process, and the ability of clients to offset or otherwise make recoveries from their vendors.

If a client files for bankruptcy, we could be subject to an action to recover certain payments received in the 90 days prior to the bankruptcy filing known as “preference payments.” If we are unsuccessful in defending against such claims, we would be required to make unbudgeted cash payments which could strain our financial liquidity, and our earnings would be reduced.

Our failure to retain the services of key members of our management team and highly skilled personnel could adversely impact our operations and financial performance.

Our future success depends largely on the efforts and skills of our management team, including our executive officers and other key employees. As such, we have entered into employment agreements with key members of our management team. While these employment agreements include limits on the ability of key employees to directly compete with us in the future, nothing prevents them from leaving our company. We also do not maintain “key person” life insurance policies on any of our executive officers or other key employees. Thus, we may have to incur costs to replace such employees if we were to lose their services, and our ability to execute our business strategy could be impaired if we are unable to replace such employees in a timely manner.

In addition, it is especially challenging to attract and retain highly qualified skilled auditors and other professionals in an industry where competition for skilled personnel is intense. Accordingly, our future performance also depends, in part, on the ability of our management team to work together effectively, manage our workforce, and retain highly qualified personnel.

We rely on operations outside the U.S. for a significant portion of our revenue and are increasingly dependent on operations outside the U.S. for supporting our operations globally.

Operations outside the U.S. generated 42.6% of our annual revenue in 2016, 41.8% in 2015 and 45.0% in 2014. These international operations are subject to numerous risks, including:

- greater exposure to the possibility of economic instability, the disruption of operations from labor and political disturbances, expropriation or war in the international markets we serve;
- difficulties in staffing and managing foreign operations and in collecting accounts receivable;
- fluctuations in currency exchange rates, particularly weaknesses in the British pound, the euro, the Canadian dollar, the Mexican peso, the Brazilian real, the Australian dollar, the Indian rupee and other currencies of countries in which we transact business, which could result in currency translations that materially reduce our revenue and earnings;
- costs associated with adapting our services to our foreign clients’ needs;
- unexpected changes in regulatory requirements and laws;
- expenses and legal restrictions associated with transferring earnings from our foreign subsidiaries to us;
- difficulties in complying with a variety of foreign laws and regulations, such as those relating to data protection and employment, as well as U.S. laws affecting operations outside of the United States;
- business interruptions due to widespread disease, actual or potential terrorist activities, or other catastrophes;
- reduced or limited protection of our intellectual property rights;
- longer accounts receivable cycles; and
- competition with large or state-owned enterprises or regulations that effectively limit our operations and favor local competitors.

Because we expect a significant portion of our revenue to continue to come from operations outside the U.S., and expect to continue transitioning certain of our operations to locations outside the U.S., the occurrence of any of these events could materially and adversely affect our business, financial position, results of operations, and cash flows.

In 2016, our European operations accounted for 19.5% of our consolidated revenue. There have been continuing concerns and uncertainties regarding the stability of certain European economies. A continued decline in the economic conditions in Europe may materially and adversely affect our operations both in Europe and on a consolidated basis.

Furthermore, in 2010 we began transitioning certain of our core data processing and other functions to locations outside the U.S., including India, where approximately 19% of our employees were located on December 31, 2016. While our operations in India have been key to serving clients more efficiently and cost-effectively under our improved service delivery model, India has from time to time experienced instances of civil unrest and hostilities with neighboring countries. Geopolitical conflicts, military activity, terrorist attacks, or other political uncertainties in the future could adversely affect the Indian economy by disrupting communications and making business operations and travel more difficult, which may have a material adverse effect on our ability to deliver services from India. Disruption of our Indian operations could materially and adversely affect our profitability and our ability to execute our growth strategy.

Our business operates in highly competitive environments and is subject to pricing pressure.

The environments in which our business operates are highly competitive, with numerous other recovery audit firms and other service providers. In addition, many of our recovery audit clients have developed their own internal recovery audit capabilities. As a result of competition among the providers of these services and the availability of certain recovery audit services from clients' internal audit departments, our business is subject to intense rate pressure. Our Adjacent Services business also has numerous competitors varying in size, market strength and specialization, many of whom have established and well-known franchises and brands. Intense price competition faced by all of our service lines could negatively impact our profit margins and have a potential adverse effect on our business, financial position, results of operations, and cash flows.

Our client contracts generally contain provisions under which the client may terminate our services prior to the completion of the agreement.

Many of our client contracts provide that the client may terminate the contract without cause prior to the end of the term of the agreement by providing us with relatively short prior written notice of the termination. As a result, the existence of contractual relationships with our clients is not an assurance that we will continue to provide services for our clients through the entire term of their respective agreements. If clients representing a significant portion of our revenue terminated their agreements unexpectedly, we may not, in the short-term, be able to replace the revenue and income from such contracts and this would have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, client contract terminations also could harm our reputation within the industry which could negatively impact our ability to obtain new clients.

Our charges to earnings resulting from acquisition, restructuring and integration costs may materially adversely affect the market value of our common stock.

We account for the completion of our acquisitions using the purchase method of accounting. We allocate the total estimated purchase prices to net tangible assets, amortizable intangible assets and indefinite-lived intangible assets, and based on their fair values as of the date of completion of the acquisitions, record the excess of the purchase price over those fair values as goodwill. Our financial results, including earnings per share, could be adversely affected by a number of financial adjustments required in purchase accounting including the following:

- we will incur additional amortization expense over the estimated useful lives of certain of the intangible assets acquired in connection with acquisitions during such estimated useful lives;
- we will incur additional depreciation expense as a result of recording purchased tangible assets; and
- to the extent the value of goodwill or intangible assets becomes impaired, we may be required to incur material charges relating to the impairment of those assets.

Our failure to comply with applicable governmental privacy laws and regulations in the U.S. and internationally could substantially impact our business, operations, financial position, and cash flows.

We are subject to extensive and evolving federal, state and foreign privacy laws and regulations. Changes in privacy laws or regulations or new interpretations of existing laws or regulations could have a substantial effect on our business, financial condition and results of operations. Failure to comply with such regulations could result in the termination or loss of contracts, the imposition of contractual damages, civil sanctions, damage to the Company's reputation, or in certain circumstances, criminal penalties, any of which could have a material adverse effect on our results of operations, financial position, cash flows, business and prospects. Determining compliance with such regulations is complicated by the fact that the interpretations of these laws and regulations by governing regulatory authorities and the courts evolve over time, and many of the provisions of such laws and regulations are open to a wide range of interpretations. Further, laws are increasingly aimed at the use of personal information for marketing purposes, such as the European Union's e-Privacy Directive, and the country-specific regulations that implement that directive. Such laws and regulations are also subject to new and differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our services or restrict our ability to store and process data or, in some cases, impact our ability to offer our services in certain locations or our customers' ability to deploy our solutions globally. There can be no assurance that we are or have been in compliance with all applicable existing laws and regulations or that we will be able to comply with new laws or regulations.

With respect to trans-border data flows from the European Economic Area, or EEA, we are certified under the new U.S.-European Union Privacy Shield Framework, as agreed to by the U.S. Department of Commerce and the European Union ("EU"), as a means to legally transfer European personal information from Europe to the United States. Despite our Privacy Shield certification and extensive efforts to maintain the privacy, integrity and controlled use of confidential information, including personally identifiable information, through a combination of hardware, software, and physical security, coupled with strong internal data security processes, procedures and controls that we believe meet or exceed relevant laws, regulations and industry best practices, we may experience hesitancy, reluctance, or refusal by European or multi-national clients to use our services due to the potential risk exposure they may face as a result of their data being transferred outside of the European Union.

Certain ownership changes may limit our ability to use our net operating losses.

We have substantial tax loss and credit carry-forwards for U.S. federal income tax purposes. On March 17, 2006, as a result of the closing of its exchange offer, 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. Of the \$94.4 million of U.S. federal net loss carry-forwards available to the Company, \$13.5 million of the loss carry-forwards are subject to an annual usage limitation of \$1.4 million. The Company has reviewed subsequent potential ownership changes as defined under IRC Section 382 and has determined that on August 4, 2008, the Company experienced an additional ownership change. This subsequent ownership change did not decrease the original limitation nor did it impact the Company's financial position, results of operations, or cash flows. The Company believes that another ownership change occurred during the fourth quarter of 2016 and is currently assessing any potential impacts on our deferred tax assets. It is possible that reported net operating losses and related deferred tax assets could be limited in their availability for future use, which may significantly increase our projected future tax liability.

Certain of our tax positions may be subject to challenge by the Internal Revenue Service and other tax authorities, and if successful, these challenges could increase our future tax liabilities and expense.

For U.S. federal income tax purposes, as well as local country tax purposes in the jurisdictions where we operate, from time to time we take positions under provisions of applicable tax law that are subject to varying interpretations. Certain of our tax positions may be subject to challenge by the applicable taxing authorities, including, in the U.S., the Internal Revenue Service. If our tax positions are successfully challenged, our future tax liabilities and expense could significantly increase.

While we believe that our tax positions are proper based on applicable law and we believe that it is more likely than not that we would prevail with respect to challenges to these positions, we can make no assurances that we would prevail if our positions are challenged or that business economics would justify the mounting of a legal defense against such challenges. If our tax positions are successfully challenged by the U.S. or non-U.S. taxing authorities, it could increase our future tax liabilities and expense and have a material adverse impact on our financial position, results of operations and cash flows.

We may have exposure to additional income tax liabilities or additional costs if the U.S. government changes certain U.S. tax rules or other laws applicable to U.S. corporations doing business in foreign jurisdictions.

We are a U.S. corporation that conducts business both in the U.S. and in foreign jurisdictions. From time to time, proposals for changes to tax and other laws are made that may negatively impact U.S. corporations doing business in foreign jurisdictions, including proposals for comprehensive tax reform. While the scope of future changes remains unclear, proposed changes might include limiting the ability of U.S. corporations to deduct certain expenses attributable to offshore earnings, modifying the foreign tax credit rules and taxing currently certain transfers of intangible assets offshore or imposing other economic disincentives to doing business outside of the U.S. The enactment of some or all of these proposals could increase the Company's effective tax rate or otherwise adversely affect our profitability.

Future impairment of goodwill, other intangible assets and long-lived assets would reduce our future earnings.

As of December 31, 2016, the Company's goodwill and other intangible assets totaled \$24.8 million. We must perform periodic assessments to determine whether some portion, or all, of our goodwill, intangible assets and other long-lived assets are impaired. Our most recent assessment showed no impairment to our goodwill, intangible assets and other long-lived assets, but future impairment testing could result in a determination that our goodwill, other intangible assets or our other long-lived assets have been impaired. Future adverse changes in the business environment or in our ability to perform audits successfully and compete effectively in our markets or the discontinuation of our use of certain of our intangible or other long-lived assets could result in impairment which could materially adversely impact future earnings.

Claims under our self-insurance program may differ from our estimates, which could materially impact our results of operations.

We use a combination of insurance and self-insurance plans to provide for the potential liabilities for healthcare benefits for our employees. We estimate the liabilities associated with the risks that we retain by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. Our results could be materially impacted by claims and other expenses related to such plans if future occurrences and claims differ from these assumptions and historical trends.

Our articles of incorporation, bylaws and Georgia law may inhibit a change of control that shareholders may favor.

Our articles of incorporation, bylaws and Georgia law contain provisions that may delay, deter or inhibit a future acquisition of PRGX that is not approved by our Board of Directors. This could occur even if our shareholders receive attractive offers for their shares or if a substantial number, or even a majority, of our shareholders believe the takeover is in their best interest. These provisions are intended to encourage any person interested in acquiring us to negotiate with and obtain the approval of our Board of Directors in connection with the transaction. Provisions that could delay, deter or inhibit a future acquisition include the following:

- a classified Board of Directors;
- the requirement that our shareholders may only remove directors for cause;
- specified requirements for calling special meetings of shareholders;
- the ability of the Board of Directors to consider the interests of various constituencies, including our employees, clients and creditors and the local community, in making decisions; and
- the ability of the Board of Directors to issue shares of preferred stock with such designations, powers, preferences and rights as it determines, without any further vote or action by our shareholders.

Our stock price has been and may continue to be volatile.

Our common stock is currently traded on The Nasdaq Global Select Market. The trading price of our common stock has been and may continue to be subject to large fluctuations. For example, for the year ended December 31, 2016, our stock traded as high as \$6.20 per share and as low as \$3.04 per share. Our stock price may increase or decrease in response to a number of events and factors, including:

- future announcements concerning us, key clients or competitors;
- quarterly variations in operating results and liquidity;
- changes in financial estimates and recommendations by securities analysts;
- developments with respect to technology or litigation;
- changes in applicable laws and regulations;
- the operating and stock price performance of other companies that investors may deem comparable to our company;
- acquisitions and financings; and
- sales and purchases of our stock by insiders.

Fluctuations in the stock market, generally, also impact the volatility of our stock price. Finally, general economic conditions and stock market movements may adversely affect the price of our common stock, regardless of our operating performance.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Our principal executive offices are located in approximately 58,000 square feet of office space in Atlanta, Georgia. We have subleased approximately 3,000 square feet of our principal executive office space to independent third parties. In January 2014, we amended the lease for our principal executive offices to extend the term through December 31, 2021, reduce the lease payment for 2014, and reduce the space under lease to approximately 58,000 square feet effective January 1, 2015. This space is used by our Recovery Audit Services - Americas and Adjacent Services segments and is the primary location of our Corporate Support personnel. Our various operating units lease numerous other parcels of operating space elsewhere in the U.S. and in the various other countries in which we currently conduct our business.

Excluding the lease for our principal executive offices, the majority of our real property leases are individually less than five years in duration. See *Contractual Obligations and Other Commitments* in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part II, Item 7 of this Form 10-K and *Note 6* of “Notes to Consolidated Financial Statements” included in Part II, Item 8 of this Form 10-K for a discussion of costs we may incur in the future to the extent we (i) reduce our office space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate.

ITEM 3. 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 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded under the symbol "PRGX" on The Nasdaq Global Select Market (Nasdaq). The Company has not paid cash dividends on its common stock since it became a public company in 1996 and does not intend to pay cash dividends in the foreseeable future. Moreover, restrictive covenants included in our secured credit facility specifically prohibit payment of cash dividends. As of March 8, 2017, there were 133 holders of record of our common stock and management believes there were approximately 2,510 beneficial holders. The following table sets forth, for the quarters indicated, the range of high and low sales prices for the Company's common stock as reported by Nasdaq during 2016 and 2015.

2016 Calendar Quarter	High	Low
1st Quarter	\$ 4.90	\$ 3.04
2nd Quarter	5.81	4.56
3rd Quarter	5.50	4.58
4th Quarter	6.20	4.25
2015 Calendar Quarter		
	High	Low
1st Quarter	\$ 5.77	\$ 3.84
2nd Quarter	4.99	3.65
3rd Quarter	4.51	3.35
4th Quarter	4.42	3.50

Issuer Purchases of Equity Securities

A summary of our repurchases of our common stock during the fourth quarter ended December 31, 2016 is set forth below.

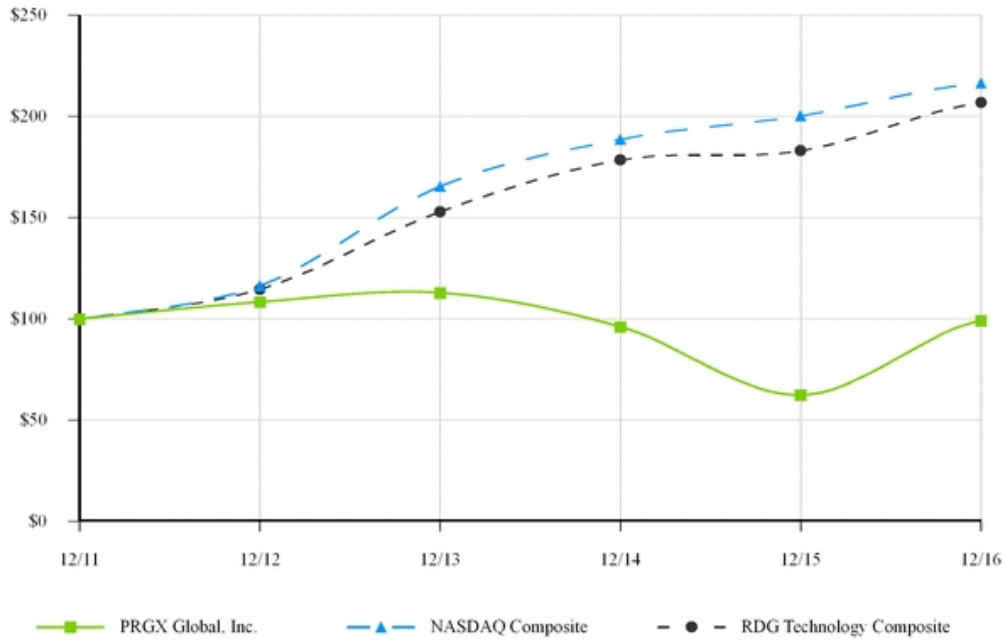
2016	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(a)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (millions of dollars)
October 1 - October 31	—	\$ —	—	\$ —
November 1 - November 30	—	\$ —	—	\$ —
December 1 - December 31	1,859	\$ 5.25	1,859	\$ —
	<u>1,859</u>	<u>\$ 5.25</u>	<u>1,859</u>	<u>\$ 15.5</u>

- (a) On February 21, 2014, our Board of Directors authorized a stock repurchase program under which we could 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, bringing the total amount of its common stock that the Company could repurchase under the program to \$20.0 million. On October 24, 2014, our Board of Directors authorized a \$20.0 million increase to the stock repurchase program, increasing the total share repurchase program to \$40.0 million, and extended the duration of the program to December 31, 2015. During October 2015, our Board of Directors authorized an additional \$10.0 million increase in the program, increasing the total repurchase program to \$50.0 million, and extended the duration of the program to December 31, 2016. In December 2016, our Board of Directors authorized an additional \$10.0 million increase in the program, increasing the total repurchase program to \$60.0 million, and extended the duration of the program to December 31, 2017. From the February 2014 announcement of the Company's current stock repurchase program through December 31, 2016, the Company repurchased a total of 8.6 million shares under this program for an aggregate purchase price of \$44.5 million. 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.

Performance Graph

Set forth below is a line graph presentation comparing the cumulative shareholder return on our common stock, on an indexed basis, against cumulative total returns of The Nasdaq Composite Index and the RDG Technology Composite Index. The graph assumes that the value of the investment in the common stock in each index was \$100 on December 31, 2011 and shows total return on investment for the period beginning December 31, 2011 through December 31, 2016, assuming reinvestment of any dividends. Notwithstanding anything to the contrary set forth in any of the Company’s filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings, including this Annual Report on Form 10-K, in whole or in part, the Performance Graph presented below shall not be incorporated by reference into any such filings.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN



	Cumulative Total Return					
	12/11	12/12	12/13	12/14	12/15	12/16
PRGX Global, Inc.	100.00	108.40	112.94	96.13	62.52	99.16
NASDAQ Composite	100.00	116.41	165.47	188.69	200.32	216.54
RDG Technology Composite	100.00	114.61	152.95	178.50	183.08	206.81

ITEM 6. Selected Financial Data

The following table sets forth selected financial data from continuing operations for the Company as of and for each of the five years in the period ended December 31, 2016. The following data reflects the business acquisitions that we have completed through December 31, 2016. We have included the results of operations for these acquired businesses in our results of operations since the date of their acquisitions. We have derived this historical consolidated financial data from our Consolidated Financial Statements and Notes thereto, which have been audited by our Independent Registered Public Accounting Firm. The Consolidated Balance Sheets as of December 31, 2016 and 2015, and the related Consolidated Statements of Operations, Comprehensive Income (Loss), Shareholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2016 and the report of the Independent Registered Public Accounting Firm thereon are included in Item 8 of this Form 10-K.

The data presented below should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K and other financial information appearing elsewhere in this Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain reclassifications have been made to the prior periods to conform to the current period presentation.

	Years Ended December 31, (1)				
	2016	2015	2014	2013	2012
Statements of Operations Data:	(In thousands, except per share data)				
Revenue, net	\$ 140,844	\$ 138,302	\$ 161,552	\$ 178,268	\$ 190,411
Operating expenses:					
Cost of revenue	91,299	93,169	110,890	112,853	123,157
Selling, general and administrative expenses	39,399	32,284	38,581	46,143	46,601
Depreciation of property and equipment	5,033	5,317	6,025	6,783	5,743
Amortization of intangible assets	1,832	2,458	3,531	4,997	7,224
Impairment charges	—	—	—	2,773	—
Total operating expenses	137,563	133,228	159,027	173,549	182,725
Operating income from continuing operations	3,281	5,074	2,525	4,719	7,686
Foreign currency transaction (gains) losses on short-term intercompany balances	84	2,165	2,003	(13)	(377)
Interest expense (income), net	(153)	(190)	(77)	(77)	966
Other loss	(121)	1,191	57	—	—
Income from continuing operations before income taxes	3,471	1,908	542	4,809	7,097
Income tax expense (2)	1,242	369	3,241	2,755	1,297
Net income (loss) from continuing operations	\$ 2,229	\$ 1,539	\$ (2,699)	\$ 2,054	\$ 5,800
Basic earnings (loss) from continuing operations per common share	\$ 0.10	\$ 0.06	\$ (0.09)	\$ 0.07	\$ 0.23
Diluted earnings (loss) from continuing operations per common share	\$ 0.10	\$ 0.06	\$ (0.09)	\$ 0.07	\$ 0.23

	December 31,				
	2016	2015	2014	2013	2012
Balance Sheet Data: ⁽³⁾	(In thousands)				
Cash and cash equivalents	\$ 15,723	\$ 15,122	\$ 25,735	\$ 43,700	\$ 37,806
Working capital	16,706	21,641	36,006	50,506	37,445
Total assets	93,474	80,391	102,782	132,829	143,586
Long-term debt, excluding current installments	—	—	—	—	3,000
Total shareholders' equity	\$ 52,390	\$ 52,415	\$ 70,986	\$ 93,828	\$ 84,652

- (1) Data for all years prior to 2015 has been restated in order to reflect only continuing operations.
- (2) The taxes recorded for 2014 were primarily related to the recording of a valuation allowance on the future use of net losses in our U.K. operations. The high effective tax rate relative to the U.S. federal statutory rate in 2013 is due to taxes on income of foreign subsidiaries with no benefit recognized for losses incurred in the U.S. due to the Company having a deferred tax asset valuation allowance. The low effective tax rate in 2012 is attributable to recognition of certain previously unrecognized tax benefits. See *Note 1 (i)* and *Note 7* of "Notes to Consolidated Financial Statements" included in Item 8 of this Form 10-K.
- (3) Data in this table reflects the balance sheet amounts for both continuing and discontinued operations.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

PRGX Global, Inc. is a global leader in recovery audit and spend analytics, providing services within our clients' Source-to-Pay ("S2P") business processes. At the heart of our client services portfolio is the core capability of mining client data to deliver "actionable insights." Actionable insights allow our clients to improve their financial performance by reducing costs, improving business processes, managing risks and increasing profitability.

Our services include recovery audit, spend analytics and supplier information management ("SIM") services. We serve clients in more than 30 countries and 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, analytics and SIM services, as well as our PRGX OPTIX suite of analytics tools. 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 S2P services market space, focused on the payment side of the S2P market.

Generally, we earn our recovery audit revenue on a contingent fee basis 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 complex supplier billings against large services, construction and licensing contracts, and is relevant to a large portion of our client base. 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. Services in our Adjacent Services segment can be project-based (advisory services), which are typically billed on a rates and hours basis, or subscription-based (typically SaaS offerings), which are billed on a monthly basis.

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.

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.

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 developing and enhancing our technology platforms and improved operational processes within our 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 growing our Adjacent Services which includes our global PRGX OPTIX™ analytics solutions and our SIM services offering. We believe that our recovery audit business uniquely positions us to create value for clients and gives us a competitive advantage over other players in the broader S2P market for four fundamental reasons:

- We already have the clients' spend 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 S2P data on a daily, weekly or at least periodic basis;
- We know the clients' spend 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;
- We take a different perspective in analyzing the clients' spend 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
- Our contingent fee recovery audit value proposition minimizes our clients' cost of entry and truly aligns us with our clients.

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' S2P 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.

In an effort to accelerate our growth and expand our technology offerings within Adjacent Services, during the fourth quarter of 2016, we acquired Lavante, Inc. ("Lavante"), a SaaS-based SIM and recovery audit services firm based in San Jose, California.

Discontinued Operations

As of December 31, 2015, the Company discontinued its HCRA 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 Item 7 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 our Consolidated Statements of Operations from continuing operations for the periods indicated:

	Years Ended December 31,		
	2016	2015	2014
Revenue, net	100.0 %	100.0 %	100.0 %
Operating expenses:			
Cost of revenue	64.8	67.4	68.6
Selling, general and administrative expenses	28.0	23.3	23.9
Depreciation of property and equipment	3.6	3.8	3.7
Amortization of intangible assets	1.3	1.8	2.2
Impairment charges	—	—	(0.1)
Total operating expenses	97.7	96.3	98.3
Operating income from continuing operations	2.3	3.7	1.7
Foreign currency transaction (gains) losses on short-term intercompany balances	0.1	1.6	1.2
Interest expense, net	(0.2)	(0.1)	—
Income (loss) before income taxes from continuing operations	2.4	2.2	0.5
Income tax expense	0.9	0.3	2.0
Net income (loss) from continuing operations	1.5 %	1.9 %	(1.5)%

Year Ended December 31, 2016 Compared to Prior Years from Continuing Operations

Revenue. Revenue was as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Recovery Audit Services – Americas	\$ 99,861	\$ 97,009	\$ 106,533
Recovery Audit Services – Europe/Asia-Pacific	37,335	36,264	44,319
Adjacent Services	3,648	5,029	10,700
Total	\$ 140,844	\$ 138,302	\$ 161,552

Consolidated revenue from continuing operations increased by \$2.5 million, or 1.8%, in 2016 compared to 2015, and decreased by \$23.3 million, or 14.4%, in 2015 compared to 2014. Our 2016 year over year growth was led by our global retail recovery audit business, which is the largest of our recovery audit businesses. We experience changes in our reported revenue based on the strength of the U.S. dollar relative to foreign currencies. On a constant dollar basis, adjusted for changes in foreign exchange ("FX") rates, consolidated revenue from continuing operations increased 4.5% for in 2016 when compared to 2015 and decreased 9.1% in 2015 when compared to 2014. Below is a discussion of our revenue for our three reportable segments.

Recovery Audit Services - Americas revenue increased \$2.8 million, or 2.9%, in 2016 compared to 2015 and decreased \$9.5 million, or 8.9%, compared to 2014. The 2016 year over year growth was led by our retail recovery audit business, which is the largest of our recovery audit businesses. Changes in the value of the U.S. dollar relative to currencies in Canada and Latin America negatively impacted reported revenue in both 2016 and 2015. On a constant dollar basis, adjusted for changes in FX rates, 2016 revenue increased 3.9% compared to 2015 and on an as-reported basis increased 2.9%. On a constant dollar basis, adjusted for changes in FX rates, 2015 revenue decreased by 5.7% compared to 2014 and on an as-reported basis decreased 8.9%.

The changes in our Recovery Audit Services - Americas revenue in 2016 and 2015 were due to a number of factors in addition to changes in FX rates. The increase in revenue in 2016 compared to 2015 was primarily driven by stronger claims conversion, the implementation of acceleration and maturity model programs, increased staffing at certain audits and improvements in our proprietary audit tools. This growth was partially offset by continued rate pressures and the above-mentioned changes in FX rates. Revenue increased 1.7% in 2016 compared to 2015 and 5.3% in 2015 compared to 2014 due to revenue from new clients. Revenue from existing clients increased 1.9% in 2016 compared to 2015 and decreased 13.8% in 2015 compared to 2014. The revenue decrease in 2015 was due primarily to lower revenue from certain large retail clients, including a U.S. grocer that filed bankruptcy and another that increased its internal resources and is identifying more claims itself, scope restrictions at another significant client, and continued rate pressure from our clients.

Recovery Audit Services - Europe/Asia-Pacific revenue increased \$1.1 million, or 3.0%, in 2016 compared to 2015 and decreased \$8.1 million, or 18.2%, in 2015. The revenue growth was primarily driven by stronger claims conversion, the implementation of acceleration and maturity model programs, increased staffing at certain audits and improvements in our proprietary audit tools. This growth was partially offset by continued rate pressures and unfavorable year over year changes in FX rates. The changes in the value of the U.S. dollar relative to foreign currencies in Europe, Asia and the Pacific region negatively impacted reported revenue in 2016 and 2015. Revenue increased 2.7% in 2016 and 3.5% in 2015 due to new clients. Revenue from existing clients increased 1.6% in 2016 and decreased 21.7% in 2015. The 2015 revenue decrease is due primarily to lower revenue from various retail clients in Europe as a result of U.K. grocery specific regulatory enforcement activities resulting in tighter restrictions on the age of transactions being audited and claim deduction policies and practices. Revenue in 2015 was also adversely impacted by scope restrictions and lower contingency fee rates at a few clients. Partially offsetting these 2015 revenue declines was an increase in 2015 revenue in the Asia-Pacific region. On a constant dollar basis, adjusted for changes in FX rates, 2016 revenue increased by 9.6% compared to an increase of 3.0% as reported, and 2015 revenue decreased by 7.3% compared to a decrease of 18.2% as reported.

Adjacent Services revenue decreased by \$1.4 million, or 27.5%, in 2016 compared to 2015 and decreased \$5.7 million, or 53.0%, in 2015 compared to 2014. The decline in revenue in 2016 compared to 2015 is primarily due to the delay in starting certain projects within our pipeline and finishing a few other projects' key deliverables prior to December 31, 2016. After eliminating revenue from the Chicago, Illinois-based consulting practice that was sold during the fourth quarter of 2014, 2015 revenue decreased by approximately 20% compared to 2014. The remaining decrease in 2015 revenue primarily resulted from a slower than planned ramp up of our spend analytics business during the second half of 2015, partially offset by an increase in our SIM revenue.

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 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 number of the components comprising COR are variable and will increase or decrease with increases or decreases in revenue.

COR was as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Recovery Audit Services – Americas	\$ 60,706	\$ 60,214	\$ 68,163
Recovery Audit Services – Europe/Asia-Pacific	24,802	25,424	31,103
Adjacent Services	5,791	7,531	11,624
Total	<u>\$ 91,299</u>	<u>\$ 93,169</u>	<u>\$ 110,890</u>

COR as a percentage of revenue for Recovery Audit Services - Americas was 60.8% in 2016, 62.1% in 2015 and 64.0% in 2014. We continue to invest in our various growth and other strategic initiatives, and include portions of these costs in Recovery Audit Services - Americas COR each year. The improvement in COR as a percentage of revenue for 2016 compared to 2015 is primarily due to the increase in revenues and 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 prior periods. The improvement in COR as a percentage of revenue for 2015 compared to 2014 is due to cost reductions implemented in late 2014 and early 2015, our continued focus on strengthening operational processes, as well as a \$0.7 million reduction in transformation expenses compared to 2014.

COR as a percentage of revenue for Recovery Audit Services - Europe/Asia-Pacific was 66.4% in 2016, 70.1% in 2015 and 70.2% in 2014. COR decreased 2.4% in 2016 compared to 2015 and 18.3% in 2015 compared to 2014. The 2016 positive impact was primarily due to the increase in revenues and the impact of transforming our operational processes. The improvements were partially offset by the increased costs associated with senior leadership and audit staff personnel that were not in place in prior periods. The decrease in 2015 compared to 2014 was primarily related to reductions in our cost structure due to a reorganization coupled with reduced compensation-related costs that vary with revenue. In addition, our continuing efforts to centralize and standardize the recovery audit processes enabled us to lower our COR as a percentage of revenue in this segment in 2016 and 2015.

The higher COR as a percentage of revenue for Recovery Audit Services - Europe/Asia-Pacific (66.4% for 2016) compared to Recovery Audit Services - Americas (60.8% for 2016) 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 generates lower average revenue per client than those served by the Recovery Audit Services - Americas segment.

Adjacent Services COR is primarily related to our continued investments in personnel whom we are hiring to either sell or assist with potential service delivery. Due to the nature of these costs and the reduced Adjacent Services revenue, COR as a percentage of revenue increased to 158.8 % in 2016 from 149.8% in 2015 and 108.6% in 2014.

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):

	Years Ended December 31,		
	2016	2015	2014
Recovery Audit Services – Americas	\$ 8,421	\$ 7,685	\$ 10,211
Recovery Audit Services – Europe/Asia-Pacific	5,442	5,487	6,829
Adjacent Services	1,469	662	2,124
Subtotal for reportable segments	15,332	13,834	19,164
Corporate Support	24,067	18,450	19,417
Total	<u>\$ 39,399</u>	<u>\$ 32,284</u>	<u>\$ 38,581</u>

Recovery Audit Services - Americas SG&A expenses increased 9.6% in 2016 compared to 2015 and decreased 24.7% in 2015 compared to 2014. The increase in 2016 is due primarily to higher personnel and bad debt costs. The decrease in 2015 is due primarily to lower personnel costs.

Recovery Audit Services - Europe/Asia-Pacific SG&A expenses were essentially flat in 2016 compared to 2015 after decreasing 19.7% in 2015 compared to 2014. The decrease in 2015 is due mainly to lower transformation and facilities costs.

Adjacent Services SG&A expenses increased \$0.8 million in 2016 compared to 2015 due mainly to the inclusion of the operating expenses for Lavante, which was acquired in the fourth quarter of 2016. Adjacent Services SG&A expenses decreased 68.8% in 2015 compared to 2014 primarily from reduced transformation and facilities costs.

Corporate Support SG&A expenses include stock-based compensation charges of \$5.1 million in 2016, \$3.9 million in 2015 and \$4.5 million in 2014. Excluding stock-based compensation charges, Corporate Support SG&A expense increased 30.4% in 2016 compared to 2015 and decreased 2.4% in 2015 compared to 2014. The increase in 2016 compared to 2015 is due mainly to increases in incentive compensation expenses, U.S. healthcare insurance benefit claim costs and the costs associated with business acquisition activity. The decrease in 2015 compared to 2014 reflects our focus on controlling our expenses.

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

	Years Ended December 31,		
	2016	2015	2014
Recovery Audit Services – Americas	\$ 3,750	\$ 4,036	\$ 4,711
Recovery Audit Services – Europe/Asia-Pacific	529	647	592
Adjacent Services	755	634	722
Total	<u>\$ 5,034</u>	<u>\$ 5,317</u>	<u>\$ 6,025</u>

Depreciation expense declined in 2016 and 2015 primarily as a result of the reduced level of capital purchases in 2014, 2015 and 2016 when compared to prior periods, which reduced the amount of depreciation to be recorded as those assets became fully depreciated.

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

	Years Ended December 31,		
	2016	2015	2014
Recovery Audit Services – Americas	\$ 1,477	\$ 1,728	\$ 2,002
Recovery Audit Services – Europe/Asia-Pacific	—	600	1,195
Adjacent Services	355	130	334
Total	<u>\$ 1,832</u>	<u>\$ 2,458</u>	<u>\$ 3,531</u>

Generally, we amortize the customer relationship and trademark intangible assets we record in connection with an acquisition on an accelerated basis over six years or longer, and we amortize non-compete agreements and trade names on a straight-line basis over five years or less. This methodology results in higher amortization immediately following an acquisition, and declining expense in subsequent periods. Our most recent acquisitions prior to December 31, 2016 include Lavante in October, 2016, the SIM services business acquired from Global Edge, LLC and certain affiliated companies (collectively, "Global Edge") in December 2015, Business Strategy, Inc. and substantially all the assets of an affiliated company (collectively, "BSI") in Recovery Audit Services - Americas in December 2011, the associate migrations in Recovery Audit Services - Europe / Asia-Pacific in 2011 and 2012, and Etesius Limited and TJG Holdings LLC in Adjacent Services in 2010. Amortization expense declined in our recovery audit segments in 2016 and 2015 compared to the prior year as we did not complete a material acquisition in these segments in either year. Similarly, Adjacent Services amortization increased in 2016 due to the amortization of certain assets acquired in the acquisition of Lavante.

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 between 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.

The U.S. dollar generally strengthened relative to the local currencies of certain of our foreign subsidiaries in 2016, 2015 and 2014 resulting in our recording net foreign currency losses on short-term intercompany balances of less than \$0.1 million, \$2.2 million and \$2.0 million, respectively.

Net Interest Expense (Income). Net interest income was \$0.2 million in each of 2016 and 2015 and \$0.1 million in 2014 due to reductions in interest accruals on uncertain tax positions.

Income Tax Expense. Our reported effective tax rates on earnings approximated 35.8% in 2016, 19.3% in 2015, and 598.0% in 2014. Reported income tax expense in each year primarily results from taxes on the income of foreign subsidiaries. We have recorded a deferred tax asset valuation allowance that effectively eliminates income tax expense or benefit relating to our U.S. operations. The tax rate for 2016 reflects the impact of recognizing benefit for certain deferred tax assets in New Zealand and Singapore. The tax rate for 2015 reflects the impact of recognizing benefit for certain deferred tax assets in Australia. The tax rate in 2014 reflects the impact of recording a valuation allowance against certain deferred tax assets in the United Kingdom. The effective tax rates noted above exclude discontinued operations in the current and prior years.

Together with the reversal of interest expense accruals, the total net reduction to our reserves for uncertain tax positions based on changes in accruals was \$0.1 million in 2016, \$0.2 million in 2015, and \$0.1 million in 2014.

As of the end of each of the past three years, management determined that based on all available evidence, deferred tax asset valuation allowances of \$50.1 million in 2016, \$45.6 million in 2015 and \$52.0 million in 2014 were appropriate.

As of December 31, 2016, we had approximately \$94.5 million of U.S. federal loss carry-forwards available to reduce future U.S. federal taxable income. The U.S. federal loss carry-forwards expire through 2035. As of December 31, 2016, we had approximately \$135.1 million of state loss carry-forwards available to reduce future state taxable income. The state loss carry-forwards expire to varying degrees between 2021 and 2036 and are subject to certain limitations. The state loss carry-forwards at December 31, 2016, reflect adjustments for prior period write-downs associated with ownership changes for state purposes.

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 and also resulted in the write-off of certain deferred tax assets and the related valuation allowances that the Company recorded in 2006. Of the \$94.5 million of U.S. federal loss carry-forwards available to the Company, \$13.5 million of the loss carry-forwards are subject to an annual usage limitation of \$1.4 million. The Company has reviewed subsequent potential ownership changes as defined under Section 382 and has determined that on August 4, 2008, the Company experienced another additional ownership change. This subsequent ownership change did not decrease the original limitation nor did it impact the Company's financial position, results of operations, or cash flows. The Company believes that there has been an ownership change as defined under IRC Section 382 in the fourth quarter of 2016. The Company is currently assessing what impact this ownership change may have on our ability to utilize the reported net operating losses and related deferred tax assets in future periods.

Adjusted EBITDA. We evaluate the performance of our operating 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 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, severance charges and foreign currency transaction gains and losses on short-term intercompany balances viewed by management as individually or collectively significant.

Reconciliations of consolidated net loss to each of EBIT, EBITDA and Adjusted EBITDA for the periods included in this report are as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Net income (loss)	\$ 905	\$ (3,226)	\$ (7,526)
Income tax expense	1,242	369	3,241
Interest income, net	(153)	(190)	(77)
EBIT	1,994	(3,047)	(4,362)
Depreciation of property and equipment	5,047	5,352	6,216
Amortization of intangible assets	1,832	2,458	3,531
EBITDA	8,873	4,763	5,385
Foreign currency transaction (gains) losses on short-term intercompany balances	84	2,165	2,003
Acquisition-related charges	—	—	249
Transformation severance and related expenses	1,383	2,299	4,050
Other loss	(121)	1,191	57
Stock-based compensation	5,123	3,926	4,532
Adjusted EBITDA	<u>\$ 15,342</u>	<u>\$ 14,344</u>	<u>\$ 16,276</u>

Acquisition-related charges include acquisition obligations classified as compensation of \$0.2 million in 2014 which were paid in the third quarter of 2014.

Transformation severance and related expenses decreased \$0.9 million, or 39.8%, in 2016 compared to 2015 and \$1.8 million, or 43.2%, in 2015 compared to 2014. These expense reductions were due to reduced restructuring activities in each of 2016 and 2015 relative to the prior year.

Stock-based compensation increased \$1.2 million, or 30.5%, in 2016 compared to 2015 due to the issuance in 2016 of performance-based equity grants whose value fluctuates with our stock price. Stock-based compensation decreased \$0.6 million, or 13.4%, in 2015 compared to 2014 due primarily to the completion of the expense recognition period for prior year equity grants that exceeded the recognized expense for new grants in 2015.

We include a detailed calculation of Adjusted EBITDA by segment in *Note 2* of “Notes to Consolidated Financial Statements” in Item 8 of this Form 10-K. A summary of Adjusted EBITDA by segment for the years ended December 31, 2016, 2015, and 2014 was as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Recovery Audit Services – Americas	\$ 31,251	\$ 29,431	\$ 29,507
Recovery Audit Services – Europe/Asia-Pacific	7,403	5,942	7,672
Adjacent Services	(3,354)	(3,134)	(2,381)
Subtotal for reportable segments	35,300	32,239	34,798
Corporate Support	(18,702)	(14,215)	(14,296)
Total for continuing operations	<u>\$ 16,598</u>	<u>\$ 18,024</u>	<u>\$ 20,502</u>

Recovery Audit Services - Americas Adjusted EBITDA increased by \$1.8 million, or 6.2%, in 2016 compared to 2015 and decreased \$0.1 million, or 0.3%, in 2015 compared to 2014. The 2016 increase resulted primarily from increased revenue that exceeded the associated increases in COR and SG&A expenses.

Recovery Audit Services - Europe/Asia-Pacific Adjusted EBITDA increased by \$1.5 million, or 24.6%, in 2016 compared to 2015. This increase is due primarily to increased revenue that exceeded the associated increases in COR and SG&A expenses. Adjusted EBITDA decreased by \$1.7 million, or 22.5%, in 2015 compared to 2014. The decrease in 2015 is due to lower revenue partially offset by lower COR and SG&A expenses.

Adjacent Services Adjusted EBITDA declined 7.0% to a loss of \$(3.4) million in 2016 compared to 2015, and declined 31.6% to a loss of \$(3.1) million in 2015 compared to 2014. These declines are due to revenue in each period declining at a faster rate than COR and SG&A expenses.

Corporate Support Adjusted EBITDA decreased by \$4.5 million, or 31.6%, in 2016 compared to 2015 due mainly to increased US healthcare benefit costs, the addition of sales personnel, increases in incentive compensation expenses and increased legal costs associated with business acquisition activities. Adjusted EBITDA improved by \$0.1 million, or 0.6%, in 2015 compared to 2014.

Liquidity and Capital Resources

As of December 31, 2016, we had \$15.7 million in cash and cash equivalents and borrowings under our revolving credit facility totaling \$3.6 million. As of December 31, 2016, the revolver had \$16.4 million of availability for borrowings and the Company was in compliance with the covenants in its SunTrust credit facility. We amended the SunTrust credit facility in January 2014, December 2014 and December 2016 as further described in *Secured Credit Facility* below.

The \$15.7 million in cash and cash equivalents includes \$4.1 million held in the U.S., \$1.9 million held in Canada, and \$9.7 million held in other foreign jurisdictions, primarily in the United Kingdom, Australia, New Zealand, Mexico, and Brazil. Certain foreign jurisdictions restrict the amount of cash that can be transferred to the U.S. or impose taxes and penalties on such transfers of cash. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our operations in the U.S., we may incur significant penalties and/or taxes to repatriate these funds. Generally, we have not provided deferred taxes on the undistributed earnings of international subsidiaries as we consider these earnings to be permanently reinvested. However, we do not consider the earnings of our Canadian subsidiary to be permanently invested, and have provided deferred taxes relating to the potential repatriation of the funds held in Canada.

Operating Activities. Net cash provided by operating activities was \$10.1 million in 2016, \$13.5 million in 2015 and \$10.0 million in 2014. These amounts consist of two components, specifically, net income (loss) adjusted for certain non-cash items (such as depreciation, amortization, stock-based compensation expense, impairment charges, and deferred income taxes) and changes in assets and liabilities, primarily working capital, as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Net income (loss)	\$ 905	\$ (3,226)	\$ (7,526)
Adjustments for certain non-cash items	11,307	15,112	16,443
	12,212	11,886	8,917
Changes in operating assets and liabilities	(2,094)	1,567	1,130
Net cash provided by operating activities	<u>\$ 10,118</u>	<u>\$ 13,453</u>	<u>\$ 10,047</u>

The decrease in net cash provided by operating activities in 2016 compared to 2015 is primarily the result of the use of working capital through increased receivables and reduced payables and accruals that offset the net income and non-cash item improvements. The increase in net cash provided by operating activities in 2015 compared to 2014 is primarily attributable to the improvement in working capital resulting from a decrease of \$5.6 million in accounts receivable partially offset by a \$3.7 million decrease in accounts payable, accrued payroll and other accrued expenses.

We include an itemization of these changes in our Consolidated Statements of Cash Flows in Part II, Item 8 of this Form 10-K.

We have one client, The Kroger Co., that accounted for approximately 11% of our revenue from continuing operations in 2016. No client accounted for 10% or more of our revenue from continuing operations in 2015 or 2014. The loss of any one of our major clients would negatively impact our operating cash flows and would potentially have a material adverse impact on the Company's liquidity.

Investing Activities. Net cash used for capital expenditures was \$5.9 million in 2016, \$4.5 million in 2015 and \$4.7 million in 2014. These capital expenditures primarily related to investments we made to upgrade our information technology infrastructure, develop our proprietary audit tools and develop software relating to Adjacent Services.

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 2017. Should we experience changes in our operating results, we may alter our capital expenditure plans.

In addition to capital expenditures, we completed the acquisition of Lavante during the fourth quarter of 2016, and borrowed approximately \$3.6 million under the SunTrust revolver to complete the acquisition.

Business Acquisitions and Divestitures

We made several business acquisitions over the past few years, each of which is discussed more fully in *Note 12 - Business Acquisitions and Divestitures* in “Notes to Consolidated Financial Statements” in Part II, Item 8 of this Form 10-K. Following is a summary of recent business acquisition and divestiture activities impacting our liquidity and capital resources in the past three years.

In February 2010, we acquired all of the issued and outstanding capital stock of Etesius Limited, a privately-held European provider of purchasing and payables technologies and spend analytics based in Chelmsford, United Kingdom for a purchase price valued at \$3.1 million. The purchase price included an initial cash payment of \$2.8 million and a \$0.3 million payment for obligations on behalf of Etesius shareholders that we paid in February 2010 as well as deferred payments of \$1.2 million over four years from the date of the acquisition. We also were potentially required to make additional payments of up to \$3.8 million over a four-year period if the financial performance of this service line met certain targets. These payments would be to Etesius employees that we hired in connection with the acquisition. We were not obligated to make the deferred and earn-out payments to these employees if they resigned or were terminated under certain circumstances. We therefore recognized the accrual of the deferred payments as compensation expense. From the acquisition date to December 31, 2014, we paid \$1.4 million of deferred payments and variable consideration. This amount included the final \$0.7 million of deferred payments paid in February 2014 and the final payment of \$0.2 million of variable consideration paid in August 2014.

In December 2011, we acquired BSI, based in Grand Rapids, Michigan, for a purchase price valued at \$11.9 million. BSI was a provider of recovery audit and related procure-to-pay process improvement services for commercial clients, and a provider of customized software solutions and outsourcing solutions to improve back office payment processes. The purchase price included an initial cash payment of \$2.8 million and 640,614 shares of our common stock having a value of \$3.7 million. An additional payment of approximately \$0.7 million was made in the first half of 2012 for working capital received in excess of a specified minimum level. Additional variable consideration of up to \$5.5 million, payable via a combination of cash and shares of our common stock, potentially was due based on the performance of the acquired businesses over a two year period from the date of acquisition. We also could have been required to pay additional consideration of up to \$8.0 million, payable in cash over a period of two years, based on certain net cash fee receipts from a particular recovery audit claim at a specific client. We recorded an additional \$4.9 million payable at the acquisition date based on management’s estimate of the fair value of the variable consideration payable. From the acquisition date to December 31, 2014, we paid \$6.3 million of the earn-out liability consisting of cash payments of \$3.6 million and 404,775 shares of our common stock having a value of \$2.7 million. We also recorded accretion and other adjustments of the earn-out liability of \$1.4 million. There was no remaining earn-out payable as of December 31, 2014.

In December 2015, we acquired the SIM business of Global Edge for a purchase price valued at \$0.7 million. The purchase price included an initial cash payment of \$0.5 million and additional variable cash consideration based on the performance of the acquired businesses over a two year period from the date of acquisition valued at \$0.2 million.

In October 2016, we completed the acquisition of Lavante, a SaaS-based supplier of SIM and recovery audit services, for a net purchase price of \$3.7 million. Lavante’s assets consist primarily of its proprietary software applications and customer contracts.

We did not complete a business acquisition in the year ended December 31, 2014.

In October 2014, we divested certain assets within our Adjacent Services segment that were related to our Chicago, Illinois-based consulting business. These assets, related to the assets previously acquired in November 2010 from TJG Holdings LLC, were sold to Salo, LLC, a Minnesota limited liability company. We received an initial cash payment of \$1.1 million in connection with the closing of the transaction and recognized a loss on the sale of less than \$0.1 million, which we recognized in *Other loss* in the Consolidated Statements of Operations. We have also received payment for working capital transferred to the buyer. In addition, we received \$0.7 million in earn-out payments based on certain revenue recognized by the buyer in relation to the acquired business during the year following the closing date of the divestiture.

In August 2015, we divested certain assets from a document service offering purchased as part of the BSI acquisition in 2011. We did not receive any initial cash payments at closing of the transaction and recognized a non-cash loss on the sale of \$1.6 million, which we recognized in *Other loss* in the Consolidated Statements of Operations. We may receive certain earn-out consideration based on a percentage of 2016 revenue recognized by the buyer from the clients transferred in connection with the disposition. The revenue sharing percentage ranges from 10% to 30% based on the type of solution or service delivered.

Financing Activities. Net cash used by financing activities was \$0.1 million in 2016, \$18.4 million in 2015 and \$22.7 million in 2014. The net cash used by financing activities in 2016, 2015 and 2014 included \$3.8 million, \$18.1 million and \$22.7 million, respectively, for the repurchase of common stock (see *Stock Repurchase Program* below).

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 credit facility is guaranteed by the Company and its domestic subsidiaries and is secured by substantially all of our assets. Borrowing availability under the SunTrust revolver at December 31, 2016 was \$20.0 million. As of December 31, 2016, we had \$3.6 million in outstanding borrowings under the SunTrust revolver. The SunTrust term loan required 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 that we paid in December 2013.

On January 17, 2014, we entered into an amendment of the SunTrust credit facility that increased the committed 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 credit facility based on eligible accounts receivable, increased our stock repurchase program limit, and extended the scheduled maturity of the credit facility to January 16, 2015 (subject to earlier termination as provided therein). We must pay a commitment fee of 0.5% per annum, payable quarterly, on the unused portion of the \$25.0 million credit facility.

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 index rate is determined as of the first business day of each calendar month. With the provision of a fixed applicable margin of 1.75% per the amendment of the SunTrust credit facility, the interest rate at December 31, 2016 was approximately 2.4%. 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 extends 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.

On December 21, 2016, we entered into an amendment of the SunTrust credit facility in order to clarify certain definitions and other terms of the facility.

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. As of December 31, 2016, we had \$3.6 million in outstanding borrowings under the SunTrust revolver. The Company was in compliance with the covenants in its SunTrust credit facility as of December 31, 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 could 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, bringing the total amount of common stock that we could repurchase under the program to \$20.0 million. On October 24, 2014, our Board of Directors authorized a \$20.0 million increase to the stock repurchase program, increasing the total stock repurchase program to \$40.0 million, and extended the duration of the program to December 31, 2015. During October 2015, our Board of Directors authorized an additional \$10.0 million increase to the stock repurchase program, increasing the total stock repurchase program to \$50.0 million, and extended the duration of the program to December 31, 2016. In December 2016, our Board of Directors authorized an additional \$10.0 million increase to the stock repurchase program, increasing the total stock repurchase program to \$60.0 million, and extended the duration of the program to December 31, 2017. We repurchased 905,403 shares of our common stock during the year ended December 31, 2016 for \$3.8 million. From the February 2014 announcement of the Company's current stock repurchase program through December 31, 2016, the Company has repurchased 8.6 million shares, or 28.7%, of its common stock outstanding on the date of the original announcement of the program, for an aggregate cost of \$44.5 million. These shares were retired and accounted for as a reduction to Shareholders' equity in the Consolidated Balance Sheet. 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.

Contractual Obligations and Other Commitments

As discussed in "Notes to Consolidated Financial Statements" included in Item 8 of this Form 10-K, the Company has certain contractual obligations and other commitments. A summary of those commitments as of December 31, 2016 is as follows:

Contractual obligations	Payments Due by Period (in thousands)				
	Total	Less	1-3 Years	3-5	More
		Than		Years	Than
		1 Year		5 Years	
Secured Credit Facility	\$ 3,600	\$ 3,600			
Interest and commitment fee on Secured Credit Facility ⁽¹⁾	\$ 311	\$ 311	\$ —	\$ —	\$ —
Operating lease obligations	10,719	3,266	4,362	3,079	12
Payments to Messrs. Cook and Toma ⁽²⁾	638	64	134	141	299
Severance	797	797	—	—	—
Total	<u>\$ 16,065</u>	<u>\$ 8,038</u>	<u>\$ 4,496</u>	<u>\$ 3,220</u>	<u>\$ 311</u>

(1) Represents the estimated commitment fee and interest due on the Secured Credit Facility using the interest rate as of December 31, 2016 and assuming borrowings under the SunTrust revolver of \$3.6 million as of December 31, 2016 and the additional revolver borrowing of \$10.0 million that took place on February 17, 2017. See Note 5 of the Notes to Consolidated Financial Statements for additional information regarding the Secured Credit Facility.

(2) Represents estimated reimbursements payable for healthcare costs incurred by these former executives.

2006 Management Incentive Plan

At the annual meeting of shareholders held on August 11, 2006, the shareholders of the Company approved a proposal granting authorization to issue up to 2.1 million shares of our common stock under the 2006 Management Incentive Plan ("2006 MIP"). At Performance Unit settlement dates, participants were issued that number of shares of Company common stock equal to 60% of the number of Performance Units being settled, and were paid in cash 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. Prior to 2012, Performance Units were only granted in 2006 and 2007, and the last of such units were settled in May 2011.

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 plan. The awards had an aggregate grant date fair value of \$1.2 million and vest ratably over three years.

All Performance Units were settled prior to December 31, 2015. We recognized compensation expense of less than \$0.1 million in 2015 and \$0.2 million in 2014 related to these 2006 MIP Performance Unit awards. We determined the amount of compensation expense recognized on the assumption that none of the Performance Unit awards would be forfeited and recorded actual forfeitures as incurred.

Cash payments relating to MIP awards were less than \$0.1 million in 2015 and \$0.1 million in 2014. The 2006 MIP terminated on April 30, 2016.

2008 Equity Incentive Plan

During the first quarter of 2008, the Board of Directors of the Company adopted the 2008 EIP, which was approved by the shareholders at the annual meeting of the shareholders on May 29, 2008. The 2008 EIP authorizes the grant of incentive and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other incentive awards. During 2015 and 2016, the company granted performance based restricted stock units (“PBU’s”) which will vest based on certain performance criteria. Upon vesting, the PBUs will be settled by the issuance of Company common stock equal to a range depending on the grant between 40% to 43% of the number of PBUs being settled, and the payment of cash in an amount equal to a range depending on the grant between 57% and 60% of the fair market value of that number of shares of common stock equal to the number of Performance Units being settled.

There were no cash payments relating to the PBUs in 2016 or 2015.

Off-Balance Sheet Arrangements

As of December 31, 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.

Critical Accounting Policies

We describe our significant accounting policies in Note 1 of “Notes to Consolidated Financial Statements” included in Item 8 of this Form 10-K. Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment by management. As a result, they are subject to an inherent degree of uncertainty. We consider accounting policies that involve the use of estimates that meet both of the following criteria to be “critical” accounting policies. First, the accounting estimate requires us to make assumptions about matters that are highly uncertain at the time that the accounting estimate is made. Second, alternative estimates in the current period, or changes in the estimate that are reasonably likely in future periods, would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

In addition to estimates that meet the “critical” estimate criteria, we also make many other accounting estimates in preparing our consolidated financial statements and related disclosures. All estimates, whether or not deemed critical, affect reported amounts of assets, liabilities, revenue and expenses, as well as disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, refund liabilities, accounts receivable allowance for doubtful accounts, goodwill and other intangible assets and income taxes. We base our estimates and judgments on historical experience, information available prior to the issuance of the consolidated financial statements and on various other factors that we believe to be reasonable under the circumstances. This information forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Materially different results can occur as circumstances change and additional information becomes known, including changes in those estimates not deemed “critical”.

We believe the following critical accounting policies, among others, involve our more significant estimates and judgments we used in the preparation of our consolidated financial statements. We have discussed the development and selection of accounting estimates, including those deemed “critical,” and the associated disclosures in this Form 10-K with the audit committee of the Board of Directors.

- *Revenue Recognition.* We generally recognize revenue for a contractually specified percentage of amounts recovered when we have determined that our clients have received economic value (generally through credits taken against existing accounts payable due to the involved vendors or refund checks received from those vendors), and when we have met the following criteria: (a) persuasive evidence of an arrangement exists; (b) services have been rendered; (c) the fee billed to the client is fixed or determinable; and (d) collectability is reasonably assured.

Additionally, for purposes of determining appropriate timing of recognition and for internal control purposes, we rely on customary business practices and processes for documenting that the criteria described in (a) through (d) above have been met. Such customary business practices and processes may vary significantly by client. On occasion, it is possible that a transaction has met all of the revenue recognition criteria described above but we do not recognize revenue, unless we can otherwise determine that criteria (a) through (d) above have been met, because our customary business practices and processes specific to that client have not been completed. The determination that we have met each of the aforementioned criteria, particularly the determination of the timing of economic benefit received by the client and the determination that collectability is reasonably assured, requires the application of significant judgment by management and a misapplication of this judgment could result in inappropriate recognition of revenue.

- *Unbilled Receivables & Refund Liabilities.* Unbilled receivables relate to claims for which our clients have received economic value but for which we contractually have agreed not to invoice the clients. These unbilled receivables arise when a portion of our fee is deferred at the time of the initial invoice. At a later date (which can be up to a year after the original invoice, or a year after completion of the audit period), we invoice the unbilled receivable amount. Notwithstanding the deferred due date, our clients acknowledge that we have earned this unbilled receivable at the time of the original invoice, but have agreed to defer billing the client for the related services.

Refund liabilities result from reductions in the economic value previously received by our clients with respect to vendor claims identified by us and for which we previously have recognized revenue. We satisfy such refund liabilities either by offsets to amounts otherwise due from clients or by cash refunds to clients. We compute the estimate of our refund liabilities at any given time based on actual historical refund data.

We record periodic changes in unbilled receivables and refund liabilities as adjustments to revenue.

- *Goodwill, Other Intangible Assets, Long-lived Assets, and Impairment Charges.* Goodwill represents the excess of the purchase price over the estimated fair market value of net identifiable assets of acquired businesses. Intangible assets are assets that lack physical substance. We evaluate the recoverability of goodwill and other intangible assets in accordance with ASC 350, Intangibles-Goodwill and Other, in the fourth quarter of each year or sooner if events or changes in circumstances indicate that the carrying amount may exceed its fair value. This evaluation includes a preliminary assessment of qualitative factors to determine if it is necessary to perform a two-step impairment testing process. The first step identifies potential impairments by comparing the fair value of the reporting unit with its carrying value, including goodwill. If the calculated fair value of a reporting unit exceeds the carrying value, goodwill is not impaired, and the second step is not necessary. If the carrying value of a reporting unit exceeds the fair value, the second step calculates the possible impairment loss by comparing the implied fair value of goodwill with the carrying value. If the fair value is less than the carrying value, we would record an impairment charge.

We are not required to calculate the fair value of our reporting units that hold goodwill unless we determine that it is more likely than not that the fair value of these reporting units is less than their carrying values. In this analysis, we consider a number of factors, including changes in our legal, business and regulatory climates, changes in competition or key personnel, macroeconomic factors impacting our company or our clients, our recent financial performance and expectations of future performance and other pertinent factors. Based on these analyses, we determined that it was not necessary for us to perform the two-step process. We last used independent business valuation professionals to estimate fair value in the fourth quarter of 2010 and determined that fair value exceeded carrying value for all relevant reporting units. No impairment charges were necessary based on our internal calculations in the three years ended December 31, 2016.

We review the carrying value of long-lived assets such as property and equipment for impairment when events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, we will recognize an impairment loss equal to the amount by which the carrying value exceeds the fair value of the asset. No impairment charges were necessary in the three years ended December 31, 2016.

- *Income Taxes.* Our effective tax rate is based on historical and anticipated future taxable income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining the effective tax rate and in evaluating our tax positions. Tax regulations require items to be included in the tax returns at different times than the items are reflected in the financial statements. As a result, our effective tax rate reflected in our Consolidated Financial Statements included in Item 8 of this Form 10-K is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not deductible on our tax returns, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years for which we have already recorded the tax benefit in our Consolidated Statements of Operations. We establish valuation allowances to reduce net deferred tax assets to the amounts that we believe are more likely than not to be realized. We adjust these valuation allowances in light of changing facts and circumstances. Deferred tax liabilities generally represent tax expense recognized in our consolidated financial statements for which payment has been deferred, or expense for which a deduction has already been taken on our tax returns but has not yet been recognized as an expense in our consolidated financial statements.

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. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. In determining the amount of valuation allowance to record, we consider all available positive and negative evidence affecting specific deferred tax assets, including our past and anticipated future performance, the reversal of deferred tax liabilities, the length of carry-back and carry-forward periods, and the implementation of tax planning strategies. Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of deferred tax assets when significant negative evidence exists. Cumulative tax losses in recent years are the most compelling form of negative evidence we considered in this determination.

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 U.S. generally accepted accounting principles (“GAAP”) for guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. 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 before a tax assessment is raised. The number of years subject to tax assessments varies by tax jurisdictions.

- *Stock-Based Compensation.* We account for awards of equity instruments issued to employees and directors under the fair value method of accounting and recognize such amounts in our Consolidated Statements of Operations. We measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense using the straight-line method over the service period over which we expect the awards to vest. We recognize compensation costs for awards with performance conditions based on the probable outcome of the performance conditions. We accrue compensation cost if we believe it is probable that the performance condition(s) will be achieved and do not accrue compensation cost if we believe it is not probable that the performance condition(s) will be achieved. In the event that it becomes probable that performance condition(s) will no longer be achieved, we reverse all of the previously recognized compensation expense in the period such a determination is made.

We estimate the fair value of all time-vested options as of the date of grant using the Black-Scholes option valuation model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility, which we calculate based on the historical volatility of our common stock. We use a risk-free interest rate, based on the U.S. Treasury instruments in effect at the time of the grant, for the period comparable to the expected term of the option. We use the “simplified” method in estimating the expected term of options as we have concluded that our historical share option exercise experience is a less than reasonable basis upon which to estimate the expected term for our grants.

We estimate the fair value of awards of restricted shares and nonvested shares as being equal to the market value of the common stock on the date of the award. We classify our share-based payments as either liability-classified awards or as equity-classified awards. We remeasure liability-classified awards to fair value at each balance sheet date until the award is settled. We measure equity-classified awards at their grant date fair value and do not subsequently remeasure them. We have classified our share-based payments which are settled in our common stock as equity-classified awards and our share-based payments that are settled in cash as liability-classified awards. Compensation costs related to equity-classified awards generally are equal to the grant-date fair value of the award amortized over the vesting period of the award. The liability for liability-classified awards generally is equal to the fair value of the award as of the balance sheet date multiplied by the percentage vested at the time. We charge (or credit) the change in the liability amount from one balance sheet date to another to compensation expense.

New Accounting Standards

For information related to new and recently adopted accounting standards, see *Note 1 – Summary of Significant Accounting Policies and Basis of Presentation*, in “Notes to Consolidated Financial Statements” in Item 8 of this Form 10-K.

Item 7A. 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. In 2016, we recognized \$13.0 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 approximately \$1.3 million. 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. We had \$16.4 million of borrowing availability under our revolving credit facility as of December 31, 2016, and had \$3.6 million borrowed under the facility as of that date. Interest on the amended 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 credit facility, a hypothetical 100 basis point change in interest rates would result in an approximate \$0.2 million change in annual pre-tax income.

ITEM 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
PRGX Global, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of PRGX Global, Inc. and subsidiaries (the Company) as of December 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PRGX Global, Inc. and subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Atlanta, Georgia
March 16, 2017

PRGX GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 31,		
	2016	2015	2014
Revenue, net	\$ 140,844	\$ 138,302	\$ 161,552
Operating expenses:			
Cost of revenue	91,299	93,169	110,890
Selling, general and administrative expenses	39,399	32,284	38,581
Depreciation of property and equipment	5,033	5,317	6,025
Amortization of intangible assets	1,832	2,458	3,531
Total operating expenses	<u>137,563</u>	<u>133,228</u>	<u>159,027</u>
Operating income from continuing operations	3,281	5,074	2,525
Foreign currency transaction losses on short-term intercompany balances	84	2,165	2,003
Interest expense	(107)	(71)	(351)
Interest income	260	261	428
Other (income) loss	(121)	1,191	57
Income from continuing operations before income taxes	3,471	1,908	542
Income tax expense (Note 7)	1,242	369	3,241
Net income (loss) from continuing operations	<u>\$ 2,229</u>	<u>\$ 1,539</u>	<u>\$ (2,699)</u>
Discontinued operations:			
Loss from discontinued operations	(1,324)	(4,765)	(4,827)
Income tax expense (benefit)	—	—	—
Net loss from discontinued operations	<u>(1,324)</u>	<u>(4,765)</u>	<u>(4,827)</u>
Net income (loss)	<u>\$ 905</u>	<u>\$ (3,226)</u>	<u>\$ (7,526)</u>
Basic earnings (loss) per common share (Note 3):			
Basic earnings (loss) from continuing operations	\$ 0.10	\$ 0.06	\$ (0.09)
Basic loss from discontinued operations	(0.06)	(0.18)	(0.17)
Total basic earnings (loss) per common share	<u>\$ 0.04</u>	<u>\$ (0.12)</u>	<u>\$ (0.26)</u>
Diluted earnings (loss) per common share (Note 3):			
Diluted earnings (loss) from continuing operations	\$ 0.10	\$ 0.06	\$ (0.09)
Diluted loss from discontinued operations	(0.06)	(0.18)	(0.17)
Total diluted earnings (loss) per common share	<u>\$ 0.04</u>	<u>\$ (0.12)</u>	<u>\$ (0.26)</u>
Weighted-average common shares outstanding (Note 3):			
Basic	21,969	25,868	28,707
Diluted	<u>22,016</u>	<u>25,904</u>	<u>28,707</u>

PRGX GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Years Ended December 31,		
	2016	2015	2014
Net income (loss)	\$ 905	\$ (3,226)	\$ (7,526)
Foreign currency translation adjustments	(507)	(769)	(551)
Comprehensive income (loss)	<u>\$ 398</u>	<u>\$ (3,995)</u>	<u>\$ (8,077)</u>

See accompanying Notes to Consolidated Financial Statements.

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

	December 31,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,723	\$ 15,122
Restricted cash	47	48
Receivables:		
Contract receivables, less allowances of \$799 in 2016 and \$930 in 2015:		
Billed	29,186	26,576
Unbilled	2,278	1,967
	<u>31,464</u>	<u>28,543</u>
Employee advances and miscellaneous receivables, less allowances of \$500 in 2016 and \$681 in 2015	2,184	1,740
Total receivables	33,648	30,283
Prepaid expenses and other current assets	3,363	2,323
Total current assets	<u>52,781</u>	<u>47,776</u>
Property and equipment:		
Computer and other equipment	30,219	29,671
Furniture and fixtures	2,652	2,842
Leasehold improvements	3,558	3,446
Software	26,896	23,788
	<u>63,325</u>	<u>59,747</u>
Less accumulated depreciation and amortization	(51,089)	(48,167)
Property and equipment, net	12,236	11,580
Goodwill (Note 4)	13,823	11,810
Intangible assets, less accumulated amortization of \$36,128 in 2016 and \$35,708 in 2015	10,998	6,684
Unbilled receivables	854	656
Deferred income taxes (Note 7)	2,269	1,361
Other assets	513	524
Total assets	<u>\$ 93,474</u>	<u>\$ 80,391</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,299	\$ 5,966
Accrued payroll and related expenses	13,868	11,278
Refund liabilities	7,900	7,887
Deferred revenue	1,330	965
Current portion of debt (Note 5)	3,600	—
Business acquisition obligations (Note 12)	2,078	39
Total current liabilities	<u>36,075</u>	<u>26,135</u>
Noncurrent business acquisition obligations (Note 12)	1,926	—
Refund liabilities	804	752
Other long-term liabilities	2,279	1,089
Total liabilities	<u>41,084</u>	<u>27,976</u>
Commitments and contingencies (Notes 5, 6, 9 and 10)		
Shareholders' equity (Notes 9 and 11):		
Common stock, no par value; \$.01 stated value per share. Authorized 50,000,000 shares; 21,845,920 shares issued and outstanding at December 31, 2016 and 22,681,656 shares issued and outstanding at December 31, 2015	218	227
Additional paid-in capital	575,118	575,532
Accumulated deficit	(523,233)	(524,138)
Accumulated other comprehensive income	287	794
Total shareholders' equity	<u>52,390</u>	<u>52,415</u>

Total liabilities and shareholders' equity

\$ 93,474 \$ 80,391

See accompanying Notes to Consolidated Financial Statements.

PRGX GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2016, 2015 and 2014
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance at December 31, 2013	29,367,439	\$ 294	\$ 604,806	\$ (513,386)	\$ 2,114	\$ 93,828
Net loss	—	—	—	(7,526)	—	(7,526)
Foreign currency translation adjustments	—	—	—	—	(551)	(551)
Issuances of common stock:						
Restricted share awards	220,442	2	(2)	—	—	—
Shares issued for acquisition	187,620	2	1,277	—	—	1,279
Restricted shares remitted by employees for taxes	(72,834)	(1)	(567)	—	—	(568)
Stock option exercises	716,780	7	2,816	—	—	2,823
2006 MIP Performance Unit settlements	16,526	1	(1)	—	—	—
Forfeited restricted share awards	(67,970)	(1)	1	—	—	—
Repurchase of common stock	(3,605,142)	(36)	(22,649)	—	—	(22,685)
Stock-based compensation expense	—	—	4,386	—	—	4,386
Balance at December 31, 2014	26,762,861	268	590,067	(520,912)	1,563	70,986
Net loss	—	—	—	(3,226)	—	(3,226)
Foreign currency translation adjustments	—	—	—	—	(769)	(769)
Issuances of common stock:						
Restricted share awards	23,200	—	—	—	—	—
Restricted shares remitted by employees for taxes	(17,147)	—	(312)	—	—	(312)
Stock option exercises	29,128	—	91	—	—	91
2006 MIP Performance Unit settlements	9,918	—	—	—	—	—
Forfeited restricted share awards	(7,918)	—	—	—	—	—
Repurchases of common stock	(4,118,386)	(41)	(18,030)	—	—	(18,071)
Stock-based compensation expense	—	—	3,716	—	—	3,716
Balance at December 31, 2015	22,681,656	227	575,532	(524,138)	794	52,415
Net income	—	—	—	905	—	905
Foreign currency translation adjustments	—	—	—	—	(507)	(507)
Issuances of common stock:						
Restricted shares remitted by employees for taxes	(20,829)	—	(217)	—	—	(217)
Stock option exercises	90,496	—	320	—	—	320
Repurchases of common stock	(905,403)	(9)	(3,763)	—	—	(3,772)
Stock-based compensation expense	—	—	3,246	—	—	3,246
Balance at December 31, 2016	21,845,920	\$ 218	\$ 575,118	\$ (523,233)	\$ 287	\$ 52,390

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	\$ 905	\$ (3,226)	\$ (7,526)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	6,879	7,810	9,747
Amortization of deferred loan costs	60	20	104
Stock-based compensation expense	5,123	3,926	4,532
Foreign currency transaction losses on short-term intercompany balances	84	2,165	2,003
Deferred income taxes	(861)	(1,112)	1,566
Other loss from sale of assets	22	1,191	57
Changes in operating assets and liabilities, net of business acquisitions:			
Restricted cash	1	5	4
Billed receivables	(3,339)	4,331	(6,351)
Unbilled receivables	(509)	1,305	7,278
Prepaid expenses and other current assets	(1,506)	705	1,575
Other assets	(65)	—	5
Accounts payable and accrued expenses	1,218	(1,949)	(3,432)
Accrued payroll and related expenses	2,606	(3,595)	536
Refund liabilities	67	2,389	(1,297)
Deferred revenue	(5)	(784)	720
Noncurrent compensation obligations	—	—	414
Other long-term liabilities	(562)	272	112
Net cash provided by operating activities	10,118	13,453	10,047
Cash flows from investing activities:			
Business acquisition, net of cash acquired	(3,669)	(520)	—
Business divestiture	—	783	1,100
Purchases of property and equipment, net of disposal proceeds	(5,887)	(4,482)	(4,709)
Net cash used in investing activities	(9,556)	(4,219)	(3,609)
Cash flows from financing activities:			
Payments for deferred loan costs	—	(100)	(104)
Payments of deferred acquisition consideration	—	—	(2,208)
Proceeds from term loan	3,600	—	—
Repurchase of common stock	(3,772)	(18,071)	(22,685)
Restricted stock repurchased from employees for withholding taxes	(218)	(312)	(568)
Proceeds from option exercises	326	91	2,823
Net cash used in financing activities	(64)	(18,392)	(22,742)
Effect of exchange rates on cash and cash equivalents	103	(1,455)	(1,661)
Net increase (decrease) in cash and cash equivalents	601	(10,613)	(17,965)
Cash and cash equivalents at beginning of period	15,122	25,735	43,700
Cash and cash equivalents at end of period	\$ 15,723	\$ 15,122	\$ 25,735
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ 60	\$ 63	\$ 132
Cash paid during the period for income taxes, net of refunds received	\$ 1,407	\$ 1,085	\$ 3,892

See accompanying Notes to Consolidated Financial Statements.

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

(a) Description of Business and Basis of Presentation

Description of Business

The principal business of PRGX Global, Inc. and subsidiaries is providing recovery audit services to large businesses and government agencies having numerous payment transactions. PRGX also provides services adjacent to recovery audit services, including supplier information management ("SIM"), data transformation, spend analytics and associated advisory services, to a similar client base. These businesses include, but are not limited to:

- retailers such as discount, department, specialty, grocery and drug stores, and wholesalers who sell to these retailers;
- business enterprises other than retailers such as manufacturers, financial services firms, pharmaceutical companies, and resource companies such as oil and gas companies; and
- federal and state government agencies.

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. PRGX currently provides services to clients in over 30 countries across a multitude of industries.

Basis of Presentation

During the fourth quarter of 2015 we discontinued the Healthcare Claims Recovery Audit ("HCRA") business. The results of our continuing and discontinued operations for the years ended December 31, 2016, 2015 and 2014 are presented in accordance with ASC 205-20, *Presentation of Financial Statements - Discontinued Operations*.

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"). Actual results could differ from those estimates.

(b) Revenue Recognition, Billed and Unbilled Receivables, and Refund Liabilities

We base our revenue on specific contracts with our clients. These contracts generally specify: (a) time periods covered by the audit; (b) nature and extent of audit services we are to provide; (c) the client's duties in assisting and cooperating with us; and (d) fees payable to us, generally expressed as a specified percentage of the amounts recovered by the client resulting from overpayment claims identified. Clients generally recover claims either by taking credits against outstanding payables or future purchases from the involved vendors, or receiving refund checks directly from those vendors. The manner in which a claim is recovered by a client often is dictated by industry practice. In addition, many clients establish specific procedural guidelines that we must satisfy prior to submitting claims for client approval, and these guidelines are unique to each client. For some services we provide, we earn our compensation in the form of a fixed fee, a fee per hour, or a fee per other unit of service.

We generally recognize revenue for a contractually specified percentage of amounts recovered when we have determined that our clients have received economic value (generally through credits taken against existing accounts payable due to the involved vendors or refund checks received from those vendors) and when we have met the following criteria: (a) persuasive evidence of an arrangement exists; (b) services have been rendered; (c) the fee billed to the client is fixed or determinable; and (d) collectability is reasonably assured. In certain limited circumstances, we will invoice a client prior to meeting all four of these criteria; in such cases, we defer the revenue until we meet all of the criteria. Additionally, for purposes of determining appropriate timing of recognition and for internal control purposes, we rely on customary business practices and processes for documenting that we have met the criteria described in (a) through (d) above. Such customary business practices and processes may vary significantly by client. On occasion, it is possible that a transaction has met all of the revenue recognition criteria described above but we do not recognize revenue, unless we can otherwise determine that criteria (a) through (d) above have been met, because our customary business practices and processes specific to that client have not been completed.

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

Historically, there has been a certain amount of revenue with respect to which, even though we had met the requirements of our revenue recognition policy, our clients' vendors ultimately have rejected the claims underlying the revenue. In that case, our clients may request a refund or offset of such amount even though we may have collected fees. We record any such refunds as a reduction of revenue. We provide refund liabilities for these reductions in the economic value previously received by our clients with respect to vendor claims we identified and for which we previously have recognized revenue. We compute an estimate of our refund liabilities at any given time based on actual historical refund data.

Billed receivables are stated at the amount we plan to collect and do not bear interest. We make ongoing estimates relating to the collectibility of our billed receivables and maintain a reserve for estimated losses resulting from the inability of our clients to meet their financial obligations to us. This reserve is primarily based on the level of past-due accounts based on the contractual terms of the receivables, our history of write-offs, and our relationships with, and the economic status of, our clients.

Unbilled receivables relate to claims for which clients have received economic value but for which we contractually have agreed not to submit an invoice to the clients at such time. Unbilled receivables arise when a portion of our fee is deferred at the time of the initial invoice. At a later date (which can be up to a year after original invoice, and at other times a year after completion of the audit period), we invoice the unbilled receivable amount. Notwithstanding the deferred due date, our clients acknowledge that we have earned this unbilled receivable at the time of the original invoice, but have agreed to defer billing the client for the related services.

We record periodic changes in unbilled receivables and refund liabilities as adjustments to revenue.

We derive a relatively small portion of revenue on a "fee-for-service" basis whereby billing is based upon a fixed fee, a fee per hour, or a fee per other unit of service. We recognize revenue for these types of services as we provide and invoice for them, and when criteria (a) through (d) as set forth above are met.

(c) 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. 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 significant in comparison to our consolidated net assets.

The \$15.7 million in cash and cash equivalents as of December 31, 2016 includes \$4.1 million held in the U.S., \$1.9 million held in Canada, and \$9.7 million held in other foreign jurisdictions, primarily in the United Kingdom, Australia, New Zealand, Mexico and Brazil. Our cash and cash equivalents included short-term investments of approximately \$2.2 million as of December 31, 2016 and \$4.5 million as of December 31, 2015, of which approximately \$2.2 million and \$3.2 million, respectively, were held at banks outside of the United States, primarily in Brazil and Canada.

(d) Fair Value of Financial Instruments

We state cash equivalents at cost, which approximates fair market value. The carrying values for receivables from clients, unbilled receivables, 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 record bank debt, if any, as of the period end date based on the effective borrowing rate and repayment terms when originated. As of December 31, 2016, we had \$3.6 million in bank debt outstanding, and we had no bank debt outstanding as of December 31, 2015. We believe the carrying value of the bank debt approximates its fair value. We considered the factors used in determining the fair value of this debt to be Level 3 inputs (significant unobservable inputs).

We had \$4.0 million of business acquisition obligations as of December 31, 2016, and no such obligation as of December 31, 2015. Our business acquisition obligations represent the fair value of deferred consideration and earn-out payments estimated to be due as of the date for which we recorded these amounts. We determine the preliminary 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).

We state certain assets at fair value on a nonrecurring basis as required by accounting principles generally accepted in the United States of America. Generally, these assets are recorded at fair value on a nonrecurring basis as a result of impairment charges.

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

(e) Property and Equipment

We report property and equipment at cost or estimated fair value at acquisition date and depreciate them over their estimated useful lives using the straight-line method. Our useful lives for fixed assets are three years for computer laptops, four years for desktops, five years for IT server, storage and network equipment, five years for furniture and fixtures and three years for purchased software. We amortize leasehold improvements using the straight-line method over the shorter of the lease term or ten years. Depreciation expense from continuing operations was \$5.0 million in 2016, \$5.3 million in 2015 and \$6.0 million in 2014.

We review the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, we will recognize an impairment loss equal to the amount by which the carrying value exceeds the fair value of the asset. No impairment charges were necessary in the three years ended December 31, 2016.

(f) Software Development Costs

We capitalize a portion of the costs we incur related to our internal development of software that we use in our operations and amortize these costs using the straight-line method over the expected useful lives of three to seven years.

We also capitalize a portion of the costs we incur related to our internal development of software that we intend to market to others. We amortize these costs over the products' estimated economic lives, which typically are three years, beginning when the underlying products are available for general release to clients. We review the carrying value of capitalized software development costs for impairment whenever events and circumstances indicate that the carrying value of the asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, we will recognize an impairment loss equal to the amount by which the carrying value exceeds the fair value of the asset.

We consider software development activities to be research and development costs and expense them as incurred. However, we capitalize the costs incurred for the development of computer software that will be sold, leased, or otherwise marketed or that will be used in our operations beginning when technological feasibility has been established. Research and development costs from continuing operations, including the amortization of amounts previously capitalized, were \$3.5 million in 2016, \$3.0 million in 2015 and \$3.1 million in 2014.

(g) Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the estimated fair market value of net identifiable assets of acquired businesses. We evaluate the recoverability of goodwill and other intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*, in the fourth quarter of each year or sooner if events or changes in circumstances indicate that the carrying amount may exceed its fair value. This evaluation includes a preliminary assessment of qualitative factors to determine if it is necessary to perform a two-step impairment testing process. The first step identifies potential impairments by comparing the fair value of the reporting unit with its carrying value, including goodwill. If the calculated fair value of a reporting unit exceeds the carrying value, goodwill is not impaired, and the second step is not necessary. If the carrying value of a reporting unit exceeds the fair value, the second step calculates the possible impairment loss by comparing the implied fair value of goodwill with the carrying value. If the fair value is less than the carrying value, we would record an impairment charge.

We are not required to calculate the fair value of our reporting units that hold goodwill unless we determine that it is more likely than not that the fair value of these reporting units is less than their carrying values. In this analysis, we consider a number of factors, including changes in our legal, business and regulatory climates, changes in competition or key personnel, macroeconomic factors impacting our company or our clients, our recent financial performance and expectations of future performance and other pertinent factors. Based on these analyses, we determined that it was not necessary for us to perform the two-step process. We last used independent business valuation professionals to estimate fair value in the fourth quarter of 2010 and determined that fair value exceeded carrying value for all relevant reporting units. No impairment charges were necessary based on our internal assessments in the three years ended December 31, 2016.

(h) Direct Expenses and Deferred Costs

We typically expense direct expenses that we incur during the course of recovery audit and delivery of Adjacent Services offerings as incurred. For certain implementation and set-up costs associated with our "fee for service" revenue that we earn over an extended period of time, we defer the related direct and incremental costs and recognize them as expenses over the life of the underlying contract.

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

(i) Income Taxes

We account for income taxes under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. We measure deferred tax assets and liabilities using enacted tax rates we expect to apply to taxable income in the years in which we expect to recover or settle those temporary differences. We recognize the effect on the deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date.

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. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. In determining the amount of valuation allowance to record, we consider all available positive and negative evidence affecting specific deferred tax assets, including our past and anticipated future performance, the reversal of deferred tax liabilities, the length of carry-back and carry-forward periods and the implementation of tax planning strategies. Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of deferred tax assets when significant negative evidence exists. Cumulative losses in recent years are the most compelling form of negative evidence we considered in this determination.

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 jurisdictions.

(j) Foreign Currency

We use the local currency as the functional currency in the majority of the countries in which we conduct business outside of the United States. We translate the assets and liabilities denominated in foreign currencies into U.S. dollars at the current rates of exchange at the balance sheet date. We include the translation gains and losses as a separate component of shareholders’ equity and in the determination of comprehensive income (loss). We translate revenue and expenses in foreign currencies at the weighted average exchange rates for the period. We separately state the foreign currency transaction gains and losses on short-term intercompany balances in the Consolidated Statements of Operations. We include all other realized and unrealized foreign currency transaction gains (losses) in “Selling, general and administrative expenses.”

(k) Earnings (Loss) Per Common Share

We compute basic earnings (loss) per common share by dividing net income (loss) available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. We compute diluted earnings (loss) per common share by dividing net income (loss) available to common shareholders by the sum of (1) the weighted-average number of shares of common stock outstanding during the period, (2) the dilutive effect of the assumed exercise of stock options using the treasury stock method, and (3) the dilutive effect of other potentially dilutive securities. We exclude the potential dilutive effect of stock options and convertible instruments from the determination of diluted earnings (loss) per common share if the effect of including them would be antidilutive.

(l) Stock-Based Compensation

We account for awards of equity instruments issued to employees and directors under the fair value method of accounting and recognize such amounts in our Consolidated Statements of Operations. We measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our Consolidated Statements of Operations using the straight-line method over the service period over which we expect the awards to vest. We recognize compensation costs for awards with performance conditions based on the probable outcome of the performance conditions. We accrue compensation cost if we believe it is probable that the performance condition(s) will be achieved and do not accrue compensation cost if we believe it is not probable that the performance condition(s) will be achieved. In the event that it becomes probable that performance condition(s) will no longer be achieved, we reverse all of the previously recognized compensation expense in the period such a determination is made.

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

We estimate the fair value of all time-vested options as of the date of grant using the Black-Scholes option valuation model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility, which we calculate based on the historical volatility of our common stock. We use a risk-free interest rate, based on the U.S. Treasury instruments in effect at the time of the grant, for the period comparable to the expected term of the option. We use the “simplified” method in estimating the expected term of options as we have concluded that our historical share option exercise experience is a less than reasonable basis upon which to estimate the expected term for our grants.

We estimate the fair value of nonvested stock awards (restricted stock and restricted stock units) as being equal to the market value of the common stock on the date of the award. We classify our share-based payments as either liability-classified awards or as equity-classified awards. We remeasure liability-classified awards to fair value at each balance sheet date until the award is settled. We measure equity-classified awards at their grant date fair value and do not subsequently remeasure them. We have classified our share-based payments which are settled in our common stock as equity-classified awards and our share-based payments that are settled in cash as liability-classified awards. Compensation costs related to equity-classified awards generally are equal to the fair value of the award at grant-date amortized over the vesting period of the award. The liability for liability-classified awards generally is equal to the fair value of the award as of the balance sheet date multiplied by the percentage vested at the time. We record the change in the liability amount from one balance sheet date to another to compensation expense.

(m) Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Consolidated comprehensive income (loss) consists of consolidated net income (loss) and foreign currency translation adjustments. We present the calculation of consolidated comprehensive income (loss) in the accompanying Consolidated Statements of Comprehensive Income (Loss). No amounts have been reclassified out of Accumulated Other Comprehensive Income during the periods presented in our consolidated financial statements.

(n) Segment Reporting

We report our operating segment information in three segments: Recovery Audit Services – Americas; Recovery Audit Services – Europe/Asia-Pacific and Adjacent Services. We include the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to our three operating segments in Corporate Support. Our business segments reflect the internal reporting that our Chief Executive Officer, who is our chief operating decision maker, uses for the purpose of making decisions about allocating resources and assessing performance. Our management, including our Chief Executive Officer, uses what we internally refer to as “Adjusted EBITDA” as the primary measure of profit or loss for purposes of assessing the operating performance of all operating segments. We define Adjusted EBITDA as earnings from continuing operations before interest, taxes, depreciation and amortization (“EBITDA”) as adjusted for unusual and other significant items that management views as distorting the operating results of the various segments from period to period.

EBITDA and Adjusted EBITDA are not financial measures determined in accordance with GAAP. Such non-GAAP financial measures do not measure the profit or loss of the reportable segments in accordance with GAAP. Given that we use Adjusted EBITDA as our primary measure of segment performance, GAAP rules on segment reporting require that we include this non-GAAP measure in our discussion of our operating segments. We also must reconcile Adjusted EBITDA to our operating results presented on a GAAP basis. We provide this reconciliation in *Note 2* to these consolidated financial statements along with other information about our reportable segments. We do not intend the reconciling items to be, nor should they be, interpreted as non-recurring or extraordinary, or in any manner be deemed as adjustments made in accordance with GAAP. Because Adjusted EBITDA is not a financial measure determined in accordance with GAAP, it may not be comparable to other similarly titled measures of other companies.

(o) Reclassification of Prior Year Balance Sheet

Certain reclassifications have been made in the prior year in order to conform to the current year presentation.

(p) 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 us is set forth below.

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

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 became effective for the Company beginning January 1, 2017. The Company does not believe that the adoption of this standard will have a material effect 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.

In May 2014, the FASB issued an accounting standards update with new guidance on recognizing revenue from contracts with customers. The standards update outlines a single comprehensive model for entities to utilize to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that will be received in exchange for the goods and services. Additional disclosures will also be required to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In 2016, the FASB issued accounting standards updates to address implementation issues and to clarify the guidance for identifying performance obligations, licenses and determining if a company is the principal or agent in a revenue arrangement. In August 2015, the FASB deferred the effective date of this standards update to fiscal years beginning after December 15, 2017, with early adoption permitted on the original effective date of fiscal years beginning after December 15, 2016. We have substantially completed our evaluation of significant contracts and are currently assessing the impact of adopting the standards update on our consolidated financial statements. We will continue our evaluation of the standards update through the date of adoption.

(2) OPERATING SEGMENTS AND RELATED INFORMATION

We conduct our operations through three reportable segments:

Recovery Audit Services – Americas represents recovery audit services (other than HCRA services) provided in the United States of America ("U.S."), Canada and Latin America.

Recovery Audit Services – Europe/Asia-Pacific represents recovery audit services provided in Europe, Asia and the Pacific region.

Adjacent Services represents data transformation, spend analytics, PRGX OPTIX and SIM services, and associated advisory services.

We include the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to the three reportable segments in *Corporate Support*.

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 part of discontinuing the HCRA business, the Company increased its accrual for outstanding Medicare RAC appeals liability by approximately \$2.1 million. The HCRA services business has been reported as Discontinued Operations in accordance with US GAAP.

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

Discontinued operations information for the years ended December 31, 2016, 2015 and 2014 (in thousands) is as follows:

Results of Discontinued Operations (in thousands)	Years Ended December 31,		
	2016	2015	2014
Revenue, net	(14)	1,266	2,640
Cost of sales	1,112	4,743	5,069
Selling, general and administrative expense	184	1,253	2,207
Depreciation and amortization	14	35	191
Pretax loss from discontinued operations	(1,324)	(4,765)	(4,827)
Income tax expense	—	—	—
Net loss from discontinued operations	(1,324)	(4,765)	(4,827)

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.

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

Segment information for the years ended December 31, 2016, 2015 and 2014 (in thousands) is as follows:

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Corporate Support	Total
2016					
Revenue, net	\$ 99,861	\$ 37,335	\$ 3,648	\$ —	\$ 140,844
Net income from continuing operations					\$ 2,229
Income tax expense					1,242
Interest income, net					(153)
EBIT	\$ 25,476	\$ 6,455	\$ (4,617)	\$ (23,996)	3,318
Depreciation of property and equipment	3,750	529	754	—	5,033
Amortization of intangible assets	1,477	—	355	—	1,832
EBITDA	30,703	6,984	(3,508)	(23,996)	10,183
Foreign currency transaction (gains) losses on short-term intercompany balances	31	107	17	(71)	84
Transformation severance and related expenses	517	312	258	242	1,329
Other income	—	—	(121)	—	(121)
Stock-based compensation	—	—	—	5,123	5,123
Adjusted EBITDA	\$ 31,251	\$ 7,403	\$ (3,354)	\$ (18,702)	\$ 16,598
Capital expenditures	\$ 4,393	\$ 600	\$ 894	\$ —	\$ 5,887
Allocated assets	\$ 47,690	\$ 14,813	\$ 10,532	\$ —	\$ 73,035
Unallocated assets:					
Cash and cash equivalents	—	—	—	15,723	15,723
Restricted cash	—	—	—	47	47
Deferred income taxes	—	—	—	2,269	2,269
Prepaid expenses and other assets	—	—	—	800	800
Discontinued operations	—	—	—	1,600	1,600
Total assets	\$ 47,690	\$ 14,813	\$ 10,532	\$ 20,439	\$ 93,474

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

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Corporate Support	Total
2015					
Revenue, net	\$ 97,009	\$ 36,264	\$ 5,029	\$ —	\$ 138,302
Net income from continuing operations					\$ 1,539
Income tax expense					369
Interest income, net					(190)
EBIT	\$ 22,539	\$ 2,573	\$ (5,131)	\$ (18,263)	1,718
Depreciation of property and equipment	4,036	647	634	—	5,317
Amortization of intangible assets	1,728	600	130	—	2,458
EBITDA	28,303	3,820	(4,367)	(18,263)	9,493
Foreign currency transaction (gains) losses on short-term intercompany balances	807	1,533	12	(187)	2,165
Transformation severance and related expenses	322	589	30	308	1,249
Other loss	—	—	1,191	—	1,191
Stock-based compensation	—	—	—	3,926	3,926
Adjusted EBITDA	\$ 29,432	\$ 5,942	\$ (3,134)	\$ (14,216)	\$ 18,024
Capital expenditures	\$ 3,669	\$ 543	\$ 270	\$ —	\$ 4,482
Allocated assets	\$ 44,588	\$ 13,922	\$ 1,030	\$ —	\$ 59,540
Unallocated assets:					
Cash and cash equivalents	—	—	—	15,122	15,122
Restricted cash	—	—	—	48	48
Deferred loan cost				80	80
Deferred income taxes	—	—	—	1,361	1,361
Prepaid expenses and other assets	—	—	—	2,465	2,465
Discontinued operations	—	—	—	1,775	1,775
Total assets	\$ 44,588	\$ 13,922	\$ 1,030	\$ 20,851	\$ 80,391

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

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Corporate Support	Total
2014					
Revenue, net	\$ 106,533	\$ 44,319	\$ 10,700	\$ —	\$ 161,552
Net loss from continuing operations					\$ (2,699)
Income tax expense					3,241
Interest income, net					(77)
EBIT	\$ 21,066	\$ 2,772	\$ (4,161)	\$ (19,212)	465
Depreciation of property and equipment	4,711	592	722	—	6,025
Amortization of intangible assets	2,002	1,195	334	—	3,531
EBITDA	27,779	4,559	(3,105)	(19,212)	10,021
Foreign currency transaction (gains) losses on short-term intercompany balances	380	1,828	—	(205)	2,003
Acquisition-related charges	—	—	249	—	249
Transformation severance and related expenses	1,348	1,285	418	589	3,640
Other loss	—	—	57		57
Stock-based compensation				4,532	4,532
Adjusted EBITDA	\$ 29,507	\$ 7,672	\$ (2,381)	\$ (14,296)	\$ 20,502
Capital expenditures	\$ 3,930	\$ 651	\$ 123	\$ —	\$ 4,704
Allocated assets	\$ 50,252	\$ 18,556	\$ 4,596	\$ —	\$ 73,404
Unallocated assets:					
Cash and cash equivalents	—	—	—	25,735	25,735
Restricted cash	—	—	—	53	53
Deferred income taxes	—	—	—	41	41
Prepaid expenses and other assets	—	—	—	2,729	2,729
Discontinued operations	—	—	—	820	820
Total assets	\$ 50,252	\$ 18,556	\$ 4,596	\$ 29,378	\$ 102,782

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

The following table presents revenue by country based on the location of clients served (in thousands):

	Years Ended December 31,		
	2016	2015	2014
United States	\$ 80,857	\$ 80,484	\$ 88,859
United Kingdom	17,501	19,540	23,817
Canada	14,531	12,388	15,851
France	6,934	6,186	8,508
Australia	7,354	6,111	5,762
Mexico	4,900	4,340	4,653
Brazil	1,169	1,223	3,050
New Zealand	979	596	1,353
Spain	964	1,019	1,275
Thailand	654	933	986
Hong Kong	824	864	903
Colombia	583	610	841
Other	3,594	4,008	5,694
	<u>\$ 140,844</u>	<u>\$ 138,302</u>	<u>\$ 161,552</u>

The following table presents long-lived assets by country based on the location of the asset (in thousands):

	December 31,	
	2016	2015
United States	\$ 34,429	\$ 26,281
United Kingdom	2,047	2,939
All Other	1,074	1,297
	<u>\$ 37,550</u>	<u>\$ 30,517</u>

One client, The Kroger Co., accounted for approximately 11% of revenue from continuing operations in 2016, and no client accounted for 10% or more of revenue from continuing operations in 2015 or 2014.

(3) EARNINGS (LOSS) PER COMMON SHARE

The following tables set forth the computations of basic and diluted earnings (loss) per common share (in thousands, except per share data):

	Years Ended December 31,		
	2016	2015	2014
<u>Basic earnings (loss) per common share:</u>			
Numerator:			
Net income (loss) from continuing operations	\$ 2,229	\$ 1,539	\$ (2,699)
Net loss from discontinued operations	(1,324)	(4,765)	(4,827)
Denominator:			
Weighted-average common shares outstanding	21,969	25,868	28,707
Basic earnings (loss) per common share from continuing operations	\$ 0.10	\$ 0.06	\$ (0.09)
Basic loss per common share from discontinued operations	\$ (0.06)	\$ (0.18)	\$ (0.17)

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

	Years Ended December 31,		
	2016	2015	2014
Diluted earnings (loss) per common share:			
Numerator:			
Net income (loss) from continuing operations	\$ 2,229	\$ 1,539	\$ (2,699)
Net loss from discontinued operations	(1,324)	(4,765)	(4,827)
Denominator:			
Weighted-average common shares outstanding	21,969	25,868	28,707
Incremental shares from stock-based compensation plans	47	36	—
Denominator for diluted earnings per common share	<u>22,016</u>	<u>25,904</u>	<u>28,707</u>
Diluted earnings (loss) per common share from continuing operations	\$ 0.10	\$ 0.06	\$ (0.09)
Diluted loss per common share from discontinued operations	\$ (0.06)	\$ (0.18)	\$ (0.17)

Weighted-average shares outstanding excludes antidilutive shares underlying options that totaled 2.9 million, 3.3 million, and 3.3 million shares, respectively, from the computation of diluted earnings (loss) per common share for the years ended December 31, 2016, 2015, and 2014. Weighted-average shares outstanding excludes antidilutive Performance Units issuable under the Company's 2006 Management Incentive Plan that totaled less than 0.1 million shares from the computation of diluted earnings (loss) per common share for the year ended December 31, 2014. The number of common shares we used in the basic and diluted earnings (loss) per common share computations include nonvested restricted shares of less than 0.1 million, 2.7 million, and 0.5 million for the years ended December 31, 2016, 2015, and 2014, respectively, and nonvested restricted share units that we consider to be participating securities of less than 0.1 million for the years ended December 31, 2016, 2015 and 2014.

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

(4) GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

We evaluate the recoverability of goodwill in the fourth quarter of each year or sooner if events or changes in circumstances indicate that the carrying amount may exceed its fair value. These analyses did not result in an impairment charge during the periods presented.

Goodwill by reportable segments during 2016 and 2015 was as follows (in thousands):

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Total
Balance, January 1, 2015	\$ 12,177	\$ 859	\$ —	\$ 13,036
Goodwill disposed in connection with business divestiture	(1,422)	—	—	(1,422)
Goodwill recorded in connection with business combinations	—	—	242	242
Foreign currency translation	—	(46)	—	(46)
Balance, December 31, 2015	10,755	813	242	11,810
Goodwill disposed in connection with business divestiture	—	—	—	—
Goodwill recorded in connection with business combinations	—	—	2,146	2,146
Foreign currency translation	—	(133)	—	(133)
Balance, December 31, 2016	<u>\$ 10,755</u>	<u>\$ 680</u>	<u>\$ 2,388</u>	<u>\$ 13,823</u>

During 2016, we recorded goodwill of \$2.1 million in our Adjacent Services segment in conjunction with our October 31, 2016 acquisition of Lavante. Lavante is a SaaS-based SIM and recovery audit services firm, based in San Jose, California. Lavante's assets consist primarily of its proprietary software applications and customer contracts.

During 2015, we recorded goodwill of \$0.2 million in our Adjacent Services segment relating to the acquisition of the SIM business from Global Edge.

In October 2014, we divested certain previously acquired assets within our Adjacent Services segment that were related to our Chicago, Illinois-based consulting business (see *Note 12* below). The goodwill from the 2010 purchase of TJG Holdings LLC was disposed of as a result of this divestiture. During August 2015, we divested certain assets from a document service offering within our Recovery Audit Services - Americas segment and disposed of \$(1.4) million of associated goodwill.

(b) Intangible Assets

Intangible assets consist principally of amounts we assigned to customer relationships, trademarks, non-compete agreements and trade names in conjunction with business acquisitions. Changes in gross carrying amounts for intangible assets in 2015 related primarily to the divestiture of certain assets from a document service offering ("SDS assets"). Changes in gross carrying amounts for intangible assets in 2014 related primarily to the divestiture of certain previously acquired assets within our Adjacent Services segment that were related to our Chicago, Illinois-based consulting business ("TJG assets"). *Note 12 – Business Acquisitions and Divestitures* below includes a more detailed description of the divestiture in 2014 and recent acquisitions. Certain of our intangible assets associated with acquisitions of assets or businesses by our foreign subsidiaries are denominated in the local currency of such subsidiary and therefore are subject to foreign currency ("FX") adjustments. We present the amounts for these transactions in United States dollars utilizing foreign currency exchange rates as of the respective balance sheet dates.

Amortization expense relating to intangible assets was \$1.8 million in 2016, \$2.5 million in 2015 and \$3.5 million in 2014. As of December 31, 2016 and based on our current amortization methods, we project amortization expense relating to intangible assets for the next five years will be \$2.8 million in 2017, \$2.6 million in 2018, \$2.5 million in 2019, \$2.2 million in 2020 and \$0.8 million in 2021. We generally use accelerated amortization methods for customer relationships and trade names, and straight-line amortization for non-compete agreements and trademarks.

Changes in noncurrent intangible assets during 2016 and 2015 were as follows (in thousands):

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

	Customer		Non- compete		Trade	
	Relationships	Trademarks	Agreements	Software	Names	Total
Gross carrying amount:						
Balance, January 1, 2015	\$ 38,496	\$ 1,059	\$ 1,657	\$ —	\$ 2,200	\$ 43,412
Disposition of SDS assets	(291)	(101)	(126)	—	—	(518)
FX adjustments and other	(421)	(27)	(54)	—	—	(502)
Balance, December 31, 2015	37,784	931	1,477	—	2,200	42,392
Acquisition of Lavante assets	—	—	—	5,901	277	6,178
FX adjustments and other	(1,211)	(78)	(155)	—	—	(1,444)
Balance, December 31, 2016	\$ 36,573	\$ 853	\$ 1,322	\$ 5,901	\$ 2,477	\$ 47,126
Accumulated amortization:						
Balance, January 1, 2015	\$ (29,496)	\$ (869)	\$ (1,408)	\$ —	\$ (2,200)	\$ (33,973)
Amortization expense	(2,211)	(125)	(122)	—	—	(2,458)
Disposition of SDS assets	64	87	95	—	—	246
FX adjustments and other	397	26	54	—	—	477
Balance, December 31, 2015	(31,246)	(881)	(1,381)	—	(2,200)	(35,708)
Amortization expense	(1,414)	(50)	(96)	(272)	—	(1,832)
FX adjustments and other	1,179	78	155	—	—	1,412
Balance, December 31, 2016	\$ (31,481)	\$ (853)	\$ (1,322)	\$ (272)	\$ (2,200)	\$ (36,128)
Net carrying amount:						
Balance, December 31, 2015	\$ 6,538	\$ 50	\$ 96	\$ —	\$ —	\$ 6,684
Balance, December 31, 2016	\$ 5,092	\$ —	\$ —	\$ 5,629	\$ 277	\$ 10,998
Estimated useful life (years)	6-20 years	6 years	1-5 years	4 years	4-5 years	

(5) DEBT

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.

Prior to the January 2014 amendment to the SunTrust credit facility described below, amounts available under the SunTrust revolver were based on eligible accounts receivable and other factors. Interest on both the revolver and term loan was payable monthly and accrued 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 varied from 2.25% per annum to 3.5% per annum, dependent on our consolidated leverage ratio, and was determined in accordance with a pricing grid under the SunTrust loan agreement. The applicable margin was 2.25% and the interest rate was approximately 2.43% at December 31, 2013. We also paid a commitment fee of 0.5% per annum, payable quarterly, on the unused portion of the \$15.0 million SunTrust revolving credit facility. The weighted-average interest rate on term loan balances outstanding under the SunTrust credit facility during 2013, including fees, was 4.1%. We made mandatory principal payments on the SunTrust term loan totaling \$3.0 million and the final principal payment of \$3.0 million during the year ended December 31, 2013.

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

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.

On January 17, 2014, we entered into an amendment of the 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 and extended the scheduled maturity of the revolving credit facility to January 16, 2015 (subject to earlier termination as provided therein). We also paid a commitment fee of 0.5% per annum, payable quarterly, on the unused portion of the SunTrust revolving credit facility through the amendment date below.

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 index rate is determined as of the first business day of each calendar month with the provision of a fixed applicable margin of 1.75% per the amendment of the SunTrust credit facility. 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. The weighted-average interest rate for the commitment fee due on the revolving credit facility was 0.25% in 2016 and 2015.

On December 21, 2016, we entered into an amendment of the SunTrust credit facility in order to clarify certain definitions and other terms of the facility.

On October 31, 2016 the Company borrowed \$3.6 million from its credit facility to finance the acquisition of Lavante, Inc. On February 27, 2017 the Company borrowed \$10.0 million from its credit facility to finance the acquisition of substantially all of the assets of Cost & Compliance Associates, LLC and Cost & Compliance Associates Limited. Total borrowings for the Company as of March 15, 2017 are \$13.6 million.

The Company was in compliance with the covenants in its SunTrust credit facility as of December 31, 2016.

Future Minimum Payments

As of December 31, 2016, there was \$3.6 million in debt that will come due in 2017. There were no future minimum principal payments of debt as of December 31, 2015.

(6) LEASE COMMITMENTS

PRGX is committed under noncancelable lease arrangements for facilities and equipment. Rent expense, excluding costs associated with the termination of noncancelable lease arrangements, was \$3.9 million in 2016, \$4.6 million in 2015 and \$6.0 million in 2014.

In January 2014, we amended the lease for our principal executive offices to extend the term through December 31, 2021, reduce the lease payment for 2014, and reduce the space under lease from approximately 132,000 square feet to approximately 58,000 square feet effective January 1, 2015. As of December 31, 2015, we had no subleased property. Starting in February 2016 we subleased approximately 3,000 square feet.

We have entered into several operating lease agreements that contain provisions for future rent increases, free rent periods or periods in which rent payments are reduced (abated). We charge the total amount of rental payments due over the lease term to rent expense on the straight-line, undiscounted method over the lease terms.

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

Future minimum lease payments under noncancelable operating leases including the amended lease for our principal executive offices, are as follows (in thousands):

Year Ending December 31,	Gross	Sublease Income	Amount
2017	\$ 3,333	\$ (67)	\$ 3,266
2018	2,456	(69)	2,387
2019	2,046	(72)	1,974
2020	1,788	(74)	1,714
2021	1,442	(77)	1,365
Thereafter	12	—	12
Total payments	\$ 11,077	\$ (359)	\$ 10,718

(7) INCOME TAXES

Income (loss) before income taxes from continuing operations relate to the following jurisdictions (in thousands):

	Years Ended December 31,		
	2016	2015	2014
United States	\$ (5,306)	\$ (244)	\$ (3,369)
Foreign	8,777	2,152	3,911
	\$ 3,471	\$ 1,908	\$ 542

The provision for income taxes for continuing operations consists of the following (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Current:			
Federal	\$ —	\$ —	\$ —
State	—	(13)	(11)
Foreign	2,103	1,494	1,686
	2,103	1,481	1,675
Deferred:			
Federal	—	—	—
State	—	—	—
Foreign	(861)	(1,112)	1,566
	(861)	(1,112)	1,566
Total	\$ 1,242	\$ 369	\$ 3,241

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

The significant differences between the U.S. federal statutory tax rate of 34% and the Company's effective income tax expense for earnings (in thousands) are as follows:

	Years Ended December 31,		
	2016	2015	2014
Statutory federal income tax rate	\$ 1,180	\$ 649	\$ 184
State income taxes, net of federal effect	(173)	(240)	(189)
Deferred tax true-up	(4,103)	8,078	—
Change in deferred tax asset valuation allowance	4,877	(6,729)	2,094
Foreign taxes in excess of U.S. statutory rate	(712)	(223)	714
Compensation deduction limitation	113	(1,201)	381
Other, net	60	35	57
Total	<u>\$ 1,242</u>	<u>\$ 369</u>	<u>\$ 3,241</u>

The reconciliations shown above reflect changes to prior period schedules as a result of the reporting of discontinued operations for those periods. Additionally, it has been determined that permanent adjustments for compensation deduction limitations were inappropriately applied in 2014. This correction is reflected as a credit in the rate reconciliation for 2015. There was an offsetting increase in the valuation allowance for the 2015 deduction recorded.

The tax effects of temporary differences and carry-forwards that give rise to deferred tax assets and liabilities consist of the following (in thousands):

	Years Ended December 31,	
	2016	2015
Deferred income tax assets:		
Accounts payable and accrued expenses	\$ 737	\$ 954
Accrued payroll and related expenses	3,062	1,713
Stock-based compensation expense	3,531	2,668
Depreciation of property and equipment	2,579	3,061
Capitalized software	—	94
Non-compete agreements	—	—
Unbilled receivables and refund liabilities	2,216	2,029
Operating loss carry-forwards of foreign subsidiary	10,907	3,275
Federal operating loss carry-forwards	33,087	31,884
State operating loss carry-forwards	3,919	4,038
Other	1,181	883
Gross deferred tax assets	<u>61,219</u>	<u>50,599</u>
Less valuation allowance	50,114	45,565
Gross deferred tax assets net of valuation allowance	<u>11,105</u>	<u>5,034</u>
Deferred income tax liabilities:		
Intangible assets	2,299	2,775
Capitalized software	1,928	—
Other	4,609	898

Gross deferred tax liabilities	<u>8,836</u>	<u>3,673</u>
Net deferred tax assets	<u>\$ 2,269</u>	<u>\$ 1,361</u>

During 2016, the Company recorded deferred tax assets and liabilities associated with foreign jurisdictions where branch operations are conducted. The deferred tax impacts were generally offset by changes to the Company's valuation allowance and have been reflected in the 2016 year end balances noted above.

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

During 2015, the Company undertook a detailed review of the Company's deferred taxes and it was determined that some reclassifications and adjustments were needed. All adjustments were offset by changes to the Company's valuation allowance and have been reflected in the 2015 year end balances noted above.

Our reported effective tax rates on income approximated 35.8% in 2016, 19.3% in 2015, and 598.0% in 2014. Reported income tax expense in each year primarily results from taxes on the income of foreign subsidiaries. The effective tax rates generally differ from the expected tax rate primarily due to the Company's deferred tax asset valuation allowance on the domestic earnings and taxes on income of foreign subsidiaries.

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. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. In making this determination, we consider all available positive and negative evidence affecting specific deferred tax assets, including our past and anticipated future performance, the reversal of deferred tax liabilities, the length of carry-back and carry-forward periods and the implementation of tax planning strategies. Since this evaluation requires consideration of future events, significant judgment is required in making the evaluation, and our conclusion could be materially different should certain of our expectations not be met.

Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of deferred tax assets when significant negative evidence exists. Cumulative tax losses in recent years are the most compelling form of negative evidence considered by management in this determination. As of December 31, 2015, management determined that based on all available evidence, a valuation allowance was required for all U.S. deferred tax assets due to losses incurred for income tax reporting purposes for the past several years. We recorded a valuation allowance of \$50.1 million as of December 31, 2016, representing a change of \$4.5 million from the valuation allowance of \$45.6 million recorded as of December 31, 2015.

In 2015, management determined that a valuation allowance was no longer required against the deferred tax assets of one of its foreign subsidiaries. As of December 31, 2015, we had gross deferred tax assets of \$1.5 million relating to this subsidiary. The benefit of these deferred tax assets is reflected as a credit to tax expense of \$1.5 million during the year ended December 31, 2015.

In 2016, management determined that a valuation allowance was no longer required against the deferred tax assets of certain of its foreign subsidiaries. As of December 31, 2016, we had gross deferred tax assets of \$8.4 million relating to those foreign subsidiaries. The benefit of these deferred tax assets is reflected as a credit of \$1.7 million to tax expense during the year ended December 31, 2016.

As of December 31, 2016, we had approximately \$94.5 million of U.S. federal loss carry-forwards available to reduce future U.S. federal taxable income. The U.S. federal loss carry-forwards expire through 2035. As of December 31, 2016, we had approximately \$135.1 million of state loss carry-forwards available to reduce future state taxable income. The state loss carry-forwards expire to varying degrees between 2021 and 2036 and are subject to certain limitations. The state loss carry-forwards at December 31, 2016, reflect adjustments for prior period write-downs associated with ownership changes for state tax purposes.

Generally, we have not provided deferred taxes on the undistributed earnings of international subsidiaries as we consider these earnings to be permanently reinvested. As it relates to the earnings of our Canadian and Brazilian subsidiaries, we assert that we are not permanently reinvested. We provided additional deferred taxes of \$0.2 million in 2016, \$0.3 million in 2015, and \$0.2 million in 2014 representing the estimated withholding tax liability due if such amounts are repatriated. We did not provide additional incremental U.S. income tax expense on these amounts as the Canadian subsidiary is classified as a branch for U.S. income tax purposes and our Brazilian subsidiary did not have undistributed earnings during the year.

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 and also resulted in the write-off of certain deferred tax assets and the related valuation allowances that the Company recorded in 2006. Of the \$94.5 million of U.S. federal loss carry-forwards available to the Company, \$13.5 million of the loss carry-forwards are subject to an annual usage limitation of \$1.4 million. The Company has reviewed subsequent potential ownership changes as defined under IRC Section 382 and has determined that on August 4, 2008, the Company experienced an additional ownership change. This subsequent ownership change did not decrease the original limitation nor did it impact the Company's financial position, results of operations, or cash flows. The Company believes that there has been an ownership change as defined under IRC Section 382 in the fourth quarter of 2016. The Company is currently assessing what impact this ownership change may have on our ability to utilize the reported net operating losses and related deferred tax assets in future periods.

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

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. Our policy for recording potential interest and penalties associated with uncertain 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 jurisdictions. As a part of an ongoing Canadian tax audit, we continue to defend our tax position related to the valuation of an intercompany transaction. While we have established accruals for this matter, an assessment by the Canadian Revenue Authority may exceed such amounts.

A reconciliation of our beginning and ending amount of unrecognized tax benefits and related accrued interest thereon is as follows:

	Unrecognized Tax Benefits	Accrued Interest and Penalties
Balance at January 1, 2014	\$ 724	\$ 260
Additions based on tax positions related to the current year	—	—
Additions based on tax positions related to the prior years	—	33
Decrease based on payments made during the year	—	—
Decreases based on tax positions related to the prior years	\$ (47)	\$ (73)
Balance at December 31, 2014	\$ 677	\$ 220
Additions based on tax positions related to the current year	—	—
Additions based on tax positions related to the prior years	—	24
Decreases based on payments made during the year	—	—
Decreases based on tax positions related to the prior years	(142)	(42)
Balance at December 31, 2015	\$ 535	\$ 202
Additions based on tax positions related to the current year	—	—
Additions based on tax positions related to the prior years	—	11
Decreases based on payments made during the year	—	—
Decreases based on tax positions related to the prior years	(38)	(59)
Balance at December 31, 2016	\$ 497	\$ 154

Due to the complexity of the tax rules underlying these unrecognized tax benefits, and the unclear timing of tax audits, tax agency determinations, and other events, we cannot establish reasonably reliable estimates for the periods in which the cash settlement of these liabilities will occur.

We file U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. As of December 31, 2016, the 2013 through 2015 tax years generally remain subject to examination by federal and most state and foreign tax authorities. The use of net operating losses generated in tax years prior to 2013 may also subject returns for those years to examination.

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

(8) EMPLOYEE BENEFIT PLANS

We maintain a defined contribution retirement plan (the "Plan") in accordance with Section 401(k) of the Internal Revenue Code, which allows eligible participating employees to defer receipt of up to 50% of their annual compensation and contribute such amount to one or more investment funds. We match employee contributions in a discretionary amount to be determined by management and approved by the Board of Directors each plan year up to the lesser of 6% of an employee's annual compensation or \$3,000 per participant. We also may make additional discretionary contributions to the Plan as determined by management and approved by the Board of Directors each plan year. Company matching funds and discretionary contributions vest 100% after three years of service for participants who either had attained three or more years of service or were hired on or after January 1, 2012. For all other participants, company matching funds and discretionary contributions vest at the rate of 20% after two years of service and 100% after three years of service. We amended the Plan in 2013 to add Roth 401(k) plan features that allow participating employees to make post-tax contributions in addition to, or in lieu of, the pre-tax contributions allowed under the Plan. Company matching funds are made on a pre-tax basis for both pre-tax and post-tax employee contributions, and are subject to the above limitations based on the aggregate pre-tax and post-tax contribution by the participant. The Company contributed to the Plan approximately \$0.8 million in 2016, \$0.8 million in 2015, and \$1.0 million in 2014.

(9) CAPITAL STRUCTURE

Effective July 31, 2000, the Board of Directors amended the Company's Articles of Incorporation to establish a new series of stock, which is designated as participating preferred stock. The Company's remaining, undesignated preferred stock may be issued at any time or from time to time in one or more series with such designations, powers, preferences, rights, qualifications, limitations and restrictions (including dividend, conversion and voting rights) as may be determined by the Board of Directors, without any further votes or action by the shareholders. As of December 31, 2016 and 2015, the Company had no preferred stock outstanding.

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.

In partial satisfaction of a business acquisition obligation, we issued 187,620 shares of our common stock having a value of \$1.3 million in the year ended December 31, 2014 and 217,155 shares of our common stock having a value of \$1.5 million in the year ended December 31, 2013.

On February 21, 2014, our Board of Directors authorized a stock repurchase program under which we could 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, bringing the total amount of its common stock that the Company could repurchase under the program to \$20.0 million. On October 24, 2014, our Board of Directors authorized a \$20.0 million increase to the stock repurchase program, increasing the total share repurchase program to \$40.0 million, and extended the duration of the program to December 31, 2015. In October 2015, our Board of Directors authorized an additional \$10.0 million increase to the stock repurchase program, increasing the total share repurchase program to \$50.0 million, and extended the duration of the program to December 31, 2016. In December 2016, our Board of Directors authorized an additional \$10.0 million increase to the stock repurchase program, increasing the total share repurchase program to \$60.0 million, and extended the duration of the program to December 31, 2017. We repurchased 0.9 million shares of our common stock during the year ended December 31, 2016 for \$3.8 million. We repurchased 4.1 million shares of our common stock during the year ended December 31, 2015 for \$18.1 million.

Pursuant to exercises of outstanding stock options, we issued 90,496 shares of our common stock having a value of \$0.3 million in the year ended December 31, 2016 and 29,128 shares of our common stock having a value of less than \$0.1 million in the year ended December 31, 2015.

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

(10) 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.

(11) STOCK-BASED COMPENSATION

During 2016, the Company currently had two shareholder-approved stock-based compensation plans under which equity awards have been granted: (1) the 2006 Management Incentive Plan (“2006 MIP”); and (2) the 2008 Equity Incentive Plan (“2008 EIP”) (collectively, the “Plans”). The Company generally issues authorized but previously unissued shares to satisfy stock option exercises, grants of restricted stock awards and vesting of restricted stock units and settlements of 2006 MIP Performance Units.

2008 EIP Awards

During the first quarter of 2008, the Board of Directors of the Company adopted the 2008 EIP, which was approved by the shareholders at the annual meeting of the shareholders on May 29, 2008. The 2008 EIP authorizes the grant of incentive and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other incentive awards. Two million shares of the Company’s common stock initially were reserved for issuance under the 2008 EIP pursuant to award grants to key employees, directors and service providers. The options granted pursuant to the 2008 EIP generally have seven year terms.

An amendment to the 2008 EIP was adopted by the Company’s Board of Directors in April 2010 and approved at the Company’s annual meeting of shareholders held on June 15, 2010. This amendment, among other things, increased the number of shares reserved for issuance under the 2008 EIP by 3,400,000 shares to a total of 5,400,000 shares and provides that restricted stock awards and other full value awards will count as 1.41 shares against the available pool of shares under the plan.

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.

An amendment to the 2008 EIP was adopted by the Company’s Board of Directors in April 2014 and approved at the Company’s annual meeting of shareholders held on June 24, 2014. This amendment increased the number of shares reserved for issuance under the 2008 EIP by 3,000,000 shares to a total of 10,600,000 shares. Any shares issued in connection with an award against this 3,000,000 share pool will count against the available pool of shares on a one-to-one basis. As of December 31, 2016, there were approximately 0.6 million shares available for future grants under the 2008 EIP.

Stock options granted under the 2008 EIP generally 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 years ended December 31, 2016, 2015, and 2014:

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

Grantee Type	# of Options Granted	Vesting Period	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
2016				
Director group ⁽¹⁾	195,417	1 year or less	\$ 5.01	\$ 2.71
Director group ⁽²⁾	35,000	3 years	\$ 4.80	\$ 2.66
Employee inducement ⁽³⁾⁽⁴⁾	232,500	3 years	\$ 4.61	\$ 2.60
2015				
Director group	249,273	1 year or less	\$ 4.49	\$ 2.44
Employee group	17,092	3 years	\$ 3.99	\$ 1.33
Employee inducement ⁽⁵⁾	135,000	3 years	\$ 5.51	\$ 1.42
2014				
Director group	51,276	1 year or less	\$ 6.45	\$ 1.89
Employee group ⁽⁶⁾	1,480,000	3 years	\$ 6.99	\$ 1.81
Employee inducement ⁽⁷⁾	270,000	3 years	\$ 6.64	\$ 1.71

(1) Includes 20,417 non-qualified stock options granted to one director in connection with the director joining the Company's board of directors.

(2) The Company granted non-qualified stock options to one director in connection with the director joining the Company's board of directors.

(3) 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.

(4) The Company granted non-qualified stock options outside its existing stock-based compensation plans in connection with the closing of the Lavante acquisition.

(5) 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.

(6) The weighted average exercise price for these options is calculated based on an exercise price of \$6.36 for the options that vest on June 27, 2015, \$6.99 for the options that vest on June 27, 2016 and \$7.63 for the options that vest on June 27, 2017.

(7) The Company granted non-qualified stock options outside its existing stock-based compensation plans in the third quarter of 2014 to two executives in connection with the executives 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.

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

The following table summarizes nonvested stock awards granted during the years ended December 31, 2016, 2015 and 2014:

Grantee Type	# of Stock Awards Granted	Vesting Period	Weighted Average Grant Date Fair Value
2016			
Employee group ⁽¹⁾	1,250,750	2 years	\$ 4.88
Employee inducement ⁽²⁾	100,000	3 years	\$ 4.94
2015			
Director group	4,273	1 year or less	\$ 4.02
Director group	17,092	3 years	\$ 3.99
Employee group ⁽³⁾	2,493,333	2 years	\$ 3.99
Employee inducement ⁽⁴⁾	10,000	3 years	\$ 5.29
2014			
Director group	51,276	1 year or less	\$ 6.45
Employee group	120,000	3 years	\$ 6.36
Employee inducement ⁽⁵⁾	70,000	3 years	\$ 6.04

- (1) The Company granted nonvested performance-based stock awards (restricted stock units) in the first six months of 2016 to five executive officers, and certain other key 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 and fourth quarters of 2015, the Company issued 1,168,333 units to key employees.
- (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.
- (5) The Company granted nonvested stock awards (restricted stock) outside its existing stock-based compensation plans in the third quarter of 2014 to two executives in connection with the executives joining the Company.

Performance-Based Restricted Stock Units

On August 3, 2016, a senior leader of the Company was granted 10,000 performance-based restricted stock units ("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 HCRA 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 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).

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

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 1,123,333 PBUs under the 2008 EIP. On December 14, 2015, certain employees of the Company were granted an additional 45,000 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).

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

On March 30, 2015, eight executive officers of the Company were granted 1,325,000 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).

The following table summarizes the PBUs granted during the years ended December 31, 2016 and 2015:

	Total PBUs Granted	PBUs Settled in Common Stock (1)	PBUs Settled in Cash (2)
2016	1,350,750	560,670	790,080
2015	2,493,333	954,583	1,538,750

(1) Represents the number of PBUs to be settled in common stock at the target performance level.

(2) Represents the number of PBUs to be settled in cash at the target performance level.

During 2015, the PBUs were expensed at the target performance level based on management's estimates. During the fourth quarter of 2015, it was determined it was "not probable" that the threshold performance level would be achieved by the vesting period ending December 31, 2016 and the Company reversed approximately \$0.8 million of expense incurred in the second quarter and \$0.6 million of expense incurred in third quarter, a total of \$1.4 million for the year ended December 31, 2015.

During 2016, the PBUs that were granted in 2016 were expensed at the target performance level based on management's estimates.

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.

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

A summary of option activity as of December 31, 2016, and changes during the year then ended is presented below:

Options	Shares	Weighted- Average Exercise Price (Per Share)	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (\$ 000's)
Outstanding at January 1, 2016	3,337,784	\$ 6.36	4.76 years	\$ 70
Granted	462,917	4.80		
Exercised	(90,496)	3.37		\$ 144
Forfeited	(271,537)	6.15		
Expired	(18,283)	2.82		
Outstanding at December 31, 2016	3,420,385	\$ 6.26	4.30 years	\$ 1,204
Exercisable at December 31, 2016	2,357,784	\$ 6.28	3.76 years	\$ 670

The weighted-average grant date fair value of options granted was \$2.66 per share in 2016, \$2.32 per share in 2015 and \$1.80 per share in 2014. The total intrinsic value of options exercised was \$144 thousand in 2016, \$40.0 thousand in 2015 and \$1.7 million in 2014.

For time-vested option grants that resulted in compensation expense recognition, we used the following assumptions in our Black-Scholes valuation models:

	Years Ended December 31,		
	2016	2015	2014
Risk-free interest rates	0.58% - 1.20%	0.80% - 1.59%	0.88% - 1.79%
Dividend yields	—%	—%	—%
Volatility factor of expected market price	.391 - .779	.323 - .733	.370 - .390
Weighted-average expected term of option	1.3 - 4.5 years	3.1 - 5 years	3.5 - 4.5 years
Forfeiture rate	—%	—%	—%

A summary of nonvested stock awards (restricted stock and restricted stock units) activity as of December 31, 2016 and changes during the year then ended is presented below:

Nonvested Stock	Shares	Weighted Average Grant Date Fair Value (Per Share)
Nonvested at January 1, 2016	2,822,042	\$ 4.30
Granted	1,550,750	4.86
Vested	(305,572)	6.26
Forfeited	(174,170)	4.32
Nonvested at December 31, 2016	3,893,050	\$ 4.37

The weighted-average grant date fair value of nonvested stock awards (restricted stock and restricted stock units) granted was \$4.86 per share in 2016, \$4.00 per share in 2015 and \$6.29 per share in 2014. The total vest date fair value of stock awards vested during the year was \$0.7 million in 2016, \$1.2 million in 2015 and \$2.3 million in 2014.

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

2006 MIP Performance Units

At the annual meeting of shareholders held on August 11, 2006, the shareholders of the Company approved a proposal granting authorization to issue up to 2.1 million shares of the Company's common stock under the 2006 MIP. At Performance Unit settlement dates, participants were issued that number of shares of Company common stock equal to 60% of the number of Performance Units being settled, and were paid in cash 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. Prior to 2012, Performance Units were only granted in 2006 and 2007, and the last of such units were settled in May 2011.

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. Upon vesting, the Performance Units were 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 year ended December 31, 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 totaling less than \$0.1 million. During the year ended December 31, 2014, an aggregate of 27,546 Performance Units were settled, which resulted in the issuance of 16,526 shares of common stock and cash payments totaling \$0.1 million. Since the June 19, 2012 grant date to December 31, 2014, an aggregate of 137,740 Performance Units were settled by three current executive officers and three former executive officers, and 16,524 Performance Units were forfeited by one former executive officer. Such settlements resulted in the issuance of 79,356 shares of common stock and cash payments totaling \$0.3 million. As of December 31, 2016, no Performance Units were outstanding. There was no settlement of Performance Units during 2016.

We recognized compensation expense of \$0.0 in 2016, less than \$0.1 million in 2015 and \$0.2 million in 2014 related to these 2006 MIP Performance Unit awards. We determined the amount of compensation expense recognized on the assumption that none of the Performance Unit awards would be forfeited and recorded actual forfeitures as incurred. The 2006 MIP terminated in April 2016.

Stock-based compensation charges aggregated \$5.1 million in 2016, \$3.9 million in 2015, and \$4.5 million in 2014. We include these charges in "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Operations. At December 31, 2016, there was \$5.8 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 1.2 years.

(12) BUSINESS ACQUISITIONS AND DIVESTITURES

We completed several acquisitions and divestitures in recent years that we describe below. Generally, we acquire businesses that we believe will provide a strategic fit for our existing operations, cost savings and revenue synergies, or enable us to expand our capabilities in our Adjacent Services segment. We divest assets or businesses that we no longer find strategically aligned with our service offerings.

We allocate the total purchase price in a business acquisition to the fair value of identified assets acquired and liabilities assumed based on the fair values at the acquisition date, and record amounts exceeding the fair values as goodwill. If the fair value of the assets acquired exceeds the purchase price, we record this excess as a gain on bargain purchase. We determine the estimated fair values of intangible assets acquired using our estimates of future discounted cash flows to be generated by the acquired business over the estimated duration of those cash flows. We base the estimated cash flows on our projections of future revenue, cost of revenue, capital expenditures, working capital needs and tax rates. We estimate the duration of the cash flows based on the projected useful life of the assets and business acquired. We determine the discount rate based on specific business risk, cost of capital and other factors.

Etesius Limited

In February 2010, the Company's U.K. subsidiary acquired all the issued and outstanding capital stock of Etesius Limited ("Etesius"), a privately-held European provider of purchasing and payables technologies and spend analytics based in Chelmsford, United Kingdom. We have included the results of operations of Etesius in our Adjacent Services segment results of operations since the acquisition date as we acquired Etesius with the intention of expanding our capabilities in this segment.

The financial terms of the Etesius share purchase agreement ("SPA") required an initial payment to the Etesius shareholders of \$2.8 million and a \$0.3 million payment for obligations on behalf of Etesius shareholders which resulted in a total estimated purchase price value of approximately \$3.1 million.

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

The SPA required deferred payments of \$1.2 million over four years from the date of the SPA to certain selling shareholders who are now our employees. The SPA also provided for potential additional variable payments (“earn-out”) to these selling shareholders/employees over the same four-year period based on the financial performance of certain of the Company’s services lines, up to a maximum of \$3.8 million. Because we were not obligated to make the deferred and earn-out payments upon the termination of employment of these employees under certain circumstances, we recognized these payments as compensation expense as earned. From the acquisition date to December 31, 2014, we paid \$1.4 million of deferred payments and variable consideration. This amount consisted of the final \$0.7 million of deferred payments paid in February 2014 and \$0.2 million of variable consideration paid in August 2014. We currently estimate that we will not pay any additional variable consideration relating to these provisions resulting in no remaining amounts payable relating to this acquisition as of December 31, 2016.

Business Strategy, Inc.

In December 2011, we acquired BSI, based in Grand Rapids, Michigan, for a purchase price valued at \$11.9 million. BSI was a provider of recovery audit and related procure-to-pay process improvement services for commercial clients, and a provider of customized software solutions and outsourcing solutions to improve back office payment processes. We have included the results of operations of Business Strategy, Inc. in our Recovery Audit Services – Americas segment and the results of operations of the affiliated company in our Adjacent Services segment results of operations since the acquisition date. These amounts aggregated \$0.8 million of revenue and \$0.1 million of net income in 2011 and \$10.9 million of revenue and \$1.5 million of net income in 2012. We acquired BSI with the intention of expanding our commercial recovery audit capabilities and to expand the services we offer to our clients.

The purchase price included an initial cash payment of \$2.8 million and 640,614 shares of our common stock having a value of \$3.7 million. An additional payment of approximately \$0.7 million was due and paid in the first half of 2012 for working capital received in excess of a specified minimum level. We were subject to additional variable consideration of up to \$5.5 million, payable via a combination of cash and shares of our common stock, based on the performance of the acquired businesses over a two-year period from the date of acquisition. We were also subject to additional consideration of up to \$8.0 million, payable in cash over a period of two years, based on certain net cash fee receipts from a particular recovery audit claim at a specific client. We recorded an additional \$4.9 million payable as of the acquisition date based on management’s estimate of the fair value of the variable consideration payable. We adjusted the \$12.2 million initial estimates of the fair value of the assets and liabilities in 2012, resulting in reductions to goodwill of \$0.2 million, and the fair value of the purchase price of \$0.2 million, and recorded this change retroactively to 2011. The final goodwill amount of \$7.6 million includes \$1.5 million that is deductible for income tax purposes.

The final allocation of the fair values of the assets acquired and purchase price is summarized as follows (in thousands):

Fair values of net assets acquired:	Final Allocation
Equipment	\$ 70
Intangible assets, primarily customer relationships	4,041
Working capital, including work in progress	1,967
Deferred tax liabilities	(1,736)
Goodwill	7,577
Fair value of net assets acquired	<u>\$ 11,919</u>
Fair value of purchase price	<u>\$ 11,919</u>

From the acquisition date to December 31, 2014, we paid \$6.3 million of the earn-out liability consisting of cash payments of \$3.6 million and 404,775 shares of our common stock having a value of \$2.7 million. We also recorded accretion and other adjustments of the earn-out liability of \$1.4 million, resulting in no remaining earn-out payable as of December 31, 2014.

Global Edge

In December 2015, we acquired the SIM business of Global Edge for a purchase price valued at \$0.7 million. The purchase price included an initial cash payment of \$0.5 million and additional variable cash consideration based on the performance of the acquired businesses over a two year period from the date of acquisition valued at \$0.2 million.

Lavante

In October 2016, we acquired Lavante, a SaaS-based supplier of SIM and recovery audit services firm for a net purchase price of \$3.7 million. Lavante’s assets consist primarily of its proprietary software applications.

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

We have recorded Lavante's assets acquired and liabilities assumed based on our preliminary estimates of their fair values at the acquisition date. The determination of the fair values of the assets acquired and liabilities assumed (and the related determination of estimated lives of depreciable and amortizable tangible and identifiable intangible assets) requires significant judgment and estimates. The estimates and assumptions used include the projected timing and amount of future cash flows and discount rates reflecting risk inherent in the future cash flows. The estimated fair values of Lavante's assets acquired and liabilities assumed and resulting goodwill are subject to adjustment as we finalize our fair value analysis. We expect to complete our fair value determinations no later than the fourth quarter of 2017. We do not currently expect our fair value determinations to change materially; however, there may be differences compared to those amounts reflected in our consolidated financial statements as of December 31, 2016 as we finalize our fair value analysis and such changes could be material.

Based on our preliminary estimates, the purchase price exceeded the aggregate estimated fair value of the acquired assets and assumed liabilities at the acquisition date by \$2.1 million, which amount has been allocated and recognized as goodwill within our Adjacent Service business segment. None of the goodwill associated with the acquisition is deductible for income tax purposes and, as such, no deferred taxes have been recorded related to goodwill.

The preliminary allocation of the purchase price to the estimated fair values of assets acquired and liabilities assumed is presented below:

As of October 31, 2016

Cash and cash equivalents	\$	28
Account receivables		207
Other Current Assets		92
Goodwill		2,146
Intangible Assets		6,178
Fixed Assets		98
Total Assets		8,749
Accounts payable		121
Deferred revenue		370
Other current liabilities		757
Total Liabilities		1,248
Total purchase price	\$	<u><u>3,669</u></u>

Our estimates of the fair values of identifiable intangible assets are presented below:

	Fair values at October 31, 2016	Remaining useful lives (in months)
Trademarks	\$ 163	48
Patents	114	12
Software	5,901	48
Total intangible assets	<u><u>\$ 6,178</u></u>	

In general, intangible assets include trade names, trademarks, copyrights, patents, customer contacts and/or relationships, developed technology (computer software), technological know-how, and brand names. When estimating the value of such assets, we consider the future income stream associated with the specific asset, taking into account the asset's estimated remaining life, average annual anticipated rate of return, and market rates of return. Often, an income approach such as a multi-period excess earnings model or distributor model will be used.

We may also consider the market price of comparable assets recently sold or the asking prices for similar assets currently for sale. This methodology involves researching the industry to determine if comparable companies pay or receive royalties for rights associated with the use of the asset. The royalty rates charged or received are then used as valuation benchmarks. The relief from royalty method is often used in the valuation of assets involving fair royalty rates (e.g., trademarks, patents, etc.).

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

The cost approach analyzes the current cost to re-create or duplicate an asset minus the decrease in value due to the passage of time or obsolescence. For example, when valuing a trademark (when it is not the primary asset acquired), we calculate the costs that would have been incurred over the years in establishing consumer recognition and perception of quality, service and reliability. We also consider the legal costs incurred in registering the asset.

We are still reviewing the valuation of the Lavante acquisition, in particular the value of any potential earnout due to Lavante, the useful lives of the long-lived assets acquired from Lavante and any potential deferred tax assets or liabilities associated with the valuation.

The revenue and loss from continuing operations of Lavante from the acquisition date through December 31, 2016 are presented below and included in our consolidated statements of operations. These amounts are not necessarily indicative of the results of operations that Lavante would have realized if it had continued to operate as a stand-alone company during the period presented, primarily due to costs that are now reflected in our unallocated corporate costs and not allocated to Lavante.

	From October 31, 2016 to December 31, 2016
Revenue	\$ 383
Loss from continuing operations	\$ (891)

As required by ASC 805, the following unaudited pro forma statements of operations for the years ended December 31, 2016 and 2015 give effect to the Lavante acquisition as if it had been completed on January 1, 2015. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of what the operating results actually would have been during the periods presented had the Lavante acquisition been completed during the periods presented. In addition, the unaudited pro forma financial information does not purport to project future operating results. This information is preliminary in nature and subject to change based on final purchase price adjustments. The pro forma statements of operations do not reflect: (1) any anticipated synergies (or costs to achieve synergies) or (2) the impact of non-recurring items directly related to the Lavante acquisition.

	December 31, 2016	December 31, 2015
Revenue from continuing operations (pro forma)	143,198	140,994
Loss from continuing operations (pro forma)	(3,418)	(5,516)

Divestitures

In October 2014, we divested certain assets within our Adjacent Services segment that were related to our Chicago, Illinois-based consulting business. These assets, previously acquired in November 2010 from TJG Holdings LLC, were sold to Salo, LLC, a Minnesota limited liability company. We received an initial cash payment of \$1.1 million in connection with the closing of the transaction and recognized a loss on the sale of less than \$0.1 million, which we recognized in *Other loss* in the Consolidated Statements of Operations. We have also received payment for working capital transferred to the buyer. In addition, we received \$0.8 million in earn-out payments based on certain revenue recognized by the buyer in relation to the acquired business during the year following the closing date of the divestiture.

In August 2015, we divested certain assets from a document service offering purchased as part of the Business Strategy, Inc. acquisition in 2011. We did not receive any initial cash payments at closing of the transaction and recognized a loss on the sale of \$1.6 million, which we recognized in *Other loss* in the Consolidated Statements of Operations.

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

(13) QUARTERLY RESULTS (UNAUDITED)

The following tables set forth certain unaudited condensed consolidated quarterly financial data for each of the last eight quarters during our fiscal years ended December 31, 2016 and 2015. We have derived the information from unaudited Condensed Consolidated Financial Statements that, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of such quarterly information. The operating results for any quarter are not necessarily indicative of the results to be expected for any future period. The quarterly results are updated for continuing operations.

	2016 Quarter Ended				2015 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
(In thousands, except per share data)								
Revenue, net	\$ 31,233	\$ 35,291	\$ 35,137	\$ 39,183	\$ 32,985	\$ 36,995	\$ 33,365	\$ 34,957
Operating expenses:								
Cost of revenue	21,646	23,431	22,367	23,855	23,167	24,111	23,507	22,384
Selling, general and administrative expenses	8,848	9,620	9,883	11,048	7,944	9,185	8,284	6,871
Depreciation of property and equipment	1,232	1,216	1,376	1,209	1,279	1,294	1,255	1,489
Amortization of intangible assets	394	395	393	650	746	754	517	441
Total operating expenses	<u>32,120</u>	<u>34,662</u>	<u>34,019</u>	<u>36,762</u>	<u>33,136</u>	<u>35,344</u>	<u>33,563</u>	<u>31,185</u>
Operating income (loss) from continuing operations	(887)	629	1,118	2,421	(151)	1,651	(198)	3,772
Foreign currency transaction (gains) losses on short-term intercompany balances	(1,007)	196	(165)	1,060	1,692	(416)	654	235
Interest expense (income), net	(29)	(12)	(14)	(98)	(42)	(53)	(8)	(87)
Other (income) loss	10	18	(168)	19	—	—	1,612	(421)
Income (loss) from continuing operations before income taxes	139	427	1,465	1,440	(1,801)	2,120	(2,456)	4,045
Income tax expense (benefit)	204	460	(685)	1,263	455	296	421	(803)
Net income (loss) from continuing operations	<u>(65)</u>	<u>(33)</u>	<u>2,150</u>	<u>177</u>	<u>(2,256)</u>	<u>1,824</u>	<u>(2,877)</u>	<u>4,848</u>
Basic earnings (loss) per common share from continuing operations ⁽¹⁾	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.10</u>	<u>\$ 0.01</u>	<u>\$ (0.09)</u>	<u>\$ 0.07</u>	<u>\$ (0.11)</u>	<u>\$ 0.19</u>
Diluted earnings (loss) per common share from continuing operations ⁽¹⁾	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.10</u>	<u>\$ 0.01</u>	<u>\$ (0.09)</u>	<u>\$ 0.07</u>	<u>\$ 0.11</u>	<u>\$ 0.19</u>

(1) We calculate each quarter as a discrete period; the sum of the four quarters may not equal the calculated full-year amount.

In the fourth quarter of 2016, we released a valuation allowance of \$1.1 million against the net deferred tax assets of certain of our foreign subsidiaries, which reduced our income tax expense for the period.

In the fourth quarter of 2015, we released a valuation allowance of \$1.5 million against the net deferred tax assets of one of our foreign subsidiaries, which reduced our income tax expense for the period.

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

(14) SUBSEQUENT EVENTS

In February 2017, we completed the acquisition of substantially all of the assets of Cost & Compliance Associates, LLC. and Cost & Compliance Associates Limited. At the closing of the transaction, we paid \$10.0 million in cash, which amount is subject to a customary working capital adjustment. In addition, we may be required to pay earnout consideration in cash over a period of two years, based on the performance of the acquired businesses and our contract compliance business following closing. The aggregate consideration we may be required to pay in connection with this acquisition cannot exceed \$18.0 million.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure 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 are effective as of December 31, 2016.

Changes in internal controls over financial reporting

During the fourth quarter of 2015, internal controls were designed and implemented to enhance the planning and review of tax provisions and positions by an additional member of the accounting department other than the preparer and reviewer in order to prevent and detect potential errors. These changes materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. These controls have been tested and we found them to be effective as key controls had been designed and documented during the fourth quarter of 2015.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in the Exchange Act Rule 13a-15(f). Our internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable assurance that the objectives of the internal control system are met. Under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer along with the Company's Chief Financial Officer and Treasurer, the Company conducted an assessment of the effectiveness of internal control over financial reporting based on the framework (2013 Framework) in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management concluded that, as of December 31, 2016, the Company's internal control over financial reporting excluding the newly acquired Lavante business is effective. The Company's internal control over financial reporting as of December 31, 2016 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which is included herein, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016.

Management's report shall not be deemed filed for purposes of Section 18 of the Exchange Act.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
PRGX Global, Inc.
Atlanta, Georgia

We have audited PRGX Global, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Annual Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying "Item 9A, Management's Annual Report on Internal Control Over Financial Reporting", management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Lavante, Inc., which was acquired on October 31, 2016, and which is included in the consolidated balance sheet of the Company as of December 31, 2016, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the year then ended. Lavante, Inc. constituted 9.6% and 12.6% of total assets and net assets, respectively, as of December 31, 2016, and 0.3% and (40.0%) of revenues and net income from continuing operations, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of Lavante, Inc. because of the timing of the acquisition which was completed on October 31, 2016. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Lavante, Inc.

In our opinion, PRGX Global, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Atlanta, Georgia
March 16, 2017

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Except as set forth below, the information required by Item 10 of this Form 10-K is incorporated herein by reference to the information contained in the sections captioned “Proposal I: Election of Directors”, “Information about the Board of Directors and Committees of the Board of Directors”, “Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance” of our definitive proxy statement (the “Proxy Statement”) for the 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”).

We have undertaken to provide to any person without charge, upon request, a copy of our code of ethics applicable to our chief executive officer and senior financial officers. You may obtain a copy of this code of ethics free of charge from our website, www.prgx.com.

ITEM 11. Executive Compensation

The information required by Item 11 of this Form 10-K is incorporated by reference to the information contained in the sections captioned “Executive Compensation”, “Information about the Board of Directors and Committees of the Board of Directors”, and “Report of the Compensation Committee” of the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Except as set forth below, the information required by Item 12 of this Form 10-K is incorporated by reference to the information contained in the section captioned "Ownership of Directors, Principal Shareholders and Certain Executive Officers" of the Proxy Statement.

Securities Authorized for Issuance Under Equity Compensation Plans

During 2016, the Company had two shareholder approved stock-based compensation plans under which equity awards have been granted: (1) the 2006 Management Incentive Plan ("2006 MIP"), and (2) the 2008 Equity Incentive Plan ("2008 EIP").

At the annual meeting of shareholders held on August 11, 2006, the shareholders of the Company approved a proposal granting authorization to issue up to 2.1 million shares of the Company's common stock under the 2006 MIP. At Performance Unit settlement dates (which varied), participants were paid in common stock and in cash. Participants received a number of shares of Company common stock equal to 60% of the number of Performance Units being paid out, plus a cash payment equal to 40% of the fair market value of that number of shares of common stock equal to the number of Performance Units being paid out. The 2006 MIP terminated on April 30, 2016.

During the first quarter of 2008, the Board of Directors of the Company adopted the 2008 EIP, which was approved by the shareholders at the annual meeting of the shareholders on May 29, 2008. The 2008 EIP authorizes the grant of incentive and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other incentive awards. Pursuant to amendments to the 2008 EIP that were approved by the Company's Board of Directors and the Company's shareholders in 2010, 2012 and 2014, 10,600,000 shares are reserved for issuance under the 2008 EIP pursuant to award grants to key employees, directors and service providers.

The following table presents certain information with respect to compensation plans under which equity securities of the registrant were authorized for issuance as of December 31, 2016:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders:			
2008 Equity Incentive Plan	2,867,885	6.37	627,507
Equity compensation plans not approved by security holders ^{(1), (2), (3)}			
	552,500	5.71	—
Total	3,420,385	\$ 6.26	627,507

(1) Inducement Option Grant - in connection with senior personnel joining the company in the second quarter of 2016 and in connection with certain employees joining the Company as part of the closing of the Lavante acquisition in the fourth quarter of 2016, the Company made inducement grants outside its existing stock-based compensation plans. The employees received options to purchase 232,500 shares of the common stock of the Company.

(2) Inducement Option Grant - during the first and second quarters of 2015, in connection with senior personnel joining the Company, the Company made inducement grants outside its existing stock-based compensation plans. These employees received options to purchase 110,000 shares of the common stock of the Company.

(3) Inducement Option Grant - during the third quarter of 2014, in connection with two executives joining the Company, the Company made inducement grants outside its existing stock-based compensation plans to the executives. The executives received options to purchase 270,000 shares of the common stock of the Company.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 of this Form 10-K is incorporated by reference to the information contained in the sections captioned “Information about the Board of Directors and Committees of the Board of Directors”, “Executive Compensation – Employment Agreements” and “Certain Transactions” of the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required by Item 14 of this Form 10-K is incorporated by reference to the information contained in the sections captioned “Principal Accountant Fees and Services” of the Proxy Statement.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of the report

(1) Consolidated Financial Statements:

For the following consolidated financial information included herein, see [Index](#) on Page 38.

	Page No.
Report of Independent Registered Public Accounting Firm	38
Consolidated Statements of Operations for the Years Ended December 31, 2016, 2015 and 2014	39
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2016, 2015 and 2014	40
Consolidated Balance Sheets as of December 31, 2016 and 2015	41
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2016, 2015 and 2014	42
Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014	43
Notes to Consolidated Financial Statements	44

(2) Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts	85
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(3) Exhibits

Exhibit Number	Description
2.1	Share Purchase Agreement dated February 28, 2010 by and between PRGX U.K. Limited and Sajid Ghani and Others (incorporated by reference to Exhibit 2.1 to the Registrant's Form 10-K filed on March 29, 2010).
2.2	Acquisition Agreement dated December 1, 2011, among PRGX Global, Inc., PRGX Commercial LLC, Business Strategy, Inc., Strategic Document Solutions, LLC, DD&C Investments, L.L.C., Charles Fayon, Daniel Geelhoed and Dennis VanDyke. (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on December 2, 2011).
2.3	Asset Purchase Agreement dated October 6, 2016, by and among PRGX USA, INC., PRGX UK LTD., Cost & Compliance Associates, LLC, Cost & Compliance Associates Limited and Robert F. Donohue (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on October 6, 2016).
2.4	Agreement and Plan of Merger dated October 25, 2016, by and among PRGX USA, Inc., Braveheart Merger Co., Lavante, Inc., PointGuard Ventures I, L.P. and Krish Panu (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on October 25, 2016).
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.
+10.1	Form of Indemnification Agreement between the Registrant and Directors and certain officers, including named executive officers, of the Registrant (incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-K for the year ended December 31, 2003).

- 10.2 Noncompetition, Nonsolicitation and Confidentiality Agreement among The Profit Recovery Group International, Inc., Howard Schultz & Associates International, Inc., Howard Schultz, Andrew Schultz and certain trusts, dated January 24, 2002 (incorporated by reference to Exhibit 10.34 to the Registrant's Form 10-K for the year ended December 31, 2001).
- 10.3 Office Lease Agreement between Galleria 600, LLC and PRG-Schultz International, Inc. (incorporated by reference to Exhibit 10.43 to the Registrant's Form 10-K for the year ended December 31, 2001).
- 10.4 First Amendment to Office Lease Agreement between Galleria 600, LLC and PRG-Schultz International, Inc. (incorporated by reference to Exhibit 10.65 to the Registrant's Form 10-K for the year ended December 31, 2002).
- 10.5 Third Amendment of Lease, entered into as of January 8, 2014, by and between Galleria 600, LLC and the Company (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on January 14, 2014).
- +10.6 Amended and Restated 2006 Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended September 30, 2006).
- +10.7 Form of Performance Unit Agreement under 2006 Amended and Restated Management Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on June 22, 2012).
- +10.8 PRGX Global, Inc. 2008 Equity Incentive Plan, as Amended and Restated Effective April 25, 2014 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on June 30, 2014).
- +10.9 Form of Restricted Stock Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on June 4, 2008).
- +10.10 Form of Non-Qualified Stock Option Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on June 4, 2008).
- +10.11 Form of Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on January 14, 2009).
- +10.12 Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on January 14, 2009).
- +10.13 Form of Performance-Based Restricted Stock Unit Agreement for Employees (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on April 1, 2015).
- 10.14 Amended & Restated Revolving Credit Agreement dated as of December 23, 2014, among PRGX Global, Inc. and PRGX USA, Inc., as borrowers, the lenders from time to time party thereto and SunTrust Bank, as administrative agent and issuing bank (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on December 30, 2014).
- 10.15 Subsidiary Guaranty Agreement dated as of January 19, 2010 by and among PRGX Global, Inc. (formerly PRG-Schultz International, Inc), and PRGX USA, Inc. (formerly PRG-Schultz USA, Inc.), as borrowers, each of the subsidiaries of PRGX Global, Inc. listed on Schedule I thereto, as guarantors, and SunTrust Bank, as administrative agent (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on January 25, 2010).
- 10.16 Security Agreement dated January 19, 2010 among PRGX Global, Inc. (formerly PRG-Schultz International, Inc), PRGX USA, Inc. (formerly PRG-Schultz USA, Inc.), and the other direct and indirect subsidiaries of PRGX Global, Inc. signatory thereto, as grantors, in favor of SunTrust Bank, as administrative agent (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on January 25, 2010).
- 10.17 Equity Pledge Agreement dated as of January 19, 2010, made by PRGX Global, Inc. (formerly PRG-Schultz International, Inc), PRGX USA, Inc. (formerly PRG-Schultz USA, Inc.), and the other direct and indirect subsidiaries of PRGX Global, Inc. signatory thereto, as grantors, in favor of SunTrust Bank, as administrative agent (incorporated by reference to Exhibit 10.4 to the Registrant's Form 8-K filed on January 25, 2010).
- 10.18 Loan Documents Modification Agreement dated June 21, 2010, by and among the Borrowers, the Guarantors and the Lender (incorporated by reference to Exhibit 10.29.4 to the Registrant's Form 10-K filed on March 15, 2012).
- 10.19 Second Loan Documents Modification Agreement dated September 30, 2010, by and among the Borrowers and the Lender (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on October 1, 2010).

- 10.20 Third Loan Documents Modification Agreement dated October 17, 2011, by and among the Borrowers and the Lender (incorporated by reference to Exhibit 10.29.6 to the Registrant's Form 10-K filed on March 15, 2012)
- 10.21 Fourth Loan Documents Modification Agreement, entered into as of January 17, 2014, by and among the Borrowers, the Guarantors and the Lender (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on January 24, 2014).
- 10.22 Fifth Loan Documents Modification Agreement and Waiver, entered into as of May 8, 2014, by and among the Borrowers, the Guarantors and the Lender (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on May 12, 2014).
- 10.23 Sixth Loan Documents Modification Agreement and Waiver, entered into as of August 7, 2014, by and among the Borrowers, the Guarantors and the Lender (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on August 7, 2014).
- 10.24 Seventh Loan Documents Modification Agreement, entered into as of October 23, 2014, by and among the Borrowers, the Guarantors and the Lender (incorporated by reference to Exhibit 10.29 to the Registrant's Form 10-K filed on March 13, 2015).
- 10.25 Eighth Loan Documents Modification Agreement, entered into as of December 23, 2014, by and among the Borrowers, the Guarantors and the Lender (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on December 30, 2014).
- 10.26 Ninth Loan Documents Modification Agreement, entered into as of December 21, 2016, by and among the Borrowers, the Guarantors and the Lender.
- 10.27 PRGX Global, Inc. Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on June 30, 2014).
- 10.28 Form of PRGX Global, Inc. Restricted Stock Unit Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on June 30, 2014).
- 10.29 Employment Agreement between the Registrant and Victor A. Allums dated November 28, 2008 (incorporated by reference to Exhibit 10.31 to the Registrant's Form 10-K filed on March 29, 2010).
- 10.30 Employment Agreement between the Registrant and Tushar Sachdev dated June 18, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on August 6, 2013).
- 10.31 Separation Agreement between the Registrant and Romil Bahl dated December 5, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on December 11, 2013).
- +10.32 Employment Agreement between the Registrant and Ronald E. Stewart dated December 13, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on December 19, 2013).
- +10.33 Employment Agreement between the Registrant and Michael Cochrane dated April 24, 2014 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on April 29, 2014).
- +10.34 Separation Agreement between the Registrant and James R. Shand dated August 14, 2014 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 20, 2014).
- +10.35 Separation Agreement between the Registrant and Robert B. Lee dated September 11, 2014 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on September 11, 2014).
- +10.36 Employment Agreement between the Registrant and Peter Limeri dated September 11, 2014 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on November 21, 2014).
- +10.37 Separation Agreement between the Registrant and Catherine Lee dated September 25, 2015 (incorporated by reference to Exhibit 10.1 to Registrant's Form 10-Q filed on November 6, 2015).
- +10.38 Separation Agreement between the Registrant and Michael W. Reese dated January 22, 2016 (incorporated by reference to Exhibit 10.1 to Registrant's Form 10-K filed on March 15, 2016).
- +10.39 Separation Agreement between the Registrant and Puneet Pamnani dated April 22, 2016.
- +10.40 Amendment of Employment Agreement dated April 27, 2016, by and between Ronald E. Stewart and the Company (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on April 29, 2016).
- +10.41 Form of PRGX Global, Inc. Stock Appreciation Rights Agreement (incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K filed on April 29, 2016).

- 10.42 Agreement dated as of November 10, 2016 by and among PRGX Global, Inc. and Matthew A. Drapkin, Northern Right Capital Management, L.P., Northern Right Capital (QP), L.P., and BC Advisors, LLC (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on November 10, 2016).
- 14.1 Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.1 to the Registrant's Form 10-K for the year ended December 31, 2003).
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of BDO USA, LLP.
- 31.1 Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the year ended December 31, 2016.
- 31.2 Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the year ended December 31, 2016.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, for the year ended December 31, 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
- + Designates management contract or compensatory plan or arrangement.

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In thousands)**

Description	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
		Charge (Credit) to Costs and Expenses	Credit to the respective receivable ⁽¹⁾	
2016				
Allowance for doubtful accounts receivable	\$ 930	(129)	(2)	\$ 799
Allowance for doubtful employee advances and miscellaneous receivables	\$ 681	2,184	(2,365)	\$ 500
Deferred tax valuation allowance	\$ 45,565	4,549	—	\$ 50,114
2015				
Allowance for doubtful accounts receivable	\$ 2,243	(1,311)	(2)	\$ 930
Allowance for doubtful employee advances and miscellaneous receivables	\$ 692	1,294	(1,305)	\$ 681
Deferred tax valuation allowance	\$ 52,002	(6,437)	—	\$ 45,565
2014				
Allowance for doubtful accounts receivable	\$ 1,996	253	(6)	\$ 2,243
Allowance for doubtful employee advances and miscellaneous receivables	\$ 402	1,125	(835)	\$ 692
Deferred tax valuation allowance	\$ 48,453	3,549	—	\$ 52,002

(1) Write-offs net of recoveries.

NINTH LOAN DOCUMENTS MODIFICATION AGREEMENT

THIS NINTH LOAN DOCUMENTS MODIFICATION AGREEMENT (this “Amendment”) is made and entered into as of the 21st day of December, 2016, by and among PRGX GLOBAL, INC., a Georgia corporation (“PRGX”), and PRGX USA, INC., a Georgia corporation (“PRG-USA”) (PRGX and PRG-USA are each individually, a “Borrower”, and collectively, the “Borrowers”), each of the Subsidiaries of PRGX listed as a “Guarantor” on the signature pages hereto (each such Subsidiary individually, a “Guarantor”, and collectively, the “Guarantors”), and SUNTRUST BANK, as Administrative Agent, the sole Lender and Issuing Bank.

BACKGROUND STATEMENT

WHEREAS, Borrowers have entered into that certain Amended and Restated Revolving Credit Agreement, dated as of December 23, 2014 (as may have been and may be subsequently amended, restated, supplemented or otherwise modified from time-to-time, the “Credit Agreement”; all capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement), with the Administrative Agent, the issuing bank thereunder and the lenders from time to time party thereto (the “Lenders”); and

WHEREAS, Guarantors and Administrative Agent have entered into that certain Subsidiary Guaranty Agreement, dated as of January 19, 2010 (as may have been and may be subsequently amended, restated, supplemented or otherwise modified from time-to-time, the “Subsidiary Guaranty Agreement”); and

WHEREAS, Borrowers and Guarantors have entered into various other instruments, agreements, documents and writings in connection with the Credit Agreement and the Subsidiary Guaranty Agreement (as may have been and may be subsequently amended, restated, supplemented or otherwise modified from time-to-time, collectively, the “Loan Documents”); and

WHEREAS, Borrowers have requested that the Credit Agreement be amended in the manner herein provided in order to clarify or modify certain existing provisions contained therein, all as more specifically set forth herein; and

WHEREAS, Administrative Agent, the Issuing Bank and the Lenders are willing to amend the Credit Agreement as aforesaid, provided, however, that Borrowers and Guarantors fully comply with the provisions of this Amendment; and

WHEREAS, Guarantors are willing to reaffirm the covenants, representations and warranties set forth in the Subsidiary Guaranty Agreement.

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which hereby is acknowledged by the parties

hereto, Borrowers, Guarantors, Administrative Agent, the sole Lender and Issuing Bank agree as follows:

1. Conditions Precedent. Notwithstanding any other provision of this Amendment, and without affecting in any manner the rights of Administrative Agent, the sole Lender or the Issuing Bank hereunder, it is understood and agreed that this Amendment shall not become effective, and the Loan Parties shall have no rights under this Amendment, until: (i) Administrative Agent shall have received fully executed counterparts to this Amendment from the Loan Parties; and (ii) reimbursement or payment of all its reasonable out-of-pocket expenses incurred in connection with this Amendment (including, without limitation, reasonable fees, charges and disbursements of counsel to Administrative Agent).

2. Modification of Credit Agreement and Loan Documents. The Credit Agreement is hereby amended, effective as of the date hereof, as follows:

(i) By amending and restating the following defined terms set forth in Section 1.1 as follows:

“Consolidated Fixed Charges” shall mean, for PRGX and its Subsidiaries for any period, the greater of: (a) the sum (without duplication) of (i) Consolidated Interest Expense paid or payable for such period (but only to the extent comprised of cash interest expense), (ii) scheduled principal payments paid or payable on Consolidated Total Debt during such period, including, but not limited to, Deferred Payments paid or payable during such period, (iii) Restricted Payments paid in cash (other than to a Loan Party) during such period, (iv) Earn-Out Payments paid or payable during such period, *plus* (v) amortization for rental exposure write-offs paid in cash during such period; and (b) \$1.00.

“Consolidated Interest Expense” shall mean, for PRGX and its Subsidiaries for any period determined on a consolidated basis in accordance with GAAP, the sum of (i) net interest expense, including without limitation the interest component of any payments in respect of Capital Lease Obligations capitalized or expensed during such period (whether or not actually paid during such period), *plus* (ii) the net amount payable (or *minus* the net amount receivable) with respect to Hedging Transactions during such period (whether or not actually paid or received during such period).

“Fixed Charge Coverage Ratio” shall mean, as of any date of determination, the ratio of: (a) Consolidated Adjusted EBITDA less the actual amount paid by PRGX and its Subsidiaries in cash on account of Capital Expenditures and Cash Taxes (to the extent comprised of income taxes actually paid in cash), in each case measured for the four consecutive Fiscal Quarters ending on or immediately prior to such date; to (b) Consolidated Fixed Charges, measured for the four consecutive Fiscal Quarters ending on or immediately prior to such date (but in any event excluding as a

Consolidated Fixed Charge any Restricted Payment consisting of the redemption, purchase or repurchase by PRGX of its common stock prior to July 1, 2016).

(ii) By adding the following new defined term to Section 1.1, to be inserted into its proper alphabetical order:

“Cash-Based Deferred/Incentive Compensation” shall mean any deferred or incentive compensation payment obligation of PRGX or any of its Subsidiaries that mandatorily must be, or optionally may be, settled in cash.

(iii) By adding the following sentence at the end of the defined term “Indebtedness” in Section 1.1:

“Deferred and incentive compensation payment obligations of PRGX and its Subsidiaries shall not constitute Indebtedness, except to the extent constituting Cash-Based Deferred/Incentive Compensation that in accordance with GAAP must be reflected on the consolidated balance sheet of PRGX and its Subsidiaries.

(iv) By amending and restating the following defined term set forth in Section 1.1 as follows:

“Consolidated Total Debt” shall mean, as of any date of determination, all Indebtedness of PRGX and its Subsidiaries measured on a consolidated basis as of such date, but excluding (i) Indebtedness of the type described in subsection (xi) of the definition thereto, (ii) obligations in respect of Earn-Out Payments, (iii) Cash-Based Deferred/Incentive Compensation and (iv) Indebtedness comprised of obligations owing or accrued with respect to Dark Leases.

(v) In Section 7.1, by deleting the word “and” at the end of clause (j) thereof, relettering clause (k) thereof as clause (l) thereof, and inserting the following new clause (k) immediately before relettered clause (l):

(k) Unsecured Indebtedness consisting of Cash-Based Deferred/Incentive Compensation; and

(vi) Subsection (a) of Section 7.3 is hereby amended and restated to read in its entirety as follows:

(a) The Borrowers will not, and will not permit any of their respective Subsidiaries to, merge into or consolidate into any other Person, or permit any other Person to merge into or consolidate with it, or sell, lease, transfer or otherwise dispose of (in a single transaction or a series of transactions) all or substantially all of its assets (in each case, whether now owned or hereafter acquired) or all or substantially all of the stock of any of its Subsidiaries (in each case, whether now owned or hereafter acquired) or liquidate or dissolve; provided, that if at the time thereof and

immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing (i) any Borrower or any Subsidiary may merge with a Person if such Borrower (or such Subsidiary if the Borrower is not a party to such merger) is the surviving Person, (ii) any Subsidiary may merge into another Subsidiary; provided, that if any party to such merger is a Subsidiary Loan Party, the Subsidiary Loan Party shall be the surviving Person (except in the event of a merger among Subsidiary Loan Parties, in which case any single Subsidiary Loan Party shall be the surviving Person), (iii) in connection with a Permitted Acquisition involving a reverse-merger transaction, any Subsidiary (if not also a Borrower) may merge with and into the Target so long as the Target thereby becomes a Domestic Subsidiary and a Subsidiary Loan Party in accordance with the terms and conditions of this Agreement, (iv) any (a) Subsidiary may sell, transfer, lease or otherwise dispose of all or substantially all of its assets to any Borrower or to a Subsidiary Loan Party, (b) Domestic Subsidiary that is not Loan Party may sell, transfer, lease or otherwise dispose of all or substantially all of its assets to any other Domestic Subsidiary that is not a Loan Party and (c) Foreign Subsidiary may sell, transfer, lease or otherwise dispose of all or substantially all of its assets to any other Foreign Subsidiary and (v) any Subsidiary (other than a Subsidiary Loan Party) may liquidate or dissolve if the Borrowers determine in good faith that such liquidation or dissolution is in the best interests of the Borrowers and is not materially disadvantageous to the Lenders; provided, that any such merger involving a Person that is not a wholly-owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 7.4.

(vii) In Section 7.4, subsection (h) is hereby amended and restated to read in its entirety as follows (to correct an errant cross-reference):

(h) To the extent permitted by Section 7.5(iv), PRGX's redemption, purchase or repurchase of its common stock pursuant to open-market purchases, privately negotiated transactions or otherwise;

3 . Consolidated Adjusted EBITDA (Lavante Transaction). Reference is made to that certain Consent to Merger Transaction, dated as of October 28, 2016, by and among the Borrowers, the Administrative Agent and the sole Lender, relating to the then-pending acquisition of 100% of the Capital Stock of Lavante, Inc. (the "Lavante Consent"). It is understood and agreed that the Acquired Adjusted EBITDA of the Lavante Acquired Business (as contemplated by the Lavante Consent) for any period (or portion thereof) prior to November 1, 2016 shall be excluded when determining "Consolidated Adjusted EBITDA" for any applicable period (notwithstanding proviso (x) of the definition thereof).

4. GAAP Adjustment. Reference is made to FASB Accounting Standards Update No. 2016-02, issued February 2016, and related pronouncements, regarding a change in the treatment under GAAP of operating leases. In accordance with Section 1.3 of the Credit Agreement, it is understood and agreed that: (a) in no event shall any liability in respect of an operating lease of PRGX or any of its Subsidiaries constitute "Indebtedness" under the Credit Agreement except to

the extent (if at all) that it would have constituted “Indebtedness” under the pre-existing accounting principles utilized by PRGX and its Subsidiaries; and (b) all such excluded operating leases shall continue to be governed by Section 7.14 of the Credit Agreement.

5 . Ratification and Reaffirmation. Except as herein expressly modified or amended, all the terms and conditions of the Credit Agreement and the other Loan Documents are hereby ratified, affirmed, and approved. As of the date hereof and giving effect to the modifications and amendments hereunder, Borrowers hereby reaffirm and restate each and every warranty and representation set forth in any Loan Document, in each case except to the extent such warranty or representation expressly relates to an earlier date.

6 . Reaffirmation of Guaranty. Guarantors hereby ratify, confirm, reaffirm and covenant that the Subsidiary Guaranty Agreement which they have executed is validly existing and binding against each of them under the terms of such Subsidiary Guaranty Agreement. Guarantors hereby reaffirm and restate, as of the date hereof and giving effect to the modifications and amendments hereunder, all covenants, representations and warranties set forth in the Subsidiary Guaranty Agreement, and specifically reaffirm that each of their obligations under the Subsidiary Guaranty Agreement extend and apply for all purposes to the Credit Agreement as amended hereby.

7 . No Novation. The parties hereto hereby acknowledge and agree that this Amendment shall not constitute a novation of the indebtedness evidenced by any of the Loan Documents, and further that the terms and provisions of the Loan Documents shall remain valid and in full force and effect except as be herein modified and amended.

8 . Release. For purposes of this Paragraph 8, the term “Borrower Parties” shall mean Borrowers and Guarantors collectively and the term “Lender Parties” shall mean Administrative Agent, Lenders and Issuing Bank, and shall include each of their respective predecessors, successors and assigns, and each past and present, direct and indirect, parent, subsidiary and affiliated entity of each of the foregoing, and each past and present employee, agent, attorney in fact, attorney at law, representative, officer, director, shareholder, partner and joint venturer of each of the foregoing, and each heir, executor, administrator, successor and assign of each of the foregoing; references in this paragraph to “any” of such parties shall be deemed to mean “any one or more” of such parties; and references in this sentence to “each of the foregoing” shall mean and refer cumulatively to each party referred to in this sentence up to the point of such reference. Each Borrower and each Guarantor hereby acknowledges, represents and agrees: that, as of the date hereof, Borrowers and Guarantors have no defenses, setoffs, claims, counterclaims or causes of action of any kind or nature whatsoever with respect to the Credit Agreement, the Subsidiary Guaranty Agreement, the other Loan Documents or the Obligations, or with respect to any other documents or instruments now or heretofore evidencing, securing or in any way relating to the Obligations (all of said defenses, setoffs, claims, counterclaims or causes of action being hereinafter referred to as “Loan Related Claims”); that, to the extent that Borrowers or Guarantors may be deemed to have any Loan Related Claims as of the date hereof, Borrowers and Guarantors do hereby expressly waive, release and relinquish any and all such Loan Related Claims, whether or not known to or suspected by Borrowers and Guarantors; that Borrowers and Guarantors shall not institute or cause to be instituted any legal action or proceeding of any kind based upon any Loan Related Claims; and that Borrowers and

Guarantors shall indemnify, hold harmless and defend all Lender Parties from and against any and all Loan Related Claims and any and all losses, damages, liabilities and related reasonable expenses (including reasonable fees, charges and disbursements of any counsel for any Lender Parties) suffered or incurred by any Lender Parties as a result of any assertion or allegation by any Borrower Parties of any Loan Related Claims or as a result of any legal action related thereto, provided that such indemnity shall not, as to any Lender Parties, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and non-appealable judgment to have resulted from (i) the gross negligence or willful misconduct of such Lender Parties or (ii) a claim brought by any Borrower or Guarantor against any Lender Parties for breach in bad faith of such Lender Parties' obligations under any Loan Document. Notwithstanding the foregoing provisions of this Paragraph 8, Borrowers and Guarantors make no such releases, representations, warranties, standstills or agreements with respect to any future Loan Related Claims.

9. Authority. Each Borrower and Guarantor hereby represents and warrants that the execution, delivery and performance of this Amendment by it has been duly authorized by all necessary actions of each Borrower and Guarantor, and do not and will not violate any provision of law, or any writ, order or decree of any court or governmental authority or agency or any provision of the organizational documents of any Borrower or Guarantor, and do not and will not, with the passage of time or the giving of notice, result in a breach of, or constitute a default or require any consent under, or result in the creation of any Lien upon any property or assets of any Borrower or Guarantor pursuant to, any law, regulation, instrument or agreement to which any Borrower or Guarantor is a party or by which any Borrower or any Guarantor or any of their respective properties may be subject, bound or affected.

10. No Waiver or Implication. Borrowers and Guarantors hereby agree that, except as contemplated by the clarifying amendments to the Credit Agreement effected by this Amendment, nothing herein shall constitute a waiver by Administrative Agent or any Lender of any default, whether known or unknown, which may now exist under the Credit Agreement or any other Loan Document. Borrowers and Guarantors hereby further agree that no action, inaction or agreement by Administrative Agent or any Lender, including, without limitation, any extension, indulgence, waiver, consent or agreement of modification which may have occurred or have been granted or entered into (or which is now occurring or is being granted or entered into hereunder or otherwise) with respect to nonpayment of the Loans or any portion thereof, or with respect to matters involving security for the Loans, or with respect to any other matter relating to the Loans, shall require or imply any future extension, indulgence, waiver, consent or agreement by Administrative Agent or any Lender. Borrowers and Guarantors hereby acknowledge and agree that Administrative Agent and Lenders have made no agreement, and are in no way obligated, to grant any future extension, indulgence, waiver or consent with respect to the Loans or any matter relating to the Loans.

11. No Release of Collateral. Borrowers and Guarantors further acknowledge and agree that this Amendment shall in no way occasion a release of any collateral held by Administrative Agent as security to or for the Loans, and that all collateral held by Administrative Agent as security to or for the Loans shall continue to secure the Loans.

12. Strict Compliance. Except as expressly modified hereby, Borrowers and Guarantors are hereby notified that Administrative Agent, the Issuing Bank and the Lenders demand that Borrowers and Guarantors strictly comply with the terms of this Amendment, the Credit Agreement and the other Loan Documents, in each case, as amended hereby. This notice evidences the intent of Administrative Agent, the Issuing Bank and the Lenders to rely on the exact terms of this Amendment and the Credit Agreement and the other Loan Documents, in each case, as amended hereby.

13. Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original hereof and submittible into evidence and all of which together shall constitute one instrument.

14. Headings. The headings of the paragraphs and other provisions hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Amendment.

15. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of Borrowers, Guarantors, Administrative Agent, Lenders, Issuing Bank and their respective heirs, successors and assigns, whether voluntary by act of the parties or involuntary by operation of law.

(Signatures on following page)

IN WITNESS WHEREOF, this Amendment has been duly executed by the parties hereto as of the day and year first above written.

Borrowers:

PRGX GLOBAL, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX USA, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

Guarantors:

PRGDS, LLC, a Georgia limited liability company

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGFS, INC., a Delaware corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

(Signatures continue on following page)

PRG INTERNATIONAL, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGTS, LLC, a Georgia limited liability company

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX ASIA, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX AUSTRALIA, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

(Signatures continue on following page)

PRGX BELGIUM, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX BRASIL, LLC, a Georgia limited liability company

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX CANADA, LLC, a Georgia limited liability company

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX EUROPE, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

(Signatures continue on following page)

PRGX FRANCE, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX GERMANY, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX MEXICO, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX NETHERLANDS, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

(Signatures continue on following page)

PRGX NEW ZEALAND, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX PORTUGAL, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX SCANDINAVIA, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

PRGX SPAIN, INC., a Georgia corporation

By: /s/ Peter Limeri

Name: Peter Limeri

Title: Chief Financial Officer

[CORPORATE SEAL]

(Signatures continue on following page)

PRGX SWITZERLAND, INC., a Georgia corporation

By: /s/ Peter Limeri
Name: Peter Limeri
Title: Chief Financial Officer
[CORPORATE SEAL]

PRGX TEXAS, INC., a Texas corporation

By: /s/ Peter Limeri
Name: Peter Limeri
Title: Chief Financial Officer
[CORPORATE SEAL]

PRGX COMMERCIAL LLC, a Georgia limited liability company

By: /s/ Peter Limeri
Name: Peter Limeri
Title: Chief Financial Officer
[CORPORATE SEAL]

(Signatures continue on following page)

Administrative Agent, Lender and
Issuing Bank:

SUNTRUST BANK, as Administrative Agent, the sole Lender and Issuing Bank

By: /s/ Mark Clegg
Name: Mark Clegg
Title: VP Portfolio Manager

(End of signatures)

Ninth Loan Documents Modification Agreement

SEPARATION AGREEMENT

THIS SEPARATION AGREEMENT (this “Agreement”) is made and entered into this 22nd day of April, 2016, by and between **PUNEET PAMNANI** (“Executive”) and **PRGX GLOBAL, INC.**, a Georgia corporation (“Company”). Executive and Company are sometimes hereinafter referred to together as the “Parties” and individually as a “Party.”

BACKGROUND:

A. Executive was employed as the Senior Vice President – M&A and Chief Strategy Officer pursuant to an employment agreement between Executive and Company effective as of February 8, 2012 (“Employment Agreement”).

B. Executive’s last date of active service was March 29, 2016.

C. Executive and Company now mutually desire to (i) provide for the end Executive’s employment and (ii) terminate the Employment Agreement effective as of the date hereof.

D. Company and Executive wish to avoid any disputes which could arise under the Employment Agreement and have therefore compromised any claims or rights they have or may have under the Employment Agreement by agreeing to the terms of this Agreement.

NOW, THEREFORE, FOR AND IN CONSIDERATION of the premises, the mutual promises, covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. **Termination of Employment.** The Parties agree that (a) the Employment Agreement is hereby terminated as of the date hereof, (b) Executive’s employment with Company shall terminate effective April 28, 2016 (“Termination Date”), and (c) all benefits, privileges and authorities related to Executive’s employment with Company shall hereby cease, except as otherwise specifically set forth in this Agreement.

2. **No Admission.** The Parties agree that their entry into this Agreement is not and shall not be construed to be an admission of liability or wrongdoing on the part of either Party.

3. **Future Cooperation.** Executive agrees that, notwithstanding the termination of Executive’s employment, Executive upon reasonable notice will make himself available to Company or its designated representatives for the purposes of: (a) providing information regarding the projects and files on which Executive worked for the purpose of transitioning such projects; and (b) providing information regarding any other matter, file, project and/or client with whom Executive was involved while employed by Company.

4. Consideration.

(a) In consideration for Executive's agreement to terminate the Employment Agreement, to fully release Company from any and all Claims as described below, and to perform the other duties and obligations of Executive contained herein, Company will, subject to ordinary and lawful deductions and Sections 4(b) and (c) below:

(i) Pay severance to Executive in the form of salary continuation for the twelve (12) months immediately following the Termination Date ("Severance Period"). Such payments shall be made in accordance with Company's standard pay practices in an amount equal to Nine thousand four hundred forty-seven and 31/100 dollars (\$9,447.31) per bi-weekly pay period during the Severance Period, except that no payments shall be made during the period that begins immediately after the Termination Date and ends on the earlier of (i) Executive's death or (ii) six months after the Termination Date. The payments that would otherwise have been made in such period shall be accumulated and paid, without interest, in a lump sum on the first bi-weekly pay period after the end of such period.

(ii) Continue after the Termination Date any health care (medical, dental and vision) plan coverage, other than under a flexible spending account, provided to Executive and Executive's spouse and dependents at the Termination Date for the Severance Period, on a monthly or more frequent basis, on the same basis and at the same cost to Executive as available to similarly-situated active employees during such Severance Period, provided that such continued coverage shall terminate in the event Executive becomes eligible for any such coverage under another employer's plans.

(iii) Pay an amount equal to Executive's actual earned full-year bonus for 2016, pro-rated based on the number of days Executive was employed for such year on and before the Termination Date, payable at the time Executive's annual bonus for such year otherwise would have been paid had Executive continued employment. Payment of any pro-rated bonus hereunder will be dependent upon the Company's achievement of certain revenue and adjusted EBITDA performance goals established by the Compensation Committee for 2016 in the same manner as are applicable to similarly-situated executives of the Company who participate in the annual bonus plan for 2016.

(iv) Vest in full, effective as of the date upon which the revocation period for the Release described in Section 4(b) below expires without Executive having elected to revoke the Release, all of Executive's outstanding unvested options and restricted stock that would have vested based solely on the continued employment of Executive. All of Executive's outstanding vested stock options shall remain outstanding until the earlier of (i) one year after the Termination Date or (ii) the original expiration date of the options (disregarding any earlier expiration date provided for in any other agreement, including without limitation any related grant agreement, based solely on the termination of Executive's employment). Additionally, subject to the expiration of the revocation period for the Release described in Section 4(b) without Executive having elected to revoke the Release, a prorated number of Executive's outstanding unvested performance-based restricted stock units that

were granted as of March 30, 2015 (“Unvested PBUs”) shall remain outstanding and be eligible to become vested and payable in accordance with the terms of such restricted stock units, except Executive shall not be entitled to receive any dividend equivalents with respect to such prorated number of Executive’s restricted stock units after the date Executive’s employment with the Company terminates. Such prorated number of Unvested PBUs shall be equal to the number of such Unvested PBUs multiplied by a fraction, the numerator of which is 484 and the denominator of which is (x) the number of days in the two-year period beginning with calendar year 2015 and ending with calendar year 2016 (the “Cumulative Performance Period”) if no Change in Control (as defined in the restricted stock units award agreement) occurs prior to the end of the Cumulative Performance Period or (y) the number of days in the Cumulative Performance Period until the Change in Control occurs if a Change in Control occurs prior to the end of the Cumulative Performance Period.

(v) Payment of one year of outplacement services from Executrak or an outplacement service provider of Executive's choice, limited to \$20,000 in total. This outplacement services benefit will be forfeited if Executive does not begin using such services within 60 days after the Termination Date.

(b) Notwithstanding anything else contained herein to the contrary, no payments shall be made or benefits delivered under this Agreement (other than payments required to be made by Company pursuant to Section 5 below) unless, within thirty (30) days after the Termination Date: (i) Executive has signed and delivered to Company a Release in the form attached hereto as Exhibit A (the “Release”); and (ii) the applicable revocation period under the Release has expired without Executive having elected to revoke the Release. Executive agrees and acknowledges that Executive would not be entitled to such consideration absent execution of the Release and expiration of the applicable revocation period without Executive having revoked the Release. Any payments to be made, or benefits to be delivered, under this Agreement (other than the payments required to be made by Company pursuant to Section 5 below and the vesting of outstanding unvested options, restricted stock and restricted stock units as set forth in Section 4(a)(iv) above) within the thirty (30) days after the Termination Date shall be accumulated and paid in a lump sum, or as to benefits continued at Executive’s expense subject to reimbursement, reimbursement shall be made, on the first bi-weekly pay period occurring more than thirty (30) days after the Termination Date, provided Executive delivers the signed Release to Company and the revocation period thereunder expires without Executive having elected to revoke the Release.

(c) As a further condition to receipt of the payments and benefits in Section 4(a) above, Executive also waives any and all rights to any other amounts payable to him upon the termination of his employment relationship with Company, other than those specifically set forth in this Agreement, including without limitation any severance, notice rights, payments, benefits and other amounts to which Executive may be entitled under the laws of any jurisdiction and/or his Employment Agreement, and Executive agrees not to pursue or claim any of such payments, benefits or rights.

5. **Other Benefits.**

Nothing in this Agreement or the Release shall:

(a) alter or reduce any vested, accrued benefits (if any) Executive may be entitled to receive under any 401(k) plan established by Company;

(b) affect Executive's right (if any) to elect and (subject to Section 4(a)(ii) above) pay for continuation of Executive's health insurance coverage under Company's health plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 (C.O.B.R.A.), as amended;

(c) affect Executive's right (if any) to receive (i) any base salary that has accrued through the Termination Date and is unpaid, (ii) any reimbursable expenses that Executive has incurred before the Termination Date but are unpaid (subject to Company's expense reimbursement policy) and (iii) any unused paid time off days to which Executive will be entitled to payment, all of which shall be paid as soon as administratively practicable (and in any event within thirty (30) days) after the Termination Date; or

(d) affect Executive's right to continue to receive his base salary and benefits through the Termination Date, as in effect as of the date hereof, which base salary and benefits will continue through the Termination Date, except with respect to any changes in benefits that are applicable generally to the other executives of Company.

6. **Confidentiality of Agreement Terms.** Except as otherwise expressly provided in this Section 6, Executive agrees that this Agreement and the terms, conditions and amount of consideration set forth in this Agreement are and shall be deemed to be confidential and hereafter shall not be disclosed by Executive to any other person or entity. The only disclosures excepted by this paragraph are (a) as may be required by law; (b) Executive may tell prospective employers the dates of Executive's employment, positions held, evaluations received, Executive's duties and responsibilities and salary history with Company; (c) Executive may disclose the terms and conditions of this Agreement to Executive's attorneys and tax advisers; and (d) Executive may disclose the terms of this Agreement to Executive's spouse, if any; provided, however, that any spouse, attorney or tax adviser learning about the terms of this Agreement must be informed about this confidentiality provision, and Executive will be responsible for any breaches of this confidentiality provision by his spouse, attorneys or tax advisers to the same extent as if Executive had directly breached this Agreement.

7. **Restrictive Covenants.**

(a) **Definitions.** For purposes of this Agreement, the following terms shall have the following respective meanings:

(i) "Business of Company" means services to (A) identify clients' erroneous or improper payments to vendors and assist clients in the recovery of monies

owed to clients as a result of overpayments and overlooked discounts, rebates, allowances and credits, (B) identify and assist clients in recovering amounts owed to them by other third parties, including amounts owed to clients due to non-compliance with applicable contracts, course of dealing or usual and customary terms, (C) assist clients in efforts to organize, manage and analyze their purchasing and payment data, and (D) assist clients in analyzing and managing vendor-related risks.

(ii) "Confidential Information" means any information about Company or its subsidiaries and their employees, customers and/or suppliers which is not generally known outside of Company, which Executive learned in connection with Executive's employment with Company, and which would be useful to competitors or the disclosure of which would be damaging to Company or any subsidiary of Company. Confidential Information includes, but is not limited to: (A) business and employment policies, marketing methods and the targets of those methods, finances, business plans, promotional materials and price lists; (B) the terms upon which Company or any subsidiary of Company obtains products from its suppliers and sells services and products to customers; (C) the nature, origin, composition and development of Company's or any subsidiary's services and products; and (D) the manner in which Company or any subsidiary of Company provides products and services to its customers.

(iii) "Material Contact" means contact in person, by telephone, or by paper or electronic correspondence in furtherance of the Business of Company.

(iv) "Restricted Territory" means, and is limited to, the geographic area included in the Atlanta-Sandy Springs-Marietta, Georgia metropolitan statistical area. Executive acknowledges and agrees that this is a portion of the area in which Company and its subsidiaries does business at the time of the execution of this Agreement, and in which Executive had responsibility on behalf of Company.

(v) "Trade Secrets" means Confidential Information of Company and its subsidiaries which meets the definition of a trade secret under applicable law.

(b) Confidentiality. Executive agrees that Executive will not, directly or indirectly, use, copy, disclose, distribute or otherwise make use of on his own behalf or on behalf of any other person or entity (i) any Confidential Information for a period of five (5) years after the Termination Date or (ii) any Trade Secret at any time such information constitutes a trade secret under applicable law.

(c) Non-Competition. Executive agrees that for a period of two (2) years following the Termination Date, Executive will not, either for himself or on behalf of any other person or entity, compete with the Business of Company within the Restricted Territory by performing activities which are the same as or similar to those performed by Executive for Company or Company's subsidiaries.

(d) Non-Solicitation of Customers. Executive agrees that for a period of two (2) years following the Termination Date, Executive shall not, directly or indirectly, solicit any actual or prospective customers of Company or any subsidiary with whom Executive had Material Contact, for the purpose of selling any products or services which compete with the Business of Company.

(e) Non-Recruitment of Employees or Contractors. Executive agrees that for a period of two (2) years following the Termination Date, Executive will not, directly or indirectly, solicit or attempt to solicit any employee or contractor of Company or any subsidiary with whom Executive had Material Contact, to terminate or lessen such employment or contract.

(f) Acknowledgments. Executive hereby acknowledges and agrees that the covenants contained in (b) through (e) of this Section 7 hereof are reasonable as to time, scope and territory given Company's and Company's subsidiaries' need to protect their business, customer relationships, personnel, Trade Secrets and Confidential Information. For purposes of the covenants contained in (b) through (e) of this Section 7, Company shall refer also to Company's subsidiaries as applicable. In the event any covenant or other provision in this Agreement shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time or over too great a geographical area or by reason of its being too extensive in any other respect, it shall be interpreted to extend only over the maximum period of time for which it may be enforceable and/or over the maximum geographical area as to which it may be enforceable and/or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action, and the invalidity of any one or more of the covenants or other provisions in this Agreement shall not cause or render any other covenants or provisions in this Agreement invalid or voidable. Executive acknowledges and represents that Executive has substantial experience and knowledge such that Executive can readily obtain subsequent employment which does not violate this Agreement.

(g) Specific Performance. Executive acknowledges and agrees that any breach of the provisions of this Section 7 by him will cause irreparable damage to Company or Company's subsidiaries, the exact amount of which will be difficult to determine, and that the remedies at law for any such breach will be inadequate. Accordingly, Executive agrees that, in addition to any other remedy that may be available at law, in equity, or hereunder, Company shall be entitled to specific performance and injunctive relief, without posting bond or other security, to enforce or prevent any violation of any of the provisions of this Section 7 by Executive. Additionally, notwithstanding the obligations within Section 11 of this Agreement regarding the exclusive jurisdiction of the United States District Court for the Northern District of Georgia and the State and Superior Courts of Cobb County, Georgia pertaining to actions arising out of this Agreement, and in addition to Company's right to seek injunctive relief in any state or federal court located in Cobb County, Georgia, the Parties hereby acknowledge and agree that Company may seek specific performance and injunctive relief in any jurisdiction, court or forum applicable to Executive's then current residency in order to prevent or to restrain any breach by Executive, or any and all of Executive's partners, co-venturers, employers, employees, or agents, acting directly or indirectly on behalf of or with Executive, of any of the provisions of the restrictive covenants contained in this Section 7.

8. **Return of all Property and Information of Company.** Executive agrees to return all property of the Company and its subsidiaries within seven (7) days following the execution of this Agreement. Such property includes, but is not limited to, the original and any copy (regardless of the manner in which it is recorded) of all information provided by Company or any subsidiary thereof to Executive or which Executive has developed or collected in the scope of Executive's employment related to Company and its subsidiaries or affiliates as well as all Company or subsidiary-issued equipment, supplies, accessories, vehicles, keys, instruments, tools, devices, computers, cell phones, pagers, materials, documents, plans, records, notebooks, drawings, or papers. Upon request by Company, Executive shall certify in writing that Executive has complied with this provision, and has deleted all information of Company and its subsidiaries from any computers or other electronic storage devices owned by Executive. Executive may only retain information relating to Executive's benefit plans and compensation to the extent needed to prepare Executive's tax returns.

9. **No Harassing or Disparaging Conduct.** Executive further agrees and promises that Executive will not engage in, or induce other persons or entities to engage in, any harassing or disparaging conduct or negative or derogatory statements directed at or about Company or its subsidiaries or affiliates, the activities of Company or its subsidiaries or affiliates, or the Releasees at any time in the future. Notwithstanding the foregoing, this Section 9 may not be used to penalize Executive for providing truthful testimony under oath in a judicial or administrative proceeding or complying with an order of a court or government agency of competent jurisdiction.

10. **References.** Following the Termination Date, Executive agrees to direct any third party seeking an employment reference to the Company's Senior Vice President-Human Resources and Company agrees to give any potential employers who inquire about Executive's work history at Company a neutral reference consisting of Employee's dates of employment, title and compensation. The Company will not be responsible with respect to any references which are directed by Executive to anyone other than the Company's Senior Vice President-Human Resources.

11. **Construction of Agreement and Venue for Disputes.** This Agreement shall be deemed to have been jointly drafted by the Parties and shall not be construed against either Party. This Agreement shall be governed by the law of the State of Georgia, and the Parties agree that any actions arising out of or relating to this Agreement or Executive's employment with Company must be brought exclusively in either the United States District Court for the Northern District of Georgia, or the State or Superior Courts of Cobb County, Georgia. Notwithstanding the pendency of any proceeding, either Party shall be entitled to injunctive relief in a state or federal court located in Cobb County, Georgia upon a showing of irreparable injury. The Parties consent to personal jurisdiction and venue solely within these forums and solely in Cobb County, Georgia and waive all otherwise possible objections thereto. The prevailing Party shall be entitled to recover its costs and attorneys fees from the non-prevailing Party in any such proceeding no later than 90 days following the settlement or final resolution of any such proceeding. The existence of any claim or cause of action by Executive against Company or Company's subsidiaries or affiliates, including any dispute relating to the termination of Executive's employment or under this Agreement, shall not constitute a defense to enforcement of said covenants by injunction.

12. **Severability**. If any provision of this Agreement shall be held void, voidable, invalid or inoperative, no other provision of this Agreement shall be affected as a result thereof, and accordingly, the remaining provisions of this Agreement shall remain in full force and effect as though such void, voidable, invalid or inoperative provision had not been contained herein.

13. **No Reliance Upon Other Statements**. This Agreement is entered into without reliance upon any statement or representation of any Party hereto or any Party hereby released other than the statements and representations contained in writing in this Agreement (including all Exhibits hereto).

14. **Entire Agreement**. This Agreement, including all Exhibits hereto (which are incorporated herein by this reference), contains the entire agreement and understanding concerning the subject matter hereof between the Parties hereto. No waiver, termination or discharge of this Agreement, or any of the terms or provisions hereof, shall be binding upon either Party hereto unless confirmed in writing. This Agreement may not be modified or amended, except by a writing executed by both Parties hereto. No waiver by either Party hereto of any term or provision of this Agreement or of any default hereunder shall affect such Party's rights thereafter to enforce such term or provision or to exercise any right or remedy in the event of any other default, whether or not similar.

15. **Further Assurance**. Upon the reasonable request of the other Party, each Party hereto agrees to take any and all actions, including, without limitation, the execution of certificates, documents or instruments, necessary or appropriate to give effect to the terms and conditions set forth in this Agreement.

16. **No Assignment**. Neither Party may assign this Agreement, in whole or in part, without the prior written consent of the other Party, and any attempted assignment not in accordance herewith shall be null and void and of no force or effect.

17. **Binding Effect**. This Agreement shall be binding on and inure to the benefit of the Parties and their respective heirs, representatives, successors and permitted assigns.

18. **Indemnification**. Company understands and agrees that any indemnification obligations under its governing documents or the indemnification agreement between Company and Executive with respect to Executive's service as an officer of Company remain in effect and survive the termination of Executive's employment under this Agreement as set forth in such governing documents or indemnification agreement.

19. **Nonqualified Deferred Compensation**.

(a) It is intended that any payment or benefit which is provided pursuant to or in connection with this Agreement which is considered to be deferred compensation subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") shall be paid and provided in a manner, and at such time and form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided therein for non-compliance.

(b) Neither Company nor Executive shall take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any manner which would not be in compliance with Section 409A of the Code (including any transition or grandfather rules thereunder).

(c) Because Executive is a “specified employee” for purposes of Section 409A(a)(2)(B)(i) of the Code, any payments to be made or benefits to be delivered in connection with Executive’s “Separation from Service” (as determined for purposes of Section 409A of the Code) that constitute deferred compensation subject to Section 409A of the Code shall not be made until the earlier of (i) Executive’s death or (ii) six months after Executive’s Separation from Service (the “409A Deferral Period”) as required by Section 409A of the Code. Payments otherwise due to be made in installments or periodically during the 409A Deferral Period shall be accumulated and paid in a lump sum as soon as the 409A Deferral Period ends, and the balance of the payment shall be made as otherwise scheduled. Any such benefits subject to the rule may be provided under the 409A Deferral Period at Executive’s expense, with Executive having a right to reimbursement from Company once the 409A Deferral Period ends, and the balance of the benefits shall be provided as otherwise scheduled.

(d) For purposes of this Agreement, all rights to payments and benefits hereunder shall be treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Section 409A of the Code.

(e) Notwithstanding any other provision of this Agreement, neither Company nor its subsidiaries or affiliates shall be liable to Executive if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Section 409A of the Code otherwise fails to comply with, or be exempt from, the requirements of Section 409A of the Code.

[signatures on following page]

IN WITNESS WHEREOF, the Parties have executed, or caused their duly authorized representatives to execute, this Agreement as of the day and year first above written.

“Executive”

/s/ Puneet Pamnani
Puneet Pamnani

“Company”

PRGX GLOBAL, INC.

By: /s/ Victor A. Allums

Title: Senior Vice President & General Counsel

EXHIBIT A
Form of Release

RELEASE

In consideration for the undertakings and promises set forth in that certain Separation Agreement, dated as of _____, 2016 (the "Agreement"), between **PUNEET PAMNANI** ("Executive") and **PRGX GLOBAL, INC.** ("Company"), Executive (on behalf of himself and his heirs, assigns and successors in interest) unconditionally releases, discharges, and holds harmless Company and its subsidiaries and affiliates and their respective officers, directors, employees, agents, insurers, assigns and successors in interest (collectively, "Releasees") from each and every claim, cause of action, right, liability or demand of any kind and nature, and from any claims which may be derived therefrom (collectively "Released Claims"), that Executive had, has, or might claim to have against Releasees at the time Executive executes this Agreement, whether presently known or unknown to Executive, including, without limitation, any and all claims listed below, other than any such claims Executive has or might have under the Agreement:

(a) arising from Executive's employment, pay, bonuses, vacation or any other Executive benefits, and other terms and conditions of employment or employment practices of Company;

(b) arising out of or relating to the termination of Executive's employment with Company or the surrounding circumstances thereof;

(c) based on discrimination and/or harassment on the basis of race, color, religion, sex, national origin, handicap, disability, age or any other category protected by law under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, Executive Order 11246, the Age Discrimination in Employment Act, the Older Workers Benefits Protection Act, the Equal Pay Act, the Americans With Disabilities Act, the Rehabilitation Act of 1973, C.O.B.R.A. (as any of these laws may have been amended) or any other similar labor, employment or anti-discrimination law under state, federal or local law;

(d) based on any contract, tort, whistleblower, personal injury wrongful discharge theory or other common law theory; or

(e) arising under the Employment Agreement or any other written or oral agreements between Executive and Company or any of Company's subsidiaries (other than the Agreement).

Executive covenants not to sue or initiate any claims against any of the Releasees on account of any Released Claim or to incite, assist or encourage other persons or entities to bring claims of any nature whatsoever against Company or Releasees. Executive further covenants not to accept, recover or receive any monetary damages or any other form of relief which may arise out of or in

connection with any administrative remedies which may be filed with or pursued independently by any governmental agency or agencies, whether federal, state or local.

Executive hereby acknowledges that Executive has no interest in reinstatement, reemployment or employment with Company, and Executive forever waives any interest in or claim of right to any future employment by Company. Executive further covenants not to apply for future employment with Company or otherwise seek or encourage reinstatement.

By signing this Release, Executive certifies that:

- (a) Executive has carefully read and fully understands the provisions of this Release;
- (b) Executive was advised by Company in writing, via this Release, to consult with an attorney before signing this Release;
- (c) Executive understands that any discussions he may have had with counsel for Company regarding his employment or this Release does not constitute legal advice to him and that he has retained his own independent counsel to render such advice;
- (d) Executive understands that this Agreement FOREVER RELEASES Company and all other Releasees from any legal action arising prior to the date of execution of this Agreement;
- (e) In signing this Agreement, Executive DOES NOT RELY ON AND HAS NOT RELIED ON ANY REPRESENTATION OR STATEMENT (WRITTEN OR ORAL) NOT SPECIFICALLY SET FORTH IN THIS RELEASE OR THE AGREEMENT by Company or any other Releasee, or by any of their agents, representatives, or attorneys with regard to the subject matter, basis, or effect of this Agreement or otherwise;
- (f) Company hereby allows Executive no less than twenty-one (21) days from its initial presentation to Executive to consider this Release before signing it, should Executive so desire; and
- (g) Executive agrees to its terms knowingly, voluntarily and without intimidation, coercion or pressure.

Executive may revoke this Release within seven (7) calendar days after signing it. To be effective, such revocation must be received in writing by the General Counsel of Company at the offices of Company at 600 Galleria Parkway, Suite 100, Atlanta, Georgia 30339. Revocation can be made by hand delivery or facsimile before the expiration of this seven (7) day period.

[signature on following page]

IN WITNESS WHEREOF, the undersigned has executed this Release as of the date set forth below.

“Executive”

Puneet Pamnani

Dated: _____, 2016

PRGX GLOBAL, INC.

SUBSIDIARIES
As of December 31, 2016

<u>Company</u>	<u>Jurisdiction of Organization</u>
PRGX USA, Inc.	Georgia
PRGX Asia, Inc.	Georgia
PRGX Australia, Inc.	Georgia
PRGX Belgium, Inc.	Georgia
PRGX Canada, LLC	Georgia
PRGX Commercial LLC	Georgia
PRGX Costa Rica, Inc.	Georgia
PRGX New Zealand, Inc.	Georgia
PRGX Netherlands, Inc.	Georgia
PRGX Mexico, Inc.	Georgia
PRGX France, Inc.	Georgia
PRGX Germany, Inc.	Georgia
PRGX Acquisition Corp.	Georgia
PRGX Switzerland, Inc.	Georgia
PRGX Italy, Inc.	Georgia
PRGX Spain, Inc.	Georgia
PRGX Portugal, Inc.	Georgia
PRG International, Inc.	Georgia
PRG USA, Inc.	Georgia
PRGX Scandinavia, Inc.	Georgia
PRGX Holdings, Inc.	Georgia
PRGX Puerto Rico, Inc.	Georgia
PRGX Chile, Inc.	Georgia
PRGX Europe, Inc.	Georgia
PRGX Brasil, LLC	Georgia
PRGX India Private Limited	India
PRGX Holdings Mexico, S de RL de CV	Mexico
PRGX Servicios Mexico S de RL de CV	Mexico
PRGX de Mexico S de RL de CV	Mexico
PRGX Argentina S.A.	Argentina
PRGX Brasil Ltda.	Brazil
PRGX International PTE Limited	Singapore
PRG-Schultz Suzhou' Co Ltd.	China
PRGX Shanghai Company Limited	China
PRGX CR s.r.o.	Czech Republic
PRGFS, Inc.	Delaware
PRGX Texas, Inc.	Texas
Meridian Corporation Limited	Jersey (Channel Islands)
PRGX UK Holdings Ltd	United Kingdom
PRGX UK Ltd	United Kingdom
Etelsius Limited	United Kingdom
PRGX Canada Corp.	Canada
PRGX Deutschland GmbH	Germany
PRGX Nederland B.V.	Netherlands
PRGX Colombia Ltda.	Colombia
PRGX Svenska AB	Sweden
PRG-Schultz Venezuela S. R. L.	Venezuela
PRGX Polska Sp. z o.o.	Poland
PRGDS, LLC	Georgia
PRGTS, LLC	Georgia

Consent of Independent Registered Public Accounting Firm

PRGX Global, Inc.
Atlanta, Georgia

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File No. 333-134698, No. 333-171986, No. 333-185027 and No. 333-208075) and Form S-8 (File No. 333-153837, No. 333-64125, No. 333-08707, No. 333-30885, No. 333-61578, No. 333-81168, No. 333-100817, No. 333-137438, No. 333-170809, No. 333-189010 and No. 333-204489) of PRGX Global, Inc. and subsidiaries of our reports dated March 16, 2017, relating to the consolidated financial statements and financial statement schedule, and the effectiveness of PRGX Global, Inc. and subsidiaries' internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP
Atlanta, Georgia
March 16, 2017

CERTIFICATION

I, Ronald E. Stewart, certify that:

1. I have reviewed this Form 10-K of PRGX Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 16, 2017

By: _____ /s/ Ronald E. Stewart
Ronald E. Stewart
President, Chief Executive Officer, Director
(Principal Executive Officer)

CERTIFICATION

I, Peter Limeri, certify that:

1. I have reviewed this Form 10-K of PRGX Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 16, 2017

By: _____ /s/ Peter Limeri
Peter Limeri
Chief Financial Officer and Treasurer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of PRGX Global, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ronald E. Stewart, President and Chief Executive Officer of the Company and I, Peter Limeri, Chief Financial Officer and Treasurer, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of the undersigned’s knowledge: (1) the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 16, 2017

By: _____ /s/ Ronald E. Stewart
 Ronald E. Stewart
*President, Chief Executive Officer, Director
 (Principal Executive Officer)*

March 16, 2017

By: _____ /s/ Peter Limeri
 Peter Limeri
*Chief Financial Officer and Treasurer
 (Principal Financial Officer)*