

**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, 2014

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, 2014, of common shares of the registrant held by non-affiliates of the registrant was approximately \$174.7 million, based upon the last sales price reported that date on The Nasdaq Global Select Market of \$6.39 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, 2015 were 26,049,965.

Documents Incorporated by Reference

Part III: Portions of Registrant’s Proxy Statement relating to the Company’s 2015 Annual Meeting of Shareholders.

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PRGX GLOBAL, INC.

FORM 10-K

December 31, 2014

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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 included in our Healthcare Claims Recovery Audit Services segment;
- changes to revenue as a result of our decision to withdraw from the Medicare RAC program rebid process;
- 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 inability 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;
- a cyber-security incident involving the misappropriation, loss or unauthorized disclosure or use of confidential information of our clients;
- effects of changes in accounting policies, standards, guidelines or principles;
or
- terrorist acts, acts of war and other factors over which we have little or no control.

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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 an analytics-powered information and professional services firm based in the United States of America (“U.S.”). 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 and increasing profitability.

Our core business is “recovery audit,” a service based on the mining of a tremendous amount of our clients’ purchasing data, looking for overpayments to their third-party suppliers. PRGX is the world's leading provider of accounts payable recovery audit services of recovery audit services principally to large businesses and government agencies with high volumes of transactions and complex pricing arrangements with vendors. We audit over 75% of the top 20 global retailers and earn the largest portion of our revenues from our retail clients. Recovery audit is a mature service offering in the retail industry 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 and healthcare, such as automotive and industrial manufacturing, oil and gas, financial services, mining and transportation. Recovery audit in the industries represented within commercial is typically less mature in terms of complexity of vendor pricing, 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 a growing part of our business. This service offering focuses on auditing supplier billings against large and complex service, construction and licensing contracts, and is particularly relevant to oil and gas, mining, technology, media and brand dependent manufacturing companies. In addition to recovery audit services, PRGX offers a number of data transformation, data analytics and associated advisory services in our Adjacent Services segment. These service offerings are increasingly important to our business and are applicable to clients in both retail and commercial industries. PRGX is also active in the healthcare industry, delivering healthcare claims auditing and related services primarily as part of the Medicare and certain Medicaid recovery audit contractor (“RAC”) programs, as well as to private payers. The majority our healthcare claims work has been associated with the Medicare RAC program, and as a result, the volume of our healthcare claims auditing has decreased dramatically since mid-2013 as a result of significant changes imposed by the Centers for Medicare and Medicaid Services (“CMS”) on all Medicare RAC program auditors at that time.

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 four reportable segments: Recovery Audit Services - Americas, Recovery Audit Services - Europe/Asia-Pacific, Adjacent Services and Healthcare Claims Recovery Audit Services. The Recovery Audit Services - Americas segment represents recovery audit services (excluding Healthcare Claims Recovery Audit Services) we provide in the U.S., Canada and Latin America and is our largest segment in terms of clients served and revenues 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, while our Healthcare Claims Recovery Audit Services are provided only in the United States. We report the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to the four 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.

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 typically 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 revenues are 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 the recovery audit industry:

- *Data Capture and Availability.* Businesses increasingly are using technology to manage complex procurement and accounts payable systems and 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 and enable the cost effective review of more transactions 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 systems and increases opportunities for errors. To efficiently identify these errors, recovery audit firms must use sophisticated 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 email search tools and techniques.
- *Increasing Number of Auditable Claim Categories.* Traditionally, the recovery audit industry identified simple, or “disbursement,” claim types 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 is 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 major retailers and other business enterprises become increasingly global, 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.
- *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.

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.

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Adjacent Services

Our Adjacent Services business targets client functional and process areas where we have established expertise, enabling us to provide services to finance and procurement executives to improve working capital, optimize purchasing leverage in vendor pricing negotiations, improve insight into product margin and true cost of goods for resale, identify and manage risks associated with vendor compliance, improve quality of vendor master data and improve visibility and diagnostics of direct and indirect spend. Our Adjacent Services also include the CIPS Sustainability Index, an Internet-based supplier sustainability assessment offered in the UK through our strategic alliance with the Chartered Institute of Purchasing & Supply ("CIPS"). 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' procure-to-pay data and our technology-based solutions provide multiple routes to help our clients achieve greater profitability.

Healthcare

In addition to our retail and commercial recovery audit services, we also provide recovery audit services relating to healthcare claims to identify overpayments and underpayments made by healthcare payers to healthcare providers, such as hospitals and physicians' practices. We identify such improper payments by using various methods, including proprietary tools and algorithms which are comparable to the proprietary techniques we developed through many years of performing other types of recovery audits involving massive volumes of transaction data. Auditing medical claims data requires in-depth expertise in healthcare procedures and billing processes. We have derived the vast majority of our Healthcare Claims Recovery Audit revenue to date from our participation as a recovery auditor in the Medicare RAC program.

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 32.2% of our revenue in 2014 and 30.4% in 2013 and 28.2% in 2012. No client accounted for 10% or more of total revenue in 2014, 2013 or 2012.

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 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 200 companies with multi-billion dollars of purchase transactions to be audited. These clients range from large multi-national oil and gas companies, to large regional or national financial services institutions to global high tech software organizations. The audit specialty practice of contract compliance is applicable across most of our clients, but is particularly relevant to large oil and gas, mining, industrial manufacturing and brand-dependent service and manufacturing companies.

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The PRGX Strategy

PRGX primarily serves the retail industry by providing recovery audit, procure-to-pay performance improvement, and risk management services. We plan to achieve higher profitability and growth through the following strategy:

1. Deliver value, operational efficiency and innovative services to our customers;
2. Differentiate our service offerings and capabilities;
3. Expand into new high potential industry verticals; and
4. Attract and develop highly qualified and motivated professionals with deep industry knowledge and technical skills.

Deliver value, operational efficiency and innovative services to our customers

Our value delivery, operational efficiency and service innovation efforts start with a solid foundation of technology infrastructure and lean process design. We are consolidating our clients' data into a centralized, high performance technology infrastructure, deploying global best practices and rolling out 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 new infrastructure and aggressively rolling out new technologies across our global audits. These investments in infrastructure and processes are fundamental to optimization and efficiency. They also serve as the foundation for service innovation efforts in our core recovery audit business and in Adjacent Services.

Differentiate our service offerings and capabilities

We plan to differentiate our service offerings and capabilities through meaningful and sustainable innovation 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 new technology initiatives will put us in a unique position to achieve superior acceleration results for our clients.
- Global audit 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.

Expand into new high potential industry verticals

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

Attract and develop highly qualified and motivated professionals with deep industry and technical skills

We are building a culture of results-oriented performance where professionals can share ideas and work together to capture, understand, and deploy the very best practices consistently across every client globally.

In line with our focus on delivering value and operating efficiently, we have identified and are executing on these near-term initiatives:

- Continue our focus on consistent delivery excellence through standard processes, methodologies and tools across all of our geographic territories;
- Accelerate the implementation of our global shared service delivery model centered on our regional and global shared service centers; and
- Leverage state of the market technologies to drive faster processing and deeper analytics with the massive amount of data we receive from our clients. Technologies enabling large data manipulation and unstructured data analysis are evolving at a very rapid rate. We plan to remain at the forefront of these technologies and maintain the most secure and trusted infrastructure environment in our industry.

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Technology

PRGX uses advanced, proprietary information systems and processes and a large-scale technology infrastructure to conduct its audits of clients' payment transactions. Because of the ever-increasing volume and complexity of the transactions of our clients, we believe that our proprietary technology and processes serve as important competitive advantages over both our principal competitors and our clients' in-house 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 aim our data acquisition, data processing and data management methodologies at maximizing efficiencies and productivity and maintaining the highest standards of transaction auditing accuracy. At the beginning of a typical recovery audit 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 client data, primarily using high performance database and storage technologies, into standardized layouts at one of our 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 transactional streams. We deliver this data with a high probability of transaction errors 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.

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 do not have the centralized resources or broad client base required to support the technology investments necessary to provide comprehensive recovery audit services for large, complex accounts payable systems. These smaller firms, therefore, are less equipped to audit large, data-intensive purchasing and accounts payable systems. 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. Regardless of the level of recoveries made by internal recovery audit departments, we have observed that 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 one company other than PRGX offers a full suite of U.S. and international recovery audit services;

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- 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. market. 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 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 regional and local consulting firms; privately and publicly held global and national firms; large, well-known ERP software vendors; procurement-specific software providers and smaller, very specialized analytics providers. These businesses generally compete on the basis of the breadth, quality and cost of the services and products provided to clients. We believe that we differentiate ourselves from our competitors through our in-depth knowledge of our clients' purchasing processes, systems and data and our direct channel to existing accounts payable recovery audit clients.

Healthcare Claims Recovery Audit Services

A number of national and regional private payers have developed their own post-payment recovery audit capabilities. Nevertheless, these private payers typically also retain or engage one or more third party post payment audit service providers. The competitive landscape in our Healthcare Claims Recovery Audit Services business includes:

- Firms that provide recovery audit services across multiple industries including healthcare;
- Firms that provide healthcare IT solutions and services to both the government and private payers; and
- Firms that contract with federal and state governments' integrity programs.

Auditor Hiring, Training and Compensation

Many of our auditors and specialists formerly held finance-related management positions in the industries we serve. Training primarily is provided in the field by our experienced auditors enabling newly hired auditors to develop and refine their auditing 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 auditors. We periodically upgrade our training programs based on feedback from auditors and changing industry protocols. Many of our auditors and specialists participate in one of our incentive compensation plans that link compensation of the auditor or specialist to audit performance.

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 expense them as incurred. Research and development costs, including the amortization of amounts previously capitalized, were approximately \$3.1 million in 2014, \$6.0 million in 2013 and \$4.0 million in 2012.

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®, SureF!nd®, PRG-Schultz™, imDex™, Profit Discovery™, GET™; PRGX APTrax™, PRGX AuditTrax™, PRGX ClaimTrax™, PRGX MailTrax™, PRGX FraudTrax™, PRGX MerchTrax™, and PRGX SpendTrax™

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Regulation

Various aspects of our business, including, without limitation, our data acquisition, processing and reporting protocols, are subject to extensive and frequently changing governmental regulation in both the U.S. and internationally. 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 Healthcare Claims Recovery Audit work. 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, 2015, PRGX had approximately 1,500 employees, of whom approximately 580 were in the U.S. The majority of our employees are involved in the recovery audit function.

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 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 past several years. 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. Based on these and other factors, including competitive rate pressures, our dependency on client approval of identified claims, and loss of clients and reduced audit scope at existing clients from time to time, without improved audit execution, rate stabilization and acquisition of new clients, we believe that our accounts payable recovery audit business will experience revenue declines and may incur losses.

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 32.2% of our annual revenue in 2014, 30.4% in 2013 and 28.2% in 2012. No client accounted for 10% or more of total revenue in 2014, 2013 or 2012. 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 they cancel their agreements with us, if we fail to win a competitive bid at the time of contract renewal, if the financial condition of any of our clients deteriorates or if our clients are acquired by, or acquire, companies with which we do not have contracts, any of which 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 delivering value, operational efficiency and innovative services, differentiating our service offerings and capabilities, expanding into new industry verticals and attracting and developing highly qualified professionals. 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 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 additional debt, particularly if the debt results in significant incremental leverage. 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;

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- 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 Medicare, Medicaid and other healthcare claims audit recovery work.

We have expended substantial resources in connection with preparing for and providing healthcare claims recovery audit services, including those under the Medicare RAC program. We have withdrawn our bids for new Medicare RAC program contracts, but will continue to incur significant costs during the wind-down phase of our current subcontracts and expect to incur losses in providing services under these subcontracts as a result. 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 Medicare RAC subcontracts and the complexity of Medicare and other healthcare data, systems and processes, generally make it more difficult and require more time to achieve recoveries from healthcare claims recovery auditing than in other areas of our recovery audit business. Finally, to the extent that auditing under the current Medicare RAC program is extended and continues to be subject to significant audit scope restrictions, the results of our operations from participation in the program will be adversely impacted.

Our participation in the Medicare recovery audit program is as a subcontractor, and, consequently, is subject to being reduced or eliminated should our subcontracts be terminated or should the prime contractors with whom we have contracted have their prime contracts with CMS terminated.

Under the Medicare RAC program, we are participating as a subcontractor in three of the program's four geographic regions. Accordingly, we have entered into three separate subcontracts with the prime contractors and are not directly contracting with CMS. Under these circumstances, we generally bear the risk that the prime contractors will not meet their performance obligations to CMS under the prime contract, that the prime contractors will not pay us amounts due under the subcontracts and that the prime contractors will seek to terminate our subcontracts or otherwise minimize our role in the Medicare RAC program. Furthermore, the failure of a prime contractor to perform its obligations to CMS could result in the termination of the associated contract with CMS, which would, in turn, result in the termination of our subcontract. The termination of any of these subcontracts or the failure of the prime contractors to make required payments to us could have a material adverse effect on our business, financial position, results of operations, and cash flows.

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 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.

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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. Moreover, although we are not aware of any infringement of our services and products on the intellectual property rights of others, we also are subject to the risk that someone else will assert a claim against us in the future for violating their intellectual property rights.

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.

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

An interruption of data processing services, including an interruption caused by damage or destruction of 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.

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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 44.3% of our annual revenue in 2014, 40.7% in 2013 and 40.4% in 2012. 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 content retention, privacy and employment as well as U.S. laws affecting operations outside of the United States;
- business interruptions due to widespread disease, 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 2014, our European operations accounted for 22.9% 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 9% of our employees were located on December 31, 2014. 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.

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Our Recovery Audit, Healthcare Claims Recovery Audit and Adjacent Services businesses operate in highly competitive environments and are subject to pricing pressure.

The environment in which our business operates is 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 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 operating methods and costs. 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 many of these laws and regulations have not been fully interpreted by governing regulatory authorities or the courts, and many of the provisions of such laws and regulations are open to a wide range of interpretations. 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.

The ownership change that occurred as a result of our 2006 exchange offer limits 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 \$87.6 million of U.S. federal net loss carry-forwards available to the Company, \$15.2 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. However, future ownership changes may result in additional limitations and the loss of portions of these carry-forwards and may significantly increase our projected future tax liability.

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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, 2014, the Company's goodwill and other intangible assets totaled \$22.5 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. We recorded an impairment charge of \$4.2 million in 2013 relating to certain internally developed software assets. 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.

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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, 2014, our stock traded as high as \$7.42 per share and as low as \$3.97 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 7,000 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, Healthcare Claims Recovery Audit Services 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 February 27, 2015, there were 141 holders of record of our common stock and management believes there were approximately 3,800 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 2014 and 2013.

	High	Low
2014 Calendar Quarter		
1st Quarter	\$ 7.42	\$ 5.82
2nd Quarter	6.90	5.95
3rd Quarter	6.89	5.50
4th Quarter	6.05	3.97
2013 Calendar Quarter		
1st Quarter	\$ 7.30	\$ 5.84
2nd Quarter	7.01	4.80
3rd Quarter	6.73	5.35
4th Quarter	7.76	5.89

Issuer Purchases of Equity Securities

A summary of our repurchases of our common stock during the fourth quarter ended December 31, 2014 is set forth below.

2014	Total Number of Shares Purchased ^(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(b)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (millions of dollars)
October 1 - October 31	—	\$ —	—	\$ —
November 1 - November 30	122,080	\$ 5.43	122,080	\$ —
December 1 - December 31	365,785	\$ 5.53	365,785	\$ —
	<u>487,865</u>	\$ 5.50	<u>487,865</u>	\$ 17.3

(a) All shares purchased during the quarter were purchased as part of the Company's stock repurchase program.

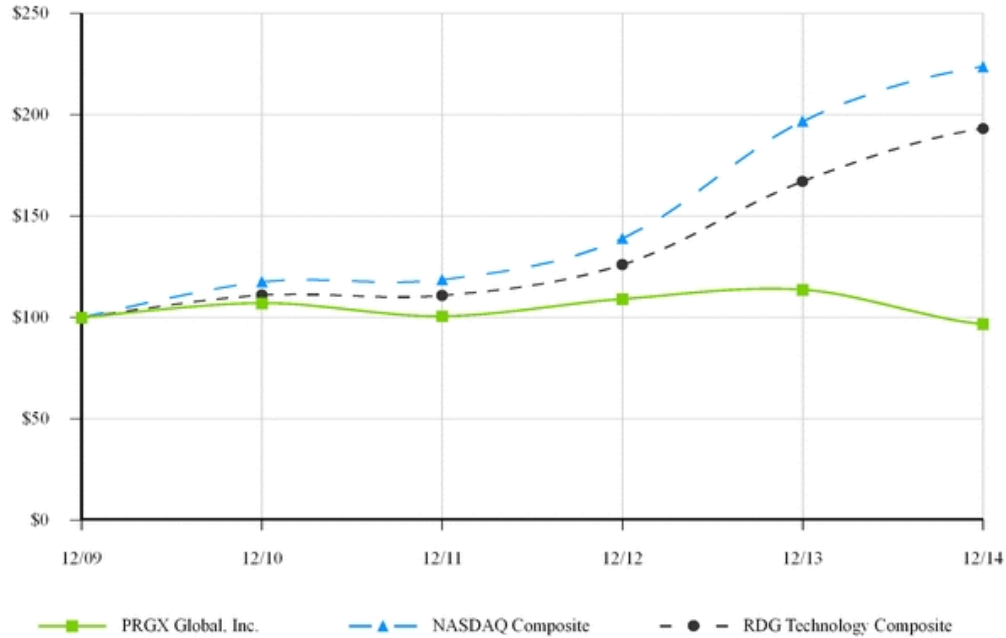
(b) On February 21, 2014, our Board of Directors authorized a stock repurchase program under which we could repurchase up to \$10.0 million of our common stock from time to time through March 31, 2015. On March 25, 2014, our Board of Directors authorized a \$10.0 million increase to the stock repurchase 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. From the February 2014 announcement through December 31, 2014, the Company repurchased a total of 3,605,142 shares under this program for an aggregate purchase price of \$22.7 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.

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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, 2009 and shows total return on investment for the period beginning December 31, 2009 through December 31, 2014, 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					
	12/09	12/10	12/11	12/12	12/13	12/14
PRGX Global, Inc.	100.00	107.11	100.68	109.14	113.71	96.79
NASDAQ Composite	100.00	117.61	118.70	139.00	196.83	223.74
RDG Technology Composite	100.00	111.01	110.85	126.07	167.16	193.22

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ITEM 6. Selected Financial Data

The following table sets forth selected consolidated financial data for the Company as of and for each of the five years in the period ended December 31, 2014. The following data reflects the business acquisitions that we have completed through December 31, 2014. 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, 2014 and 2013, 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, 2014 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,				
	2014	2013	2012	2011	2010
Statements of Operations Data:	(In thousands, except per share data)				
Revenue	\$ 164,192	\$ 195,216	\$ 208,503	\$ 203,117	\$ 184,081
Operating expenses:					
Cost of revenue	115,959	126,102	137,351	139,431	128,482
Selling, general and administrative expenses	40,788	49,200	49,566	47,153	38,322
Depreciation of property and equipment	6,216	8,231	7,084	5,401	4,903
Amortization of intangible assets	3,531	4,997	7,224	4,991	4,131
Impairment charges	—	4,207	—	—	—
Total operating expenses	166,494	192,737	201,225	196,976	175,838
Operating income (loss)	(2,302)	2,479	7,278	6,141	8,243
Foreign currency transaction (gains) losses on short-term intercompany balances	2,003	(13)	(377)	417	422
Interest expense (income), net	(77)	(77)	966	1,616	1,305
Other (income) loss	57	—	—	—	—
Loss on debt extinguishment and financial restructuring	—	—	—	—	1,381
Income (loss) before income taxes	(4,285)	2,569	6,689	4,108	5,135
Income tax expense ⁽¹⁾	3,241	2,755	1,297	1,292	1,882
Net income (loss)	\$ (7,526)	\$ (186)	\$ 5,392	\$ 2,816	\$ 3,253
Basic earnings (loss) per common share	\$ (0.26)	\$ (0.01)	\$ 0.21	\$ 0.11	\$ 0.14
Diluted earnings (loss) per common share	\$ (0.26)	\$ (0.01)	\$ 0.21	\$ 0.11	\$ 0.13

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	December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data:	(In thousands, except per share data)				
Cash and cash equivalents	\$ 25,735	\$ 43,700	\$ 37,806	\$ 20,337	\$ 18,448
Working capital	36,006	50,506	37,445	16,319	17,678
Total assets	102,782	132,829	143,586	126,413	106,321
Long-term debt, excluding current installments	—	—	3,000	6,000	9,000
Total shareholders' equity	\$ 70,986	\$ 93,828	\$ 84,652	\$ 59,090	\$ 48,843

- (1) The taxes recorded for 2014 were primarily related to the recording of a valuation allowance on the future use of net losses in our UK 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.

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

Introduction

We conduct our operations through four reportable segments: Recovery Audit Services – Americas, Recovery Audit Services – Europe/Asia-Pacific, Adjacent Services and Healthcare Claims Recovery Audit Services. The Recovery Audit Services – Americas segment represents recovery audit services (other than Healthcare Claims Recovery Audit Services) we provide in the U.S., Canada and Latin America. The Recovery Audit Services – Europe/Asia-Pacific segment represents recovery audit services we provide in Europe, Asia and the Pacific region. The Adjacent Services segment, which was formerly referred to as our Profit Optimization services business, represents data transformation, data analytics and associated advisory services. The Healthcare Claims Recovery Audit Services segment represents recovery audit services that involve the identification of overpayments and underpayments made by healthcare payers to healthcare providers such as hospitals and physicians' practices and includes services we provide as a subcontractor to three of the four prime contractors in the Medicare Recovery Audit Contractor program (the "Medicare RAC program") of the Centers for Medicare and Medicaid Services ("CMS"). We include the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to the four reportable segments in Corporate Support.

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

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

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

While the net impact of the economic environment on our recovery audit revenue is difficult to determine or predict, we believe that for the foreseeable future, our revenue will remain at a level that will not have a significant adverse impact on our liquidity, and we have taken steps to mitigate the adverse impact of an economic downturn on our revenue and overall financial health. These steps include devoting substantial efforts to develop an improved service delivery model to enable us to more cost effectively serve our clients. Further, we continue to pursue our ongoing growth strategy to expand our business beyond our core recover

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y audit services to retailers by growing the portion of our business that provides recovery audit services to enterprises other than retailers, such as our offerings to commercial clients; contract compliance service offerings; expansion into new industry verticals, such as oil and gas; and growth within our Adjacent Services segment.

Our Adjacent Services business targets client functional and process areas where we have established expertise, enabling us to provide services to finance and procurement executives to improve working capital, optimize purchasing leverage in vendor pricing negotiations, improve insight into product margin and true cost of goods for resale, identify and manage risks associated with vendor compliance, improve quality of vendor master data and improve visibility and diagnostics of direct and indirect spend. Our Adjacent Services also include the CIPS Sustainability Index, an Internet-based supplier sustainability assessment offered in the UK through our strategic alliance with the Chartered Institute of Purchasing & Supply (“CIPS”). 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’ procure-to-pay data and our technology-based solutions provide multiple routes to help our clients achieve greater profitability

During 2013, auditing under our current Medicare RAC program subcontracts became subject to significant additional restrictions imposed by CMS on all Medicare recovery auditors, including deadlines for requesting medical records from providers and submitting claims and the types of claims that may be audited. These restrictions began to limit our Medicare RAC program revenue in the third quarter of 2013 and had a significant negative impact on our fourth quarter 2013 and annual 2014 Medicare RAC program revenue. We expect our Medicare RAC program revenue to be minimal during 2015. For a number of reasons, including the significant uncertainties and financial risks inherent in the Medicare RAC program, we withdrew from the Medicare RAC program rebid process in February 2014. We have incurred losses since these additional restrictions were imposed, and expect to continue to incur losses for the remainder of the contract term. We expect to continue auditing claims under the existing contracts and to continue collection and appeal defense efforts through the end of 2015. We have adjusted our cost structure to reflect the lower claim volumes we currently are generating, and will continue to lower costs in order to minimize our losses during the wind-down of these contracts while maintaining adequate resources to enable us to continue to meet our contractual obligations.

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.

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Results of Operations

The following table sets forth the percentage of revenue represented by certain items in our Consolidated Statements of Operations for the periods indicated:

	Years Ended December 31,		
	2014	2013	2012
Revenue	100.0 %	100.0 %	100.0 %
Operating expenses:			
Cost of revenue	70.6	64.6	65.9
Selling, general and administrative expenses	24.8	25.2	23.8
Depreciation of property and equipment	3.8	4.2	3.4
Amortization of intangible assets	2.2	2.6	3.4
Impairment charges	—	2.1	—
Total operating expenses	101.4	98.7	96.5
Operating income (loss)	(1.4)	1.3	3.5
Foreign currency transaction (gains) losses on short-term intercompany balances	1.2	—	(0.2)
Interest expense, net	—	—	0.5
Income (loss) before income taxes	(2.6)	1.3	3.2
Income tax expense	2.0	1.4	0.6
Net income (loss)	(4.6)%	(0.1)%	2.6 %

Year Ended December 31, 2014 Compared to Prior Years

Revenue. Revenue was as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Recovery Audit Services – Americas	\$ 106,533	\$ 118,649	\$ 121,638
Recovery Audit Services – Europe/Asia-Pacific	44,319	46,436	53,783
Adjacent Services	10,700	13,183	14,990
Healthcare Claims Recovery Audit Services	2,640	16,948	18,092
Total	\$ 164,192	\$ 195,216	\$ 208,503

Total revenue decreased by \$31.0 million, or 15.9%, in 2014, and decreased \$13.3 million, or 6.4%, in 2013. Below is a discussion of our revenue for our four reportable segments.

Recovery Audit Services – Americas revenue decreased by 10.2% in 2014 and decreased by 2.5% in 2013. We experience changes in our reported revenue based on the strength of the U.S. dollar relative to foreign currencies. Changes in the value of the U.S. dollar relative to currencies in Canada and Latin America negatively impacted reported revenue in both 2014 and 2013. On a constant dollar basis, adjusted for changes in foreign exchange (“FX”) rates, 2014 revenue decreased by 8.6% compared to a decrease of 10.2% as reported, and 2013 revenue decreased by 1.4% compared to a decrease of 2.5% as reported.

The changes in our Recovery Audit Services – Americas revenue in 2014 and 2013 were due to a number of factors in addition to changes in FX rates. Revenue increased 2.7% in 2014 and 1.6% in 2013 due to revenue from new clients. Revenue from existing clients decreased 2.9% in 2014 and 4.2% in 2013. The revenue decreases in both 2014 and 2013 is due primarily to lower revenue from a significant retail client that has increased its internal resources and is identifying more claims itself, scope restrictions at another significant client, and lower contingency fee rates at a few clients.

Recovery Audit Services – Europe/Asia-Pacific revenue decreased by 4.6% in 2014 and decreased by 13.7% in 2013. The changes in the strength of the U.S. dollar relative to foreign currencies in Europe, Asia and the Pacific region positively

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impacted reported revenue in 2014, but negatively impacted reported revenue in 2013. On a constant dollar basis, adjusted for changes in FX rates, 2014 revenue decreased by 5.3% compared to a decrease of 4.6% as reported, and 2013 revenue decreased by 13.1% compared to a decrease of 13.7% as reported. Revenue increased 3.5% in 2014 and 6.6% in 2013 due to new clients and new geographic territories for existing clients. Revenue from existing clients decreased 7.9% in 2014 and decreased 8.3% in 2013. The 2014 revenue decrease is due primarily to lower revenue from various retail clients in Europe as a result of scope restrictions and lower contingency fee rates at a few clients, partially offset by an increase in revenue in the Pacific region. The 2013 decrease resulted primarily from several clients that entered administration (similar to bankruptcy) in late 2012 for which we generated much lower revenue in 2013, the loss of an audit in one geographic territory for a significant client, and a decrease in scope at another significant client.

Adjacent Services revenue decreased by 18.8% in 2014 and decreased by 12.1% in 2013. The decrease in Adjacent Services revenue in 2014 compared to 2013 is primarily due to a weak backlog of projects at the beginning of 2014 compared to 2013 as well as our strategic decision to wind-down certain service offerings and refocus on other growth opportunities in this segment that are more closely aligned with the recovery audit business. We continue to rationalize and refine the remaining service offerings in this segment to ensure that they are aligned with the Company's long-term strategic growth plan. As part of the rationalization of our Adjacent Services offerings, on October 1, 2014 we sold our Chicago, Illinois-based consulting practice.

Healthcare Claims Recovery Audit Services revenue decreased by 84.4% and 6.3% in 2014 and 2013, respectively. Our Healthcare Claims Recovery Audit Services business continued to grow until late in the third quarter of 2013, when additional restrictions imposed on all Medicare RAC program auditors severely impacted our revenue and caused a decline in revenue for both 2013 and 2014. As disclosed previously, we withdrew from the Medicare RAC program rebid process during 2014. Given the restricted scope of auditing under the Medicare RAC program, we believe that 2015 revenue will be consistent with or lower than 2014 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 portion of the components comprising COR is variable and will increase or decrease with increases or decreases in revenue.

COR was as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Recovery Audit Services – Americas	\$ 68,163	\$ 65,977	\$ 69,341
Recovery Audit Services – Europe/Asia-Pacific	31,103	34,945	39,540
Adjacent Services	11,624	11,931	14,277
Healthcare Claims Recovery Audit Services	5,069	13,249	14,193
Total	<u>\$ 115,959</u>	<u>\$ 126,102</u>	<u>\$ 137,351</u>

COR as a percentage of revenue for Recovery Audit Services – Americas was 64.0% in 2014, 55.6% in 2013 and 57.0% in 2012. We are investing in our various growth and other strategic initiatives, and include portions of these costs in Recovery Audit Services – Americas COR each year. The increase in COR expenses as a percentage of revenue for 2014 compared to 2013 is due to costs not decreasing in proportion to decreases in revenue, and the cost of personnel we added to extend our service offerings into new areas, such as contract compliance, and to expand into new industry verticals, such as oil and gas. In addition, there was an increase of \$0.8 million in transformation expenses in 2014 compared to 2013. These transformation expenses were generated mainly in the fourth quarter of 2014. The improvement of COR expenses as a percentage of revenue for 2013 compared to 2012 is mainly due to efficiencies gained through strategic initiatives and cost reductions implemented in 2013.

COR as a percentage of revenue for Recovery Audit Services – Europe/Asia-Pacific was 70.2% in 2014, 75.3% in 2013 and 73.5% in 2012. COR decreased 11.0% in 2014 compared to 2013 and 11.6% in 2013 compared to 2012. The 2014 and 2013 decreases are due mainly to cost reductions, primarily compensation-related, in our European operations as we continued to implement service delivery model changes in the geographic region. For 2013 and 2012, the auditors in this segment generally earned fixed salaries with only a small amount of variable compensation, primarily bonuses. As their pay had only a limit

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ed dependency on revenue generated, the decrease in revenue in the segment had a greater negative impact on COR as a percentage of revenue than would have occurred under a more variable compensation plan, such as the commission-based pay plan we generally utilize in the U.S. and Canada. Beginning in the fourth quarter of 2013, we migrated many of our auditors in this segment to a commission-based pay plan, and migrated others in 2014. These changes, along with our continuing efforts to increase revenue and centralize and standardize the recovery audit processes in this segment enabled us to lower our COR as a percentage of revenue in this segment in 2014.

The higher COR as a percentage of revenue for Recovery Audit Services – Europe/Asia-Pacific (70.2% for 2014) compared to Recovery Audit Services – Americas (64.0% for 2014) 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 relates primarily to costs of our service delivery, which consist mainly of fixed personnel costs. Due to the nature of these costs and the reduced Adjacent Services revenues, COR as a percentage of revenue increased to 108.6% in 2014 from 90.5% in 2013, which in turn increased from 78.9% in 2012.

COR for Healthcare Claims Recovery Audit Services declined by 61.7% in 2014 from 2013 due mainly to personnel reductions. These staff reductions were not sufficient to enable us to maintain revenue in excess of COR for our services under the Medicare RAC program, resulting in COR exceeding revenue in 2014. We anticipate that these expenses will continue to exceed revenue in 2015.

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,		
	2014	2013	2012
Recovery Audit Services – Americas	\$ 10,211	\$ 14,140	\$ 14,746
Recovery Audit Services – Europe/Asia-Pacific	6,829	5,884	7,155
Adjacent Services	2,124	3,312	2,532
Healthcare Claims Recovery Audit Services	2,207	3,057	2,965
Subtotal for reportable segments	21,371	26,393	27,398
Corporate Support	19,417	22,807	22,168
Total	\$ 40,788	\$ 49,200	\$ 49,566

Recovery Audit Services – Americas SG&A decreased 27.8% in 2014 compared to 2013 and decreased 4.1% in 2013 compared to 2012. The decrease in 2014 is due to lower personnel costs and contingent consideration recorded in 2013 for the Business Strategy, Inc. acquisition that did not reoccur during 2014. The decrease in 2013 is due to lower incentive-compensation accruals and lower legal expenses as 2012 included expenses for an overtime wages claim, partially offset by higher sales commissions and incremental contingent consideration relating to our December 2011 acquisition of Business Strategy, Inc. ("BSI").

Recovery Audit Services – Europe/Asia-Pacific SG&A increased 16.1% in 2014 compared to 2013 after decreasing 17.8% in 2013 compared to 2012. The 2014 increase resulted primarily from increased transformation costs in 2014, the reversal of bad debt provisions in 2013 and fair value adjustments recorded in 2013 to reduce the acquisition-related contingent consideration for a prior year business acquisition. The 2013 decrease resulted primarily from the reversal of provisions for bad debts recorded in 2012 due to our collecting the past due accounts and a reduction in a business acquisition obligation resulting from decreased revenue and profitability generated by the acquired business.

Adjacent Services SG&A decreased 35.9% in 2014 compared to 2013 after increasing 30.8% in 2013 compared to 2012. The 2014 decrease resulted primarily from personnel reductions that were made in response to the decline in revenue and the strate

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gic decision to dispose of our Chicago, Illinois-based consulting business during the fourth quarter of 2014. The increase in 2013 primarily resulted from additional personnel and related costs we incurred in our efforts to generate additional revenue in this segment.

Healthcare Claims Recovery Audit Services SG&A decreased 27.8% in 2014 compared to 2013 after increasing 3.1% in 2013 compared to 2012. The 2014 decrease resulted primarily from personnel reductions that were made in response to the decline in revenue that resulted from the restrictions placed on all Medicare RAC program auditors by CMS. The increase in 2013 primarily resulted from additional personnel and related costs we incurred in our efforts to generate additional revenue in this segment.

Corporate Support SG&A includes stock-based compensation charges of \$4.5 million in 2014 and \$6.3 million in both 2013 and 2012. Excluding stock-based compensation charges, Corporate Support SG&A decreased 9.9% in 2014 compared to 2013 after increasing 4.2% in 2013 from 2012. The decrease in 2014 relates primarily to severance costs recorded in 2013 that were associated with the departure of the Company's former President and CEO. The increase in 2013 compared to 2012 relates primarily to the severance costs associated with the departure of the Company's former President and CEO, partially offset by lower incentive compensation accruals.

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

	Years Ended December 31,		
	2014	2013	2012
Recovery Audit Services – Americas	\$ 4,711	\$ 5,617	\$ 4,651
Recovery Audit Services – Europe/Asia-Pacific	592	514	322
Adjacent Services	722	723	770
Healthcare Claims Recovery Audit Services	191	1,377	1,341
Total	\$ 6,216	\$ 8,231	\$ 7,084

Depreciation expense declined in 2014 compared to 2013 primarily as a result of the impairment charges recorded in the fourth quarter of 2013, which reduced the future depreciation to be recorded. The increase in depreciation in 2013 compared to 2012 relates primarily to improvements we made to our information technology infrastructure and to an increase in the depreciation of capitalized software development costs during 2013.

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

	Years Ended December 31,		
	2014	2013	2012
Recovery Audit Services – Americas	\$ 2,002	\$ 2,792	\$ 4,355
Recovery Audit Services – Europe/Asia-Pacific	1,195	1,508	2,062
Adjacent Services	334	697	807
Healthcare Claims Recovery Audit Services	—	—	—
Total	\$ 3,531	\$ 4,997	\$ 7,224

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 include 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 both 2014 and 2013 compared to the prior year as we did not complete an acquisition in either year. Similarly, Adjacent Services amortization declined in both 2014 and 2013 compared to the prior year as we have not completed an acquisition in this segment since 2010. We have not recorded any amortization of intangible assets in our Healthcare Claims Recovery Audit Services segment because there have been no business acquisitions in this segment. We anticipate that, absent our completing additional acquisitions in any of our reportable segments in 2015, amortization expense will continue to decrease in 2015.

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Impairment Charges. Impairment charges were as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Recovery Audit Services – Americas	\$ —	\$ 2,702	\$ —
Recovery Audit Services – Europe/Asia-Pacific	—	—	—
Adjacent Services	—	71	—
Healthcare Claims Recovery Audit Services	—	1,434	—
Total	\$ —	\$ 4,207	\$ —

The impairment charges in the Recovery Audit Services - Americas segment in 2013 relate to certain capitalized software development costs associated with our improved service delivery model. Much of the development efforts in this area were beneficial, but certain aspects of the development did not yield the benefits anticipated. We continue to develop this service delivery model, but have changed our focus in certain areas and no longer expect to receive future economic benefit from certain costs and recorded an impairment charge in the fourth quarter of 2013.

The impairment charges in the Healthcare Claims Recovery Audit Services segment in 2013 relate primarily to the capitalized software development costs for the systems we use to deliver our services under the Medicare RAC program. With our decision to withdraw our bids for a new contract under this program, we no longer anticipate generating meaningful revenue in this area and recorded an impairment charge in the fourth quarter of 2013.

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 2014 resulting in our recording net foreign currency losses on short-term intercompany balances of \$2.0 million. We recorded gains on short-term intercompany balances of less than \$0.1 million in 2013 and \$0.4 million in 2012.

Net Interest Expense (Income). Net interest income was \$0.1 million in 2014 and 2013 due to interest accruals on uncertain tax positions. Net interest expense was \$1.0 million in 2012. The net interest expense in 2012 was due primarily to interest expense associated with business acquisition obligations and borrowings outstanding under our credit facility which was partially offset by net reversals of \$0.8 million of interest on accruals made in previous years for interest on uncertain tax positions as described in more detail under *Income Tax Expense* below.

Income Tax Expense. Our reported effective tax rates on earnings approximated (75.6%) in 2014, 107.2% in 2013 and 19.4% in 2012. 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 2014 reflects the impact of the recording of a valuation allowance against certain deferred tax assets in the United Kingdom. The high effective tax rate in 2013 is due to the Company's U.S. operations incurring a loss due in part to the impairment charges noted above, while certain foreign subsidiaries generated greater taxable income in 2013. Income tax expense reflects the net reversal of \$0.5 million in each of 2013 and 2012 of the accruals made in previous years for uncertain tax positions.

Together with the reversal of interest expense accruals described above, the total net reduction to our reserves for uncertain tax positions based on changes in accruals was \$1.4 million in 2013 and \$1.2 million in 2012. These reserves decreased in 2013 by an additional \$1.3 million due to payments we made to various taxing authorities. We initially established these reserves based on estimates we made in prior years of the potential liability we may incur should certain domestic and foreign tax jurisdictions perform audits of our books and records and determine that we owe additional taxes, for which they may also assess penalty and interest amounts. We increased the reserves for additional estimated interest in subsequent years to reflect the additional time from when the estimated potential taxes may have been due. In 2012, we adjusted our estimates for several reasons, including the expiration of the statute of limitations for certain of these taxes in several states and in two foreign jurisdictions, completion of an audit by a foreign jurisdiction that resulted in a lower tax assessment than we had estimated, and the imposition of limitations on our potential liability resulting from our beginning the voluntary disclosure

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agreement process with one state. In 2013, we further adjusted our estimates based primarily on completing voluntary disclosure processes with additional states. Under these voluntary disclosure agreements, we agreed to file required returns for specified periods, and received waivers of the requirement to file other returns as well as limitations on the taxes and other amounts required to be paid in connection with such filings.

As of the end of the past three years, management determined that based on all available evidence, deferred tax asset valuation allowances of \$52.0 million in 2014 and \$48.5 million in both 2013 and 2012 were appropriate. We recorded an increase in the valuation allowance of \$2.3 million in 2014 as a result of placing a valuation allowance against deferred tax assets in the United Kingdom. We expensed or impaired a significant amount of acquisition-related intangible assets in previous years for financial reporting purposes. For income tax reporting purposes, we continue to deduct the amortization of these intangible assets over their tax lives, generally 15 years. The excess of tax amortization over amortization for financial reporting purposes is reducing the related deferred tax asset each year, resulting in lower deferred tax assets and a lower related valuation allowance, although increases in our net operating losses have partially offset this impact in recent years. This reduction in deferred tax assets related to intangible assets was \$0.9 million in 2014, \$5.3 million in 2013 and \$5.7 million in 2012.

As of December 31, 2014, we had approximately \$87.6 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 2033. As of December 31, 2014, we had approximately \$92.1 million of state loss carry-forwards available to reduce future state taxable income. The state loss carry-forwards expire to varying degrees between 2019 and 2033 and are subject to certain limitations.

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 \$87.6 million of U.S. federal loss carry-forwards available to the Company, \$15.2 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 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.

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.

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

	Years Ended December 31,		
	2014	2013	2012
Net income (loss)	\$ (7,526)	\$ (186)	\$ 5,392
Income tax expense	3,241	2,755	1,297
Interest expense (income), net	(77)	(77)	966
EBIT	(4,362)	2,492	7,655
Depreciation of property and equipment	6,216	8,231	7,084
Amortization of intangible assets	3,531	4,997	7,224
EBITDA	5,385	15,720	21,963
Impairment charges	—	4,207	—
Foreign currency transaction (gains) losses on short-term intercompany balances	2,003	(13)	(377)
Acquisition-related charges (benefits)	249	602	(231)
Transformation severance and related expenses	4,050	2,544	2,107
Other (income) loss	57	—	—
Wage claim costs	—	—	984
Stock-based compensation	4,532	6,294	6,321
Adjusted EBITDA	\$ 16,276	\$ 29,354	\$ 30,767

Acquisition-related charges (benefits) included: acquisition obligations classified as compensation of \$0.2 million in both 2014 and 2013, and \$0.4 million in 2012; and fair value adjustments to acquisition-related contingent consideration of \$0.4 million in 2013 and \$(0.6) million in 2012. We made the final payments for the related acquisitions in the third quarter of 2014.

Transformation severance and related expenses increased \$1.5 million, or 59.2%, in 2014 compared to 2013 due to severance and related costs associated with reductions in staff and lease expense across all segments in order to reduce our cost structure. Transformation severance and related expenses increased \$0.4 million, or 20.7%, in 2013 compared to 2012 due to costs associated with the departure of the Company's former President and CEO.

Wage claim costs in 2012 relate to specific legal issues that were resolved in 2012. We did not incur any similar costs in 2014 or 2013.

Stock-based compensation decreased by \$1.8 million, or 28.0%, in 2014 compared to 2013 and decreased less than \$0.1 million, or 0.4%, in 2013 compared to 2012. The reduced expenses in 2014 compared to 2013 were due primarily to the acceleration of vesting of outstanding awards for certain executives in connection with their separation from the Company in the prior periods as well as the relatively lower fair value of options and stock awards granted as part of the annual equity grant to employees in 2014.

We include a detailed calculation of Adjusted EBITDA by segment in *Note 2* of "Notes to Consolidated Financial Statements" included in Item 8 of this Form 10-K. A summary of Adjusted EBITDA by segment for the years ended December 31, 2014, 2013, and 2012 was as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Recovery Audit Services – Americas	\$ 29,507	\$ 39,954	\$ 38,620
Recovery Audit Services – Europe/Asia-Pacific	7,672	5,842	7,632
Adjacent Services	(2,381)	(1,792)	(1,072)
Healthcare Claims Recovery Audit Services	(4,226)	729	1,370
Subtotal for reportable segments	30,572	44,733	46,550
Corporate Support	(14,296)	(15,379)	(15,783)
Total	\$ 16,276	\$ 29,354	\$ 30,767

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Recovery Audit Services – Americas Adjusted EBITDA decreased by \$10.4 million, or 26.1%, in 2014 compared to 2013 and increased \$1.3 million, or 3.5%, in 2013 compared to 2012. The 2014 decrease resulted from reductions in revenue that exceeded the reductions in COR and SG&A expenses for the year. The 2013 increase resulted from reductions in COR and SG&A expenses that exceeded the decrease in revenue for the year.

Recovery Audit Services – Europe/Asia-Pacific Adjusted EBITDA increased by \$1.8 million, or 31.3%, in 2014 compared to 2013 and decreased \$1.8 million, or 23.5%, in 2013 compared to 2012. The increase in 2014 is due to reductions in COR and SG&A that exceeded the revenue reductions for the year. The decrease in 2013 is due to lower revenue partially offset by lower COR and SG&A expenses.

Adjacent Services Adjusted EBITDA declined 32.8% to a loss of \$(2.4) million in 2014 compared to 2013, and declined 67.2% to a loss of \$(1.8) million in 2013 compared to 2012. These declines are due to revenue in each period declining at a faster rate than COR and SG&A expenses.

Healthcare Claims Recovery Audit Services Adjusted EBITDA was a loss of \$(4.2) million for 2014 and a profit of \$0.7 million for 2013. The profit generated in 2013 was 46.8% less than the prior year due to revenue declines that exceeded our cost reductions. The loss generated in 2014 was due to the costs required to continue fulfillment of obligations for contracts associated with the Medicare RAC program and the reduced levels of revenue generated by that business. As the existing Medicare RAC program is winding down, we anticipate generating additional Adjusted EBITDA losses in this segment in 2015.

Corporate Support Adjusted EBITDA improved by \$1.1 million, or 7.0%, in 2014 compared to 2013 and improved by \$0.4 million, or 2.6%, in 2013 compared to 2012. The improvement in 2014 is due mainly to a reduction in transformation-related expense. The improvement in 2013 is due primarily to lower incentive compensation accruals, partially offset by higher non-incentive payroll expenses.

Liquidity and Capital Resources

As of December 31, 2014, we had \$25.7 million in cash and cash equivalents and no borrowings under the revolver portion of our credit facility. As of December 31, 2014, the revolver had \$20.0 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 and again in December 2014 as further described in *Secured Credit Facility* below.

The \$25.7 million in cash and cash equivalents includes \$10.2 million held in the U.S., \$4.9 million held in Canada, and \$10.6 million held in other foreign jurisdictions, primarily in the United Kingdom, Australia, India, 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 \$10.0 million in 2014, \$18.4 million in 2013 and \$18.8 million in 2012. 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,		
	2014	2013	2012
Net income (loss)	\$ (7,526)	\$ (186)	\$ 5,392
Adjustments for certain non-cash items	18,009	23,886	19,667
	10,483	23,700	25,059
Changes in operating assets and liabilities	(436)	(5,276)	(6,216)
Net cash provided by operating activities	\$ 10,047	\$ 18,424	\$ 18,843

The decrease in net cash provided by operating activities in 2014 compared to 2013 is primarily attributable to the decrease in operating income excluding non-cash expenses. Operating income excluding non-cash expenses (depreciation, amortization and impairment charges) was \$10.5 million in 2014 compared to 2013 which is mainly attributable to the \$31.0 million decrease in revenue offset by an \$18.6 million decrease in COR and SG&A expenses and \$2.0 million of foreign

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currency losses. This use of cash from operations was partially offset by a \$0.4 million reduction in our working capital. Receivables and current asset balances were reduced \$2.5 million in 2014 compared to 2013 primarily due to lower revenue and the collection of Medicare RAC program receivables. In addition, our accrued liabilities decreased by approximately \$2.9 million in 2014 compared to 2013. The reduced receivable collections in 2014 compared to 2013 were more than offset by smaller reductions in accrued liability balances, particularly compensation related accruals.

The change in net cash provided by operating activities from 2012 to 2013 primarily resulted from lower net income adjusted for non-cash items in 2013, partially offset by changes in operating assets and liabilities. These changes included higher payments made in 2013 for incentive compensation earned in 2012 than were made in 2012 for incentive compensation earned in 2011, lower incentive compensation accruals in 2013, and higher payments in 2013 for settlement of liabilities for accounts payable and accrued expenses in 2012, which were partially offset by net collections of receivables in 2013 compared to a net increase in receivables in 2012.

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

No client accounted for 10% or more of our annual revenue in 2012, 2013 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 \$4.7 million in 2014, \$6.9 million in 2013 and \$7.9 million in 2012. 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 and Healthcare Claims Recovery Audit 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 2015. Should we experience changes in our operating results, we may alter our capital expenditure plans.

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 July 2009, we acquired the business and certain assets of First Audit Partners LLP (“FAP”), a privately-held European provider of recovery audit services based in Cambridge, United Kingdom, for a purchase price valued at \$5.8 million. The purchase price included an initial cash payment of \$1.6 million that we paid in July 2009. We made the first of two deferred payments required as part of the FAP acquisition in January 2010 in the amount of £0.5 million (\$0.8 million) and the second payment of £0.8 million (\$1.3 million) in July 2010. Additional variable consideration potentially was due based on the operating results generated by the acquired business over a four year period from the date of acquisition. From the acquisition date to December 31, 2013, we paid £1.1 million (\$1.7 million) of the earn-out and recorded accretion and other adjustments of the liability that resulted in a net decrease of \$0.4 million. There were no remaining amounts payable relating to this acquisition as of December 31, 2013.

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 November 2010, we acquired the business and certain assets of TJG Holdings LLC (“TJG”), a privately-held provider of finance and procurement operations improvement services based in Chicago, Illinois for a purchase price valued at \$3.7 million. The purchase price included an initial cash payment of \$2.3 million that we paid in November 2010. Additional

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payments of up to a maximum of \$1.9 million potentially were due to the sellers in four semi-annual payments if certain performance targets were met. We recorded \$1.4 million as the estimated fair value of these payments at the acquisition date. From the acquisition date to December 31, 2013, we paid \$1.9 million of the earn-out and recorded accretion and other adjustments of the liability of \$0.5 million. There were no remaining amounts payable relating to this acquisition as of December 31, 2013.

In December 2011, we acquired Business Strategy, Inc. and substantially all of the assets of an affiliated company (collectively “BSI”), both 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.

We also acquired the assets of several third-party audit firms to which we had subcontracted a portion of our audit services in our Recovery Audit Services – Europe/Asia-Pacific segment. These 2012 associate migrations included CRC Management Consultants LLP (“CRC”) in January 2012 for a purchase price valued at \$1.0 million; QFS Ltd (“QFS”) in June 2012 for a purchase price valued at \$0.4 million; and Nordic Profit Provider AB (“NPP”) in November 2012 for a purchase price valued at \$0.1 million.

We did not complete a business acquisition in the years ended December 31, 2014 and 2013.

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 (income) loss* in the Consolidated Statements of Operations. We have also received payment for working capital transferred to the buyer. In addition, we may receive up to \$0.9 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.

Financing Activities. Net cash used in financing activities was \$22.7 million in 2014 and \$4.6 million in 2013 and net cash provided by financing activities was \$7.8 million in 2012. The net cash used in financing activities in 2014 included \$22.7 million for the repurchase of common stock (see *Stock Repurchase Program* below). We made mandatory payments of \$3.0 million on our term loan in 2012 and 2013 and an additional final payment of \$3.0 million in December 2013 that was not due until January 2014. The net cash provided by financing activities in 2012 included net proceeds of \$14.7 million from our follow-on public offering in December 2012. The net cash used in financing activities in 2013 included \$4.1 million of net proceeds we received from the exercise of the overallotment option for an additional 685,375 shares by the underwriters of our December 2012 public offering (see *Common Stock Offering* below).

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, 2014 was \$20.0 million. We had no borrowings outstanding under the SunTrust revolver as of December 31, 2014. 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

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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 that would have applied at December 31, 2014 had any borrowings been outstanding was approximately 1.92%. 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. Unless we change our debt arrangements, we anticipate lower accruals for commitment fees for 2015 given the December 23, 2014 amendment that lowered the commitment fee rate.

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.

We believe that we will have sufficient borrowing capacity and cash generated from operations to fund our capital and operational needs for at least the next twelve months.

Common Stock Offering

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

Stock Repurchase Program

On February 21, 2014, our Board of Directors authorized a stock repurchase program under which we may repurchase up to \$10.0 million of our common stock from time to time through March 31, 2015. On March 25, 2014, our Board of Directors authorized a \$10.0 million increase to the stock repurchase program. 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 since its inception to \$40.0 million, and extended the duration of the program to December 31, 2015. From the February 2014 announcement of the Company's current stock repurchase program through December 31, 2014, the Company has repurchased 3.6 million shares, or 12.0%, of its common stock outstanding on the date of the announcement, for an aggregate cost of \$22.7 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.

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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, 2014 is as follows:

Contractual obligations	Payments Due by Period (in thousands)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Interest and commitment fee on Secured Credit Facility ⁽¹⁾	\$ 149	\$ 50	\$ 99	\$ —	\$ —
Operating lease obligations	16,477	4,186	5,799	3,221	3,271
Payments to Messrs. Cook and Toma ⁽²⁾	780	62	129	137	452
Severance	2,161	2,139	22	—	—
Total	<u>\$ 19,567</u>	<u>\$ 6,437</u>	<u>\$ 6,049</u>	<u>\$ 3,358</u>	<u>\$ 3,723</u>

(1) Represents the estimated commitment fee and interest due on the Secured Credit Facility using the interest rate as of December 31, 2014 and assuming no borrowings on the revolver. 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 are issued that number of shares of Company common stock equal to 60% of the number of Performance Units being settled, and are 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 must be settled before April 30, 2016. We recognized compensation expense of \$0.2 million in 2014, \$0.5 million in 2013 and \$0.2 million in 2012 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 will be forfeited and recorded actual forfeitures as incurred.

Cash payments relating to these MIP awards were \$0.1 million in 2014 and \$0.2 million in 2013. There was no cash payment in 2012 for the MIP awards.

Off-Balance Sheet Arrangements

As of December 31, 2014, 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.

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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. Unbilled receivables also arise in our Healthcare Claims Recovery Audit services as we generally cannot invoice the prime contractors for whom we operate as a subcontractor under the Medicare RAC program until cash is collected by the prime contractors.

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

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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, 2014.

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, 2014 with the exception of impairment charges in 2013 for software development costs. In 2013, we recorded impairment charges of \$4.2 million related to certain internally developed software assets. These charges primarily resulted from our decision to withdraw from the Medicare RAC program rebid process and from planned changes to the Company's recovery audit delivery processes.

- *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.

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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. Given our limited history with stock option grants and exercises, we use the “simplified” method in estimating the expected term, the period of time that options granted are expected to be outstanding, 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 2014, we recognized \$9.8 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 \$1.0 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 \$20.0 million of borrowing availability under our revolving credit facility as of December 31, 2014, but had no amounts drawn under the revolving credit 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.

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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, 2014 and 2013 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, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, 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 13, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Atlanta, Georgia
March 13, 2015

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

	Years Ended December 31,		
	2014	2013	2012
Revenue	\$ 164,192	\$ 195,216	\$ 208,503
Operating expenses:			
Cost of revenue	115,959	126,102	137,351
Selling, general and administrative expenses	40,788	49,200	49,566
Depreciation of property and equipment	6,216	8,231	7,084
Amortization of intangible assets	3,531	4,997	7,224
Impairment charges	—	4,207	—
Total operating expenses	166,494	192,737	201,225
Operating income (loss)	(2,302)	2,479	7,278
Foreign currency transaction (gains) losses on short-term intercompany balances	2,003	(13)	(377)
Interest expense	(351)	(138)	(1,116)
Interest income	428	215	150
Other (income) loss	57	—	—
Income (loss) before income taxes	(4,285)	2,569	6,689
Income tax expense (Note 7)	3,241	2,755	1,297
Net income (loss)	\$ (7,526)	\$ (186)	\$ 5,392
Basic earnings (loss) per common share (Note 3)	\$ (0.26)	\$ (0.01)	\$ 0.21
Diluted earnings (loss) per common share (Note 3)	\$ (0.26)	\$ (0.01)	\$ 0.21
Weighted-average common shares outstanding (Note 3):			
Basic	28,707	29,169	25,566
Diluted	28,707	29,169	26,137

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

	Years Ended December 31,		
	2014	2013	2011
Net income (loss)	\$ (7,526)	\$ (186)	\$ 5,392
Foreign currency translation adjustments	(551)	(1,414)	363
Comprehensive income (loss)	\$ (8,077)	\$ (1,600)	\$ 5,755

See accompanying Notes to Consolidated Financial Statements.

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

	December 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,735	\$ 43,700
Restricted cash	53	57
Receivables:		
Contract receivables, less allowances of \$2,243 in 2014 and \$1,996 in 2013:		
Billed	32,373	28,175
Unbilled	2,809	9,904
	35,182	38,079
Employee advances and miscellaneous receivables, less allowances of \$692 in 2014 and \$402 in 2013	1,993	2,242
Total receivables	37,175	40,321
Prepaid expenses and other current assets	3,416	3,910
Deferred income taxes (Note 7)	5	7
Total current assets	66,384	87,995
Property and equipment:		
Computer and other equipment	28,864	28,810
Furniture and fixtures	2,926	3,050
Leasehold improvements	3,450	3,401
Software	20,934	23,535
	56,174	58,796
Less accumulated depreciation and amortization	(43,954)	(44,802)
Property and equipment, net	12,220	13,994
Goodwill (Note 4)	13,036	13,686
Intangible assets, less accumulated amortization of \$33,973 in 2014 and \$32,717 in 2013	9,439	13,582
Unbilled receivables	1,196	1,379
Deferred income taxes (Note 7)	36	1,701
Other assets	471	492
Total assets	\$ 102,782	\$ 132,829
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,397	\$ 10,809
Accrued payroll and related expenses	15,415	15,415
Refund liabilities	5,393	6,597
Deferred revenue	2,173	1,512
Business acquisition obligations (Note 12)	—	3,156
Total current liabilities	30,378	37,489
Refund liabilities	857	950
Other long-term liabilities	561	562
Total liabilities	31,796	39,001
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; 26,762,861 shares issued and outstanding at December 31, 2014 and 29,367,439 shares issued and outstanding at December 31, 2013	268	294
Additional paid-in capital	590,067	604,806
Accumulated deficit	(520,912)	(513,386)
Accumulated other comprehensive income	1,563	2,114
Total shareholders' equity	70,986	93,828

Total liabilities and shareholders' equity

\$	102,782	\$	132,829
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See accompanying Notes to Consolidated Financial Statements.

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PRGX GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2014, 2013 and 2012
(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, 2011	25,108,754	\$ 251	\$ 574,266	\$ (518,592)	\$ 3,165	\$ 59,090
Net income	—	—	—	5,392	—	5,392
Foreign currency translation adjustments	—	—	—	—	363	363
Issuances of common stock:						
Restricted share awards	500,128	5	(5)	—	—	—
Shares issued for stock offering	2,500,000	25	14,657	—	—	14,682
Restricted shares remitted by employees for taxes	(161,514)	(2)	(1,603)	—	—	(1,605)
Stock option exercises	141,849	2	557	—	—	559
Forfeited restricted share awards	(196,085)	(2)	2	—	—	—
Stock-based compensation expense	—	—	6,171	—	—	6,171
Balance at December 31, 2012	27,893,132	279	594,045	(513,200)	3,528	84,652
Net loss	—	—	—	(186)	—	(186)
Foreign currency translation adjustments	—	—	—	—	(1,414)	(1,414)
Issuances of common stock:						
Restricted share awards	665,629	7	(7)	—	—	—
Shares issued for acquisition	217,155	2	1,470	—	—	1,472
Shares issued for stock offering	687,385	7	4,111	—	—	4,118
Restricted shares remitted by employees for taxes	(259,116)	(3)	(1,754)	—	—	(1,757)
Stock option exercises	202,159	2	914	—	—	916
2006 MIP Performance Unit settlements	52,912	1	(1)	—	—	—
Forfeited restricted share awards	(91,817)	(1)	1	—	—	—
Stock-based compensation expense	—	—	6,027	—	—	6,027
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	—	—	—
Repurchases 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

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	\$ (7,526)	\$ (186)	\$ 5,392
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Impairment charges	—	4,207	—
Depreciation and amortization	9,747	13,228	14,308
Amortization of deferred loan costs	104	193	183
Stock-based compensation expense	4,532	6,294	6,321
Foreign currency transaction (gains) losses on short-term intercompany balances	2,003	(13)	(377)
Deferred income taxes	1,566	(23)	(799)
Other loss from sale of assets	57	—	—
Changes in operating assets and liabilities, net of business acquisitions:			
Restricted cash	4	8	(1)
Billed receivables	(6,351)	4,206	(1,598)
Unbilled receivables	7,278	2,609	(2,179)
Prepaid expenses and other current assets	1,575	(1,326)	693
Other assets	5	17	(179)
Accounts payable and accrued expenses	(3,432)	(3,512)	(1,125)
Accrued payroll and related expenses	536	(5,720)	(1,258)
Refund liabilities	(1,297)	(591)	392
Deferred revenue	720	(72)	(157)
Noncurrent compensation obligations	414	329	345
Other long-term liabilities	112	(1,224)	(1,118)
Net cash provided by operating activities	<u>10,047</u>	<u>18,424</u>	<u>18,843</u>
Cash flows from investing activities:			
Business (acquisition) divestiture, net of cash	1,100	—	(1,542)
Purchases of property and equipment, net of disposal proceeds	(4,709)	(6,875)	(7,931)
Net cash used in investing activities	<u>(3,609)</u>	<u>(6,875)</u>	<u>(9,473)</u>
Cash flows from financing activities:			
Repayments of long-term debt	—	(6,000)	(3,000)
Payments for deferred loan costs	(104)	—	—
Payments of deferred acquisition consideration	(2,208)	(1,902)	(2,837)
Net proceeds from issuance of common stock	—	4,118	14,682
Repurchase of common stock	(22,685)	—	—
Restricted stock repurchased from employees for withholding taxes	(568)	(1,757)	(1,605)
Proceeds from option exercises	2,823	916	559
Net cash (used in) provided by financing activities	<u>(22,742)</u>	<u>(4,625)</u>	<u>7,799</u>
Effect of exchange rates on cash and cash equivalents	(1,661)	(1,030)	300
Net (decrease) increase in cash and cash equivalents	(17,965)	5,894	17,469
Cash and cash equivalents at beginning of period	43,700	37,806	20,337
Cash and cash equivalents at end of period	<u>\$ 25,735</u>	<u>\$ 43,700</u>	<u>\$ 37,806</u>
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ 132	\$ 567	\$ 340
Cash paid during the period for income taxes, net of refunds received	<u>\$ 3,892</u>	<u>\$ 3,245</u>	<u>\$ 2,730</u>
Deferred and contingent business acquisition consideration (Note 12)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 189</u>

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 Global, Inc. also provides services adjacent to recovery audit services, including data transformation, data 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, and pharmaceutical companies;
- healthcare payers, both private sector health insurance companies and state and federal government payers such as the Centers for Medicare and Medicaid Services ("CMS"); 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

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.

Certain reclassifications have been made to the 2013 financial statements to conform to the presentations adopted in 2014.

Beginning with the second quarter of 2014, we reclassified certain information technology expenses within our Recovery Audit Services — Americas segment from Selling, General and Administrative expenses to Cost of Revenue to better reflect the nature of the work performed. We have revised the presentation of our Selling, General and Administrative expenses and Cost of Revenue for all relevant prior periods.

Beginning with the first quarter of 2014, we present the former New Services segment as two separate segments: Adjacent Services, which was formerly referred to as Profit Optimization services, and Healthcare Claims Recovery Audit Services. We have revised the presentation of our operating segments and related information in *Note 2 - Operating Segments and Related Information*. Also beginning with the first quarter of 2014, we reclassified certain expenses within the Recovery Audit Services — Europe/Asia-Pacific segment from Cost of Revenue to Selling, General and Administrative expenses to better reflect costs associated with new business development efforts.

Beginning with the third quarter of 2013, we present fair value adjustments to acquisition-related contingent consideration as an adjustment to our segment measure earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") as presented in *Note 2 - Operating Segments and Related Information*. We now include these fair value adjustments in the Adjusted EBITDA calculation in the "Acquisition-related charges (benefits)" line, which we renamed from "Acquisition transaction costs and acquisition obligations classified as compensation." Accordingly, we have revised the presentation of our Adjusted EBITDA calculation for all relevant prior periods.

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

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

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.

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.

Unbilled receivables also may arise in our Healthcare Claims Recovery Audit Services segment as we generally cannot invoice the prime contractors for whom we operate as a subcontractor under the Medicare RAC program until cash is collected by the prime contractors. These unbilled receivables, net of the related reserves, were \$5.6 million as of December 31, 2013. There were no unbilled receivables, net of related reserves, related to the Healthcare Claims Recovery Audit Services segment as of December 31, 2014.

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 \$25.7 million in cash and cash equivalents includes \$10.2 million held in the U.S., \$4.9 million held in Canada, and \$10.6 million held in other foreign jurisdictions, primarily in the United Kingdom, Australia, India, and Brazil. Our cash and cash equivalents included short-term investments of approximately \$12.2 million as of December 31, 2014 and \$24.6 million as of December 31, 2013, of which approximately \$2.5 million and \$4.4 million, respectively, were held at banks outside of the United States, primarily in Brazil and Canada.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(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 services, accounts payable, deferred revenue and other accrued liabilities reasonably approximate fair market value due to the nature of the financial instrument and the short term maturity of these items.

We repaid the remaining balance of our bank debt in December 2013, and had no debt outstanding as of December 31, 2014. We record bank debt, if any, as the unpaid balance as of the period end date based on the effective borrowing rate and repayment terms when originated. The bank debt that we repaid was subject to variable rate terms, and we believe that the fair value was approximately equal to the carrying value. We considered the factors used in determining the fair value of this debt to be Level 3 inputs (significant unobservable inputs).

We had no business acquisition obligations as of December 31, 2014 and \$3.2 million of business acquisition obligations as of December 31, 2013 representing the fair value of deferred consideration and earn-out payments estimated to be due as of those dates. We determine the estimated fair values based on our projections of future revenue and profits or other factors used in the calculation of the ultimate payment to be made. The discount rate that we use to value the liability is based on specific business risk, cost of capital, and other factors. We consider these factors to be Level 3 inputs (significant unobservable inputs).

We state certain assets at fair value on a nonrecurring basis as required by accounting principles generally accepted in the United States. Generally, these assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. We recorded an impairment charge in 2013 (see *Software Development Costs*) whereby the fair value of the assets was derived using Level 3 inputs (significant unobservable inputs).

(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 was \$6.2 million in 2014, \$8.2 million in 2013 and \$7.1 million in 2012.

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, 2014 with the exception of charges for software development costs noted below.

(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 recorded an impairment charge of \$4.2 million in 2013 relating to internally developed software assets. No impairment charges were necessary in 2014 or 2012. The impairment charges in 2013 included \$2.7 million in the Recovery Audit Services - Americas segment relating to certain capitalized software development costs associated with certain proprietary audit tools. Much of the development efforts in this area were beneficial, but certain aspects of the development did not yield the benefits anticipated. We continue to develop this business model, but have changed our focus in certain areas and no longer expect to receive future economic benefit from certain costs and therefore recorded an impairment charge in the fourth quarter of 2013 representing the net book value of these capitalized costs. The 2013 impairment charges also included \$1.4 million in the Healthcare Claims Recovery Audit Services segment relating primarily to the capitalized software development costs for the systems we use to deliver our services under the Medicare RAC program. With our decision to withdraw our bids for a new contract under this program, we no longer anticipate generating meaningful revenue in this area and recorded an impairment charge in the fourth quarter of 2013 representing the net book value of all capitalized software development costs associated with the Medicare RAC program. The remaining \$0.1 million of impairment charges from 2013 were in the Adjacent Services segment and related

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to certain capitalized software development costs associated with advisory and analytics tools whereby the perceived future benefit of such tools was less than the carrying value of such tools. We therefore recorded an impairment charge in the fourth quarter of 2013 representing the net book value of such tools.

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, including the amortization of amounts previously capitalized, were \$3.1 million in 2014, \$6.0 million in 2013 and \$4.0 million in 2012.

(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 calculations in the three years ended December 31, 2014.

(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.

In addition, we incur significant personnel and other costs when performing recovery audit services to certain healthcare organizations. The process of documenting that we have met our revenue recognition criteria as described in *(b) Revenue Recognition, Billed and Unbilled Receivables and Refund Liabilities* above is extensive and generally is completed from three months to a year after we substantially have completed our services. We defer these costs and recognize them as expenses when we record the related revenue. We had no deferred costs of this nature as of December 31, 2014 and \$0.8 million of such deferred costs as of December 31, 2013, which we included in “Prepaid expenses and other current assets” in our Consolidated Balance Sheets.

(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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

a valuation allowance is not needed for all or a portion of deferred tax assets when significant negative evidence exists. Cumulative losses for tax reporting purposes 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 per 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.

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. Given our limited history with stock option grants and exercises, we use the “simplified” method in estimating the expected term, the period of time that options granted are expected to be outstanding, for our grants.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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,		
	2014	2013	2012
Risk-free interest rates	0.88% - 1.79%	0.37% - 1.55%	0.33% - 0.83%
Dividend yields	—%	—%	—%
Volatility factor of expected market price	.370 - .390	.446 - .675	.530 - .710
Weighted-average expected term of option	3.5 - 4.5 years	3.7 - 5 years	3.8 - 5 years
Forfeiture rate	—%	—%	—%

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 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 four segments: Recovery Audit Services – Americas; Recovery Audit Services – Europe/Asia-Pacific; Adjacent Services and Healthcare Claims Recovery Audit Services. We include the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to our four 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) 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.

FASB ASC Update No. 2014-15. In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)* (“ASU 2014-15”). ASU 2014-15 provides guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and related disclosure requirements. ASU 2014-15 is effective for annual periods beginning after December 15, 2016

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with early adoption permitted. We do not expect the adoption of ASU 2014-15 to have a material impact on our consolidated financial statements.

FASB ASC Update No. 2014-09. In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the transferring entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 allows for adoption using either of two methods; retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of application recognized at the date of initial adoption. It is effective for annual periods beginning after December 15, 2016. Early adoption is not permitted. We are currently undergoing an evaluation of the impact of ASU 2014-09 on our consolidated financial statements.

FASB ASC Update No. 2014-08. In April 2014, the FASB issued Accounting Standards Update No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)—Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (“ASU 2014-08”). ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014 with early adoption permitted for transactions that have not been disclosed in previously issued financial statements. We adopted ASU 2014-08 in the third quarter of 2014. The Company's disposal of assets on October 1, 2014 (*see Note 12*) did not qualify as a discontinued operation as defined in ASU 2014-08. The impact of ASU 2014-08 on the Company's financial statements with respect to any future transaction will be dependent on whether any such transaction falls within the scope of the new guidance.

(2) OPERATING SEGMENTS AND RELATED INFORMATION

We conduct our operations through four reportable segments:

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

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

Adjacent Services (formerly known as Profit Optimization services) represents data transformation, data analytics and associated advisory services.

Healthcare Claims Recovery Audit Services represents recovery audit services for healthcare claims, which consist primarily of services provided under subcontracts related to the Medicare Recovery Audit Contractor program.

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

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.

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Segment information for the years ended December 31, 2014 and 2013 and 2012 (in thousands) is as follows:

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Healthcare Claims Recovery Audit Services	Corporate Support	Total
2014						
Revenue	\$ 106,533	\$ 44,319	\$ 10,700	\$ 2,640	\$ —	\$ 164,192
Net loss						\$ (7,526)
Income tax expense						3,241
Interest income, net						(77)
EBIT	\$ 21,066	\$ 2,772	\$ (4,161)	\$ (4,827)	\$ (19,212)	(4,362)
Depreciation of property and equipment	4,711	592	722	191	—	6,216
Amortization of intangible assets	2,002	1,195	334	—	—	3,531
EBITDA	27,779	4,559	(3,105)	(4,636)	(19,212)	5,385
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	410	589	4,050
Other (income) loss	—	—	57	—	—	57
Stock-based compensation	—	—	—	—	4,532	4,532
Adjusted EBITDA	\$ 29,507	\$ 7,672	\$ (2,381)	\$ (4,226)	\$ (14,296)	\$ 16,276
Capital expenditures	\$ 3,930	\$ 651	\$ 123	\$ 5	\$ —	\$ 4,709
Allocated assets	\$ 50,252	\$ 18,556	\$ 4,596	\$ 820	\$ —	\$ 74,224
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
Total assets	\$ 50,252	\$ 18,556	\$ 4,596	\$ 820	\$ 28,558	\$ 102,782

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

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Healthcare Claims Recovery Audit Services	Corporate Support	Total
2013						
Revenue	\$ 118,649	\$ 46,436	\$ 13,183	\$ 16,948	\$ —	\$ 195,216
Net loss						\$ (186)
Income tax expense						2,755
Interest income, net						(77)
EBIT	\$ 27,094	\$ 3,901	\$ (3,480)	\$ (2,240)	\$ (22,783)	2,492
Depreciation of property and equipment	5,617	514	652	1,448	—	8,231
Amortization of intangible assets	2,792	1,508	697	—	—	4,997
EBITDA	35,503	5,923	(2,131)	(792)	(22,783)	15,720
Impairment charges	2,702	—	71	1,434	—	4,207
Foreign currency transaction (gains) losses on short-term intercompany balances	327	(316)	—	—	(24)	(13)
Acquisition-related charges (benefits)	1,315	(900)	187	—	—	602
Transformation severance and related expenses	107	1,135	81	87	1,134	2,544
Stock-based compensation	—	—	—	—	6,294	6,294
Adjusted EBITDA	\$ 39,954	\$ 5,842	\$ (1,792)	\$ 729	\$ (15,379)	\$ 29,354
Capital expenditures	\$ 5,292	\$ 781	\$ 376	\$ 426	\$ —	\$ 6,875
Allocated assets	\$ 55,978	\$ 16,706	\$ 4,993	\$ 7,433	\$ —	\$ 85,110
Unallocated assets:						
Cash and cash equivalents	—	—	—	—	43,700	43,700
Restricted cash	—	—	—	—	57	57
Deferred income taxes	—	—	—	—	1,708	1,708
Prepaid expenses and other assets	—	—	—	—	2,254	2,254
Total assets	\$ 55,978	\$ 16,706	\$ 4,993	\$ 7,433	\$ 47,719	\$ 132,829

PRGX GLOBAL, INC. AND SUBSIDIARIES
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	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Healthcare Claims Recovery Audit Services	Corporate Support	Total
2012						
Revenue	\$ 121,638	\$ 53,783	\$ 14,990	\$ 18,092	\$ —	\$ 208,503
Net income						\$ 5,392
Income tax expense						1,297
Interest expense, net						966
EBIT	\$ 28,589	\$ 5,035	\$ (3,396)	\$ (407)	\$ (22,166)	7,655
Depreciation of property and equipment	4,651	322	770	1,341	—	7,084
Amortization of intangible assets	4,355	2,062	807	—	—	7,224
EBITDA	37,595	7,419	(1,819)	934	(22,166)	21,963
Foreign currency transaction (gains) losses on short-term intercompany balances	(44)	(331)	—	—	(2)	(377)
Acquisition-related charges (benefits)	(1)	(612)	382	—	—	(231)
Transformation severance and related expenses	493	1,156	365	29	64	2,107
Wage claim costs	577	—	—	407	—	984
Stock-based compensation	—	—	—	—	6,321	6,321
Adjusted EBITDA	\$ 38,620	\$ 7,632	\$ (1,072)	\$ 1,370	\$ (15,783)	\$ 30,767
Capital expenditures	\$ 5,699	\$ 846	\$ 369	\$ 1,017	\$ —	\$ 7,931

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

	Years Ended December 31,		
	2014	2013	2012
United States	\$ 91,499	\$ 115,819	\$ 124,302
United Kingdom	23,817	24,639	30,437
Canada	15,851	19,584	17,007
France	8,508	10,225	11,330
Australia	5,762	4,461	2,467
Mexico	4,653	4,482	4,877
Brazil	3,050	5,090	5,919
New Zealand	1,353	976	984
Spain	1,275	844	1,252
Thailand	986	971	896
Hong Kong	903	851	743
Colombia	841	752	715
Other	5,694	6,522	7,574
	\$ 164,192	\$ 195,216	\$ 208,503

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	December 31,	
	2014	2013
United States	\$ 29,392	\$ 33,686
United Kingdom	4,416	6,690
All Other	1,359	1,378
	\$ 35,167	\$ 41,754

No client accounted for 10% or more of total revenue in 2014, 2013, or 2012.

(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,		
	2014	2013	2012
Basic earnings (loss) per common share:			
Numerator:			
Net income (loss)	\$ (7,526)	\$ (186)	\$ 5,392
Denominator:			
Weighted-average common shares outstanding	28,707	29,169	25,566
Basic earnings (loss) per common share	\$ (0.26)	\$ (0.01)	\$ 0.21

	Years Ended December 31,		
	2014	2013	2012
Diluted earnings (loss) per common share:			
Numerator:			
Net income (loss)	\$ (7,526)	\$ (186)	\$ 5,392
Denominator:			
Weighted-average common shares outstanding	28,707	29,169	25,566
Incremental shares from stock-based compensation plans	—	—	571
Denominator for diluted earnings per common share	28,707	29,169	26,137
Diluted earnings (loss) per common share	\$ (0.26)	\$ (0.01)	\$ 0.21

Weighted-average shares outstanding excludes antidilutive shares underlying options that totaled 3.3 million, 3.0 million, and 1.6 million shares, respectively, from the computation of diluted earnings (loss) per common share for the years ended December 31, 2014, 2013, and 2012. 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 years ended December 31, 2014 and 2013. As a result of the net loss for the years ended December 31, 2014 and 2013, all shares underlying stock options and Performance Units were considered antidilutive. The number of common shares we used in the basic and diluted earnings (loss) per common share computations include nonvested restricted shares of 0.5 million, 0.7 million, and 0.9 million for the years ended December 31, 2014, 2013, and 2012, respectively, and nonvested restricted share units that we consider to be participating securities of 0.1 million for the year ended December 31, 2014 and 0.2 million for the years ended December 31, 2013 and 2012.

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 in our Recovery Audit Services - Americas segment includes accumulated impairment losses of \$359.9 million recorded in 2002 and 2005.

Goodwill by reportable segments during 2014 and 2013 was as follows (in thousands):

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Total
Balance, January 1, 2013	\$ 12,177	\$ 896	\$ 596	\$ 13,669
Foreign currency translation	—	17	—	17
Balance, December 31, 2013	12,177	913	596	13,686
Goodwill disposed in connection with business divestiture	—	—	(596)	(596)
Foreign currency translation	—	(54)	—	(54)
Balance, December 31, 2014	\$ 12,177	\$ 859	\$ —	\$ 13,036

We have not recorded any goodwill in our Healthcare Claims Recovery Audit Services segment because there have been no business acquisitions in this segment.

We initially recorded goodwill of \$7.8 million in our Recovery Audit Services – Americas segment in conjunction with our December 2011 acquisition of Business Strategy, Inc. (“BSI”) (see *Note 12* below). We recorded purchase price adjustments in 2012 of \$0.2 million that reduced the BSI goodwill to \$7.6 million and recorded this change retroactively to 2011 bringing the total goodwill for this segment to \$12.2 million as of December 31, 2013. We also recorded additions to goodwill of \$0.7 million in our Recovery Audit Services – Europe/Asia-Pacific segment in 2012 relating to our acquisitions in 2012 of two third-party audit firms to which we had subcontracted a portion of our audit services (“associate migrations”) bringing the total goodwill for this segment to \$0.9 million as of December 31, 2013.

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.

(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 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”). There were no changes in gross carrying amounts for intangible assets in 2013, outside of foreign currency adjustments. *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, other than acquired work in process, was \$3.5 million in 2014, \$4.8 million in 2013 and \$5.4 million in 2012. As of December 31, 2014 and based on our current amortization methods, we project amortization expense relating to intangible assets for the next five years will be \$2.5 million in 2015, \$1.7 million in 2016, \$1.3 million in 2017, \$1.2 million in 2018 and \$1.0 million in 2019. We generally use accelerated amortization methods for customer relationships and trade names, and straight-line amortization for non-compete agreements.

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

Changes in noncurrent intangible assets during 2014 and 2013 were as follows (in thousands):

	Customer Relationships	Trademarks	Non- compete Agreements	Trade Names	Total
Gross carrying amount:					
Balance, January 1, 2013	\$ 39,665	\$ 1,081	\$ 2,508	\$ 2,865	\$ 46,119
FX adjustments and other	150	9	21	—	180
Balance, December 31, 2013	39,815	1,090	2,529	2,865	46,299
Disposition of TJG assets	(829)	—	(808)	(665)	(2,302)
FX adjustments and other	(490)	(31)	(64)	—	(585)
Balance, December 31, 2014	<u>\$ 38,496</u>	<u>\$ 1,059</u>	<u>\$ 1,657</u>	<u>\$ 2,200</u>	<u>\$ 43,412</u>
Accumulated amortization:					
Balance, January 1, 2013	\$ (23,655)	\$ (473)	\$ (1,565)	\$ (2,027)	\$ (27,720)
Amortization expense	(3,355)	(215)	(552)	(680)	(4,802)
FX adjustments and other	(158)	(12)	(25)	—	(195)
Balance, December 31, 2013	(27,168)	(700)	(2,142)	(2,707)	(32,717)
Amortization expense	(3,122)	(197)	(137)	(75)	(3,531)
Disposition of TJG assets	371	—	808	582	1,761
FX adjustments and other	423	28	63	—	514
Balance, December 31, 2014	<u>\$ (29,496)</u>	<u>\$ (869)</u>	<u>\$ (1,408)</u>	<u>\$ (2,200)</u>	<u>\$ (33,973)</u>
Net carrying amount:					
Balance, December 31, 2013	<u>\$ 12,647</u>	<u>\$ 390</u>	<u>\$ 387</u>	<u>\$ 158</u>	<u>\$ 13,582</u>
Balance, December 31, 2014	<u>\$ 9,000</u>	<u>\$ 190</u>	<u>\$ 249</u>	<u>\$ —</u>	<u>\$ 9,439</u>
Estimated useful life (years)	6-20 years	6 years	1-5 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. There have been no borrowings under the revolving credit portion of the SunTrust credit facility. 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.

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 includ

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

es 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 interest rate that would have applied at December 31, 2014 had any borrowings been outstanding was approximately 1.92%. 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. The weighted-average interest rate during 2014 for the commitment fee due on the revolving credit facility was 0.5%. Unless we change our debt arrangements, we anticipate a lower rate for 2015 given the December 23, 2014 amendment that lowered the commitment fee.

As of December 31, 2014, we had no outstanding borrowings under the SunTrust revolver. The Company was in compliance with the covenants in its SunTrust credit facility as of December 31, 2014.

Future Minimum Payments

There were no future minimum principal payments of debt as of December 31, 2014 and 2013.

(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 \$6.0 million in 2014, \$6.3 million in 2013 and \$6.2 million in 2012.

We have subleased approximately 7,000 square feet of our principal executive office space to independent third parties as of December 31, 2014. The sublease rental income we earn is less than the lease payments we make. We also accrue future rental obligations relating to leases for which we no longer are utilizing the office space. Our current liabilities relating to these lease obligations were less than \$0.1 million as of December 31, 2014 and \$1.0 million as of December 31, 2013 and we have included these current liabilities in "Accounts payable and accrued expenses" in our Consolidated Balance Sheet. Our noncurrent liabilities relating to these lease obligations were less than \$0.1 million as of December 31, 2014 and we have included these liabilities in "Other long-term liabilities" in our Consolidated Balance Sheet. There were no noncurrent liabilities as of December 31, 2013 associated with leased space that we no longer are utilizing. We adjust the fair value of the remaining lease payments, net of sublease income, based on payments we make and sublease income we receive. We include accretion of this liability related to discounting in rent expense. 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.

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 (both gross and net of any sublease income), including the amended lease for our principal executive offices, are as follows (in thousands):

Year Ending December 31,	Gross	Sublease Income	Net
2015	\$ 4,186	\$ (49)	\$ 4,137
2016	3,305	(32)	3,273
2017	2,494	(16)	2,478
2018	1,638	—	1,638
2019	1,583	—	1,583
Thereafter	3,271	—	3,271
Total payments	\$ 16,477	\$ (97)	\$ 16,380

(7) INCOME TAXES

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

	Years Ended December 31,		
	2014	2013	2012
United States	\$ (8,196)	\$ (5,457)	\$ 3,158
Foreign	3,911	8,026	3,531
	\$ (4,285)	\$ 2,569	\$ 6,689

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

	Years Ended December 31,		
	2014	2013	2012
Current:			
Federal	\$ —	\$ —	\$ 78
State	(11)	(452)	(30)
Foreign	1,686	3,230	2,048
	1,675	2,778	2,096
Deferred:			
Federal	—	—	—
State	—	—	—
Foreign	1,566	(23)	(799)
	1,566	(23)	(799)
Total	\$ 3,241	\$ 2,755	\$ 1,297

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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,		
	2014	2013	2012
Statutory federal income tax rate	\$ (1,457)	\$ 873	\$ 2,274
State income taxes, net of federal effect	(189)	(657)	24
Change in deferred tax asset valuation allowance	3,735	(142)	(1,883)
Foreign taxes in excess of U.S. statutory rate	714	1,784	486
Compensation deduction limitation	381	820	265
Other, net	57	77	131
Total	\$ 3,241	\$ 2,755	\$ 1,297

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,	
	2014	2013
Deferred income tax assets:		
Accounts payable and accrued expenses	\$ 1,712	\$ 1,864
Accrued payroll and related expenses	2,530	1,933
Stock-based compensation expense	10,226	9,811
Depreciation of property and equipment	5,480	5,836
Non-compete agreements	1	8
Unbilled receivables and refund liabilities	904	—
Operating loss carry-forwards of foreign subsidiary	1,920	1,690
Federal operating loss carry-forwards	30,669	31,003
Intangible assets	—	865
State operating loss carry-forwards	2,671	2,925
Other	1,930	2,165
Gross deferred tax assets	58,043	58,100
Less valuation allowance	52,002	48,453
Gross deferred tax assets net of valuation allowance	6,041	9,647
Deferred income tax liabilities:		
Intangible assets	3,049	3,970
Unbilled receivables and refund liabilities	—	1,765
Capitalized software	1,834	984
Other	1,117	1,220
Gross deferred tax liabilities	6,000	7,939
Net deferred tax assets	\$ 41	\$ 1,708

Our reported effective tax rates on income approximated (75.6)% in 2014, 107.2% in 2013, and 19.4% in 2012. 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

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

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, 2014, 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 \$52.0 million as of December 31, 2014, representing a change of \$3.5 million from the valuation allowance of \$48.5 million recorded as of December 31, 2013.

In 2011, management determined that a valuation allowance was no longer required against the deferred tax assets of one of its foreign subsidiaries given its return to profitability and future projected profitability. In the past three years, the foreign subsidiary did not meet its projections, and incurred losses in the periods from 2012 through 2014. At December 31, 2014, we had gross deferred tax assets of \$2.3 million relating to this subsidiary. Given the recent losses, management considered the need to record a valuation allowance against the net deferred tax assets of this foreign subsidiary. Our assessment considered both positive and negative evidence regarding future profitability. The positive evidence includes improvements we have made in the cost structure of the subsidiary; our recent expansion of services to a promising industry that we believe will help to improve the financial performance of the subsidiary; and our forecasts for future taxable income for this subsidiary. The negative evidence includes recent losses generated by the subsidiary. After consideration of these factors, we determined that at this time, the negative evidence outweighed the positive evidence regarding the future realization of these deferred tax assets of this subsidiary, and we therefore recorded a \$2.3 million valuation allowance against the net deferred tax assets of this subsidiary for the year ended December 31, 2014.

As of December 31, 2014, we had approximately \$87.6 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 2033. As of December 31, 2014, we had approximately \$92.1 million of state loss carry-forwards available to reduce future state taxable income. The state loss carry-forwards expire to varying degrees between 2019 and 2033 and are subject to certain limitations.

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 subsidiary, we assert that we are not permanently reinvested. We provided additional deferred taxes of \$0.2 million in 2014, \$0.4 million in 2013, and \$0.2 million in 2012 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.

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 \$87.6 million of U.S. federal loss carry-forwards available to the Company, \$15.2 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.

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.

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

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, 2012	\$ 2,649	\$ 2,218
Additions based on tax positions related to the current year	—	—
Additions based on tax positions related to the prior years	333	456
Decreases based on tax positions related to the prior years	\$ (785)	\$ (1,214)
Balance at December 31, 2013	\$ 2,197	\$ 1,460
Additions based on tax positions related to the current year	—	—
Additions based on tax positions related to the prior years	—	119
Decreases based on payments made during the year	(932)	(385)
Decreases based on tax positions related to the prior years	(541)	(934)
Balance at December 31, 2014	\$ 724	\$ 260
Additions based on tax positions related to the current year	—	—
Additions based on tax positions related to the prior years	—	33
Decreases based on payments made during the year	—	—
Decreases based on tax positions related to the prior years	(47)	(73)
Balance at December 31, 2014	<u>\$ 677</u>	<u>\$ 220</u>

The decreases in the unrecognized tax benefits and the related accrued interest and penalties in 2014 and 2013 occurred for several reasons, including the expiration of the statute of limitations for certain of these taxes in several states and in two foreign jurisdictions, completion of an audit by a foreign jurisdiction that resulted in a lower tax assessment than we had estimated, and the imposition of limitations on our potential liability resulting from our participation in voluntary disclosure agreement processes with several states. 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, 2014, the 2011 through 2013 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 2011 may also subject returns for those years to examination.

(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. We contributed approximately \$1.0 million in 2014 and \$1.1 million in both 2013 and 2012 to the Plan.

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

(9) CAPITAL STRUCTURE

Effective July 31, 2000, the Board 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, without any further votes or action by the shareholders. As of December 31, 2014 and 2013, 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. We repurchased 3,605,142 shares of our common stock during the year ended December 31, 2014 for \$22.7 million. There were no repurchases during the year ended December 31, 2013.

Pursuant to exercises of outstanding stock options, we issued 716,780 shares of our common stock having a value of \$2.8 million in the year ended December 31, 2014 and 202,159 shares of our common stock having a value of \$0.9 million in the year ended December 31, 2013. Stock option exercises during the year ended December 31, 2014 primarily consisted of exercises by former executive officers of the Company.

(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.

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

(11) STOCK-BASED COMPENSATION

The Company currently has three stock-based compensation plans under which awards have been granted: (1) the Stock Incentive Plan ("SIP"); (2) the 2006 Management Incentive Plan ("2006 MIP"); and (3) 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.

SIP Awards

The SIP, as amended, authorized the grant of options or other stock-based awards, with respect to up to 1,237,500 shares of the Company's common stock to key employees, directors, consultants and advisors. The majority of options granted pursuant to the SIP had five to seven year terms and vested and became fully exercisable on a ratable basis over one to five years of continued employment or service. The SIP expired in June 2008.

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, 2014, there were 2,874,935 shares available for future grants under the 2008 EIP.

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

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, 2014, 2013, and 2012:

Grantee Type	# of Options Granted	Vesting Period	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
2014				
Director group	51,276	1 year or less	\$ 6.45	\$ 1.89
Employee group ⁽¹⁾	1,480,000	3 years	\$ 6.99	\$ 1.81
Employee inducement ⁽²⁾	270,000	3 years	\$ 6.64	\$ 1.71
2013				
Director group	75,490	1 year or less	\$ 5.67	\$ 2.00
Director group	17,092	3 years	\$ 6.83	\$ 3.76
Employee group	549,875	3 years	\$ 5.75	\$ 2.48
Employee inducement ⁽³⁾	20,000	3 years	\$ 7.14	\$ 3.81
2012				
Director group	56,261	1 year or less	\$ 7.55	\$ 3.89
Director group	8,546	3 years	\$ 7.72	\$ 4.25
Employee group	597,250	3 years	\$ 7.54	\$ 4.12
Employee inducement ⁽⁴⁾	45,000	3 years	\$ 8.54	\$ 4.58

(1) 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.

(2) 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.

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

(4) The Company granted non-qualified stock options outside its existing stock-based compensation plans in the third quarter of 2012 to one employee in connection with their joining the company. These options were forfeited in 2014.

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.

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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, 2014, 2013 and 2012:

Grantee Type	# of Shares Granted	Vesting Period	Weighted Average Grant Date Fair Value
2014			
Director group	51,276	1 year or less	\$ 6.45
Director group	—	3 years	\$ —
Employee group	120,000	3 years	\$ 6.36
Employee inducement ⁽¹⁾	70,000	3 years	\$ 6.04
2013			
Director group	75,490	1 year or less	\$ 5.67
Director group	17,092	3 years	\$ 6.83
Employee group	599,875	3 years	\$ 5.82
Employee inducement ⁽²⁾	20,000	3 years	\$ 7.14
2012			
Director group	56,261	1 year or less	\$ 7.55
Director group	8,546	3 years	\$ 7.72
Employee group	426,286	3 years	\$ 7.55
Employee inducement ⁽³⁾	45,000	3 years	\$ 8.54

(1) 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.

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

(3) The Company granted nonvested stock awards (restricted stock units) outside its existing stock-based compensation plans in the third quarter of 2012 to one employee in connection with the employee joining the company. These restricted stock unit awards were forfeited in 2014.

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

A summary of option activity as of December 31, 2014, 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, 2013	3,035,420	\$ 6.49	4.12 years	\$ 3,558
Granted	1,801,276	6.92		
Exercised	(716,780)	3.94		\$ 1,737
Forfeited	(585,640)	7.55		
Expired	(209,173)	13.38		
Outstanding at December 31, 2014	3,325,103	\$ 6.66	4.67 years	\$ 711
Exercisable at December 31, 2014	1,210,310	\$ 6.31	3.22 years	\$ 708

The weighted-average grant date fair value of options granted was \$1.80 per share in 2014, \$2.50 per share in 2013 and \$4.13 per share in 2012. The total intrinsic value of options exercised was \$1.7 million in 2014, \$0.4 million in 2013 and \$0.5 million in 2012.

A summary of nonvested stock awards (restricted stock and restricted stock units) activity as of December 31, 2014, 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, 2013	896,409	\$ 6.47
Granted	241,276	6.29
Vested	(369,032)	6.39
Forfeited	(140,805)	6.68
Nonvested at December 31, 2014	627,848	\$ 6.40

The weighted-average grant date fair value of nonvested stock awards (restricted stock and restricted stock units) granted was \$6.29 per share in 2014, \$5.86 per share in 2013 and \$7.64 per share in 2012. The total vest date fair value of stock awards vested during the year was \$2.3 million in 2014, \$4.6 million in 2013 and \$4.9 million in 2012.

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 will be settled by the issuance of Company common stock equal to 60% of the number of Performance Units being settled and the payment of cash in an amount equal to 40% of the fair market value of that number of shares of common stock equal to the number of Performance Units being settled.

During the 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. During the year ended December 31, 2013, an aggregate of 93,664 Performance Units were settled, which resulted in the issuance of 52,912 shares of common stock and cash payments totaling \$0.2 million. Since the June 19, 2012 grant date to December 31, 2014, an aggregate of 121,210 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.

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

icer. Such settlements resulted in the issuance of 69,438 shares of common stock and cash payments totaling \$0.3 million. As of December 31, 2014, a total of 16,530 Performance Units were outstanding, of which 6,200 were vested. There was no settlement of Performance Units during 2012. All Performance Units must be settled before April 30, 2016.

We recognized compensation expense of \$0.2 million in 2014, \$0.5 million in 2013 and less than \$0.2 million in 2012 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.

Stock-based compensation charges aggregated \$4.5 million in 2014 and \$6.3 million in both 2013 and 2012. We include these charges in “Selling, general and administrative expenses” in the accompanying Consolidated Statements of Operations. At December 31, 2014, there was \$5.4 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 2.0 years.

(12) BUSINESS ACQUISITIONS AND DIVESTITURES

We completed several acquisitions and a divestiture 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 UK 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.

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, 2014.

TJG Holdings LLC

In November 2010, we acquired the business and certain assets of TJG Holdings LLC (“TJG”), a privately-held provider of finance and procurement operations improvement services based in Chicago, Illinois. We have included the results of operations of TJG in our Adjacent Services segment results of operations since the acquisition date. We acquired TJG with the intention of expanding our financial advisory services business. We recorded goodwill in connection with this acquisition, representing the value of the assembled workforce, including a management team with deep industry knowledge. This goodwill was deductible for tax purposes until our divestiture of certain assets from this acquisition in October 2014 (see *Divestitures* below).

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

The financial terms of the TJG Asset Purchase Agreement required an initial payment to the TJG owners of \$2.3 million. Additional variable consideration (“earn-out”) could be earned based on the operating results generated by the acquired business over the two years subsequent to the acquisition, up to a maximum of \$1.9 million. We recorded an additional \$1.4 million payable based on management’s estimate of the fair value of the earn-out liability. We calculated the earn-out liability based on estimated future discounted cash flows to be generated by the acquired business over a two year period. We determined the discount rate based on specific business risk, cost of capital and other factors. The total estimated purchase price was valued at approximately \$3.7 million. From the acquisition date to December 31, 2013, we paid \$1.9 million of the earn-out and recorded accretion and other adjustments of the liability of \$0.5 million, resulting in no remaining earn-out payable as of December 31, 2013.

Associate Migrations

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

The allocation of the aggregate fair values of the assets acquired and purchase price for these associate migrations in 2012 is summarized as follows (in thousands):

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

Business Strategy, Inc.

In December 2011, we acquired Business Strategy, Inc. and substantially all of the assets of an affiliated company (collectively “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.

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

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.

The following unaudited pro forma condensed financial information presents the combined results of operations of the Company, BSI, CRC, QFS, and NPP as if the acquisitions had occurred as of January 1, 2011. The unaudited pro forma financial information is not indicative of, nor does it purport to project, the future financial position or operating results of the Company. Pro forma adjustments included in these amounts consist primarily of amortization expense associated with the intangible assets recorded in the allocation of the purchase price. The unaudited pro forma financial information excludes acquisition and integration costs and does not give effect to any estimated and potential cost savings or other operating efficiencies that could result from the acquisition. Unaudited pro forma condensed financial information, excluding divestitures, is as follows (in thousands):

	Years Ended December 31,	
	2012	2011
Revenue	\$ 208,503	\$ 210,073
Net income (loss)	\$ 5,913	\$ 4,341

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 (income) loss* in the Consolidated Statements of Operations. We have also received payment for working capital transferred to the buyer. In addition, we may receive up to \$0.9 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.

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, 2014 and 2013. 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 have been updated to conform with classifications adopted in 2014 that are described in *Note 1*.

	2014 Quarter Ended				2013 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	\$ 37,901	\$ 41,981	\$ 42,988	\$ 41,322	\$ 45,101	\$ 50,205	\$ 53,403	\$ 46,507
Operating expenses:								
Cost of revenue	28,832	29,944	28,681	28,502	31,538	32,522	31,803	30,239
Selling, general and administrative expenses	9,976	11,037	10,492	9,283	10,580	11,629	13,017	13,974
Depreciation of property and equipment	1,682	1,586	1,428	1,520	2,008	2,027	2,034	2,162
Amortization of intangible assets	903	902	895	831	1,276	1,332	1,204	1,185
Impairment charges	—	—	—	—	—	—	—	4,207
Total operating expenses	41,393	43,469	41,496	40,136	45,402	47,510	48,058	51,767
Operating income (loss)	(3,492)	(1,488)	1,492	1,186	(301)	2,695	5,345	(5,260)
Foreign currency transaction (gains) losses on short-term intercompany balances	15	(163)	1,221	930	357	225	(636)	41
Interest expense (income), net	54	(43)	(44)	(44)	(217)	53	75	12
Other (income) loss	—	—	—	57	—	—	—	—
Income (loss) before income taxes	(3,561)	(1,282)	315	243	(441)	2,417	5,906	(5,313)
Income tax expense	113	186	554	2,388	56	586	1,029	1,084
Net income (loss)	(3,674)	(1,468)	(239)	(2,145)	(497)	1,831	4,877	(6,397)
Basic earnings (loss) per common share ⁽¹⁾	\$ (0.12)	\$ (0.05)	\$ (0.01)	\$ (0.08)	\$ (0.02)	\$ 0.06	\$ 0.17	\$ (0.22)
Diluted earnings (loss) per common share ⁽¹⁾	\$ (0.12)	\$ (0.05)	\$ (0.01)	\$ (0.08)	\$ (0.02)	\$ 0.06	\$ 0.16	\$ (0.22)

(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 2014, we recorded a valuation allowance of \$2.3 million against the net deferred tax assets of one of our foreign subsidiaries, which increased our income tax expense for the period.

In the fourth quarter of 2013, we recorded impairment charges of \$4.2 million related to internally developed software assets.

(14) SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of issuance of the Company's Audited Consolidated Financial Statements and determined that no subsequent events occurred that would require accrual or additional disclosure.

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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, 2014.

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, 2014, the Company's internal control over financial reporting is effective. The Company's internal control over financial reporting as of December 31, 2014 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, 2014.

There was no change in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. 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, 2014, 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

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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.

In our opinion, PRGX Global, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, 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, 2014 and 2013, 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, 2014 and our report dated March 13, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Atlanta, Georgia
March 13, 2015

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 2015 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.

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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

The Company currently has three shareholder approved stock-based compensation plans under which equity awards have been granted: (1) the Stock Incentive Plan ("SIP"), (2) the 2006 Management Incentive Plan ("2006 MIP"), and (3) the 2008 Equity Incentive Plan ("2008 EIP"). The SIP, as amended, authorized the grant of options or other stock-based awards, with respect to up to 1,237,500 shares of the Company's common stock to key employees, directors, consultants and advisors. The SIP expired in June 2008.

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. There are shares remaining available for awards under the 2006 MIP.

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, 2014:

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	3,035,103	6.66	2,874,935
Share awards ⁽¹⁾	9,918	—	9,914
Equity compensation plans not approved by security holders ⁽²⁾ :			
⁽³⁾	290,000	6.67	—
Total	3,335,021	\$ 6.66	2,884,849

(1) Amounts presented represent 60% of Performance Unit awards under the Company's 2006 Management Incentive Plan. Performance Unit awards are required to be settled 60% in common stock and 40% in cash.

(2) 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.

(3) Inducement Option Grant – during the first quarter of 2013, in connection with an employee joining the Company, the Company made an inducement grant outside its existing stock-based compensation plans to the employee. The employee received an option to purchase 20,000 shares of the common stock of the Company. Vesting of the grant is subject to certain performance requirements.

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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.

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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 37.

	<u>Page No.</u>
Report of Independent Registered Public Accounting Firm	38
Consolidated Statements of Operations for the Years Ended December 31, 2014, 2013 and 2012	39
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2014, 2013 and 2012	39
Consolidated Balance Sheets as of December 31, 2014 and 2013	40
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2014, 2013 and 2012	41
Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012	42
Notes to Consolidated Financial Statements	43

(2) Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts	79
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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).
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	1996 Stock Option Plan, dated as of January 25, 1996, together with Forms of Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's March 26, 1996 Registration Statement No. 333-1086 on Form S-1).
+10.2	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).
+10.3	Form of the Registrant's Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q for the quarterly period ended June 30, 2001).

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- 10.4 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, 2002).
- 10.5 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).
- 10.6 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).
- 10.7 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).
- +10.8 Amended Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q for the quarterly period ended June 30, 2002).
- +10.9 Amended HSA-Texas Stock Option Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-Q for the quarterly period ended June 30, 2002).
- +10.10 Form of Non-employee Director Option Agreement (incorporated by reference to Exhibit 99.1 to the Registrant's Report on Form 8-K filed on February 11, 2005).
- +10.11 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).
- +10.12 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).
- +10.13 Form of Non-Employee Director Stock Option Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on September 18, 2007).
- +10.14 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).
- +10.15 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).
- +10.16 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).
- +10.17 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).
- +10.18 Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on January 14, 2009).
- 10.19 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).
- 10.20 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).
- 10.21 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).
- 10.22 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).
- 10.23 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).

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10.24	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).
10.25	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).
10.26	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).
10.27	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).
10.28	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).
10.29	Seventh Loan Documents Modification Agreement, entered into as of October 23, 2014, by and among the Borrowers, the Guarantors and the Lender.
10.30	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).
+10.31	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).
+10.32	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).
+10.33	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).
+10.34	Employment Agreement between the Registrant and Puneet Pamnani dated February 8, 2012 (incorporated by reference to Exhibit 10.35 to the Registrant's Form 10-K filed on March 15, 2012).
+10.35	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).
+10.36	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).
+10.37	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).
+10.38	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).
+10.39	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).
+10.40	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).
+10.41	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).
+10.42	Employment Agreement between the Registrant and Michael W. Reene dated September 11, 2014.
+10.43	Employment Agreement between the Registrant and Catherine Lee dated January 19, 2015.
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.

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- 31.1 Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the year ended December 31, 2014.
- 31.2 Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the year ended December 31, 2014.
- 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, 2014.
- 101 The following financial information from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, formatted in Extensible Business Reporting Language ("XBRL"): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements.
- + Designates management contract or compensatory plan or arrangement.

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In thousands)**

Description	Balance at Beginning of Year	Additions Charge (Credit) to Costs and Expenses	Deductions Credit to the respective receivable ⁽¹⁾	Balance at End of Year
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
2013				
Allowance for doubtful accounts receivable	\$ 1,693	303	—	\$ 1,996
Allowance for doubtful employee advances and miscellaneous receivables	\$ 538	1,176	(1,312)	\$ 402
Deferred tax valuation allowance	\$ 48,489	(36)	—	\$ 48,453
2012				
Allowance for doubtful accounts receivable	\$ 811	882	—	\$ 1,693
Allowance for doubtful employee advances and miscellaneous receivables	\$ 272	584	(318)	\$ 538
Deferred tax valuation allowance	\$ 51,630	(3,141)	—	\$ 48,489

(1) Write-offs net of recoveries.

Execution Version

SEVENTH LOAN DOCUMENTS MODIFICATION AGREEMENT

THIS SEVENTH LOAN DOCUMENTS MODIFICATION AGREEMENT (this “Amendment”) is made and entered into as of the 23rd day of October, 2014, by and among PRGX GLOBAL, INC., a Georgia corporation formerly known as PRG-Schultz International, Inc. (“PRGX”), PRGX USA, INC., a Georgia corporation formerly known as PRG-Schultz USA, Inc. (“PRG-USA”) (PRGX and PRG-USA are each individually, a “Borrower”, and collectively, the “Borrowers”), each of the Subsidiaries of PRGX listed on Schedule A 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 Revolving Credit and Term Loan 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 “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, pursuant to Section 7.4(h) of the Credit Agreement, PRGX is permitted to redeem, purchase or repurchase its common stock pursuant to open-market purchases, privately negotiated transactions or otherwise in an amount not to exceed \$20,000,000 in the aggregate in any Fiscal Year;

WHEREAS, PRGX has requested that Administrative Agent, the Issuing Bank and the Lenders modify the Credit Agreement to provide for an additional \$7,500,000 basket for such stock redemptions, purchases or repurchases during the fourth (4th) Fiscal Quarter of Fiscal Year 2014;

WHEREAS, Administrative Agent, the Issuing Bank and the Lenders have agreed to so modify the Credit Agreement, as more specifically set forth herein, *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 payment of an amendment fee in the amount of \$7,500.00, (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), and (iii) fully executed counterparts to this Amendment from the Loan Parties.

2. Modification of Credit Agreement. The Credit Agreement is hereby amended, effective as of the date hereof, by deleting Section 7.4(h) in its entirety and replacing it with the following:

“(h) To the extent permitted by Section 7.5(iii), PRGX’s redemption, purchase or repurchase of its common stock pursuant to open-market purchases, privately negotiated transactions or otherwise, *provided, however,* that such redemptions, purchases and repurchases do not exceed \$20,000,000 in the aggregate in any Fiscal Year, *provided further, however,* that PRGX shall be permitted to make additional redemptions, purchases and repurchases of its common stock pursuant to open-market purchases, privately negotiated transactions or otherwise (over and above such annual \$20,000,000 limit) in an aggregate amount not exceed \$7,500,000 during the fourth (4th) Fiscal Quarter of Fiscal Year 2014.”

3. 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, 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.

4. 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, 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.

5. 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.

6. For purposes of this Paragraph 6, 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 nonappealable 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 6, Borrowers and Guarantors make no such releases, representations, warranties, standstills or agreements with respect to any future Loan Related Claims.

7. 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.

8. No Waiver or Implication. Borrowers and Guarantors hereby agree that 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.

9. 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.

10. 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.

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

12. 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.

13. 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 and Waiver has been duly executed by the parties hereto as of the day and year first above written.

PRGX GLOBAL, INC., a Georgia corporation, formerly known as PRG-Schultz International, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX USA, INC., a Georgia corporation, formerly known as PRG-Schultz USA, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGDS, LLC, a Georgia limited liability company

By: /s/ Robert B. Lee (SEAL)
Name: Robert B. Lee
Title: CFO

PRGFS, INC., a Delaware corporation

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

(Signatures continue on following page)

PRG INTERNATIONAL, INC., a Georgia corporation

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGTS, LLC, a Georgia limited liability company

By: /s/ Robert B. Lee (SEAL)
Name: Robert B. Lee
Title: CFO

PRGX ASIA, INC., a Georgia corporation, formerly known as The Profit Recovery Group Asia, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX AUSTRALIA, Inc., a Georgia corporation, formerly known as PRG-Schultz Australia, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

(Signatures continue on following page)

PRGX BELGIUM, INC., a Georgia corporation, formerly known as PRG-Schultz Belgium, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX BRASIL, LLC, a Georgia limited liability company, formerly known as PRG-Schultz Brasil, LLC

By: /s/ Robert B. Lee (SEAL)
Name: Robert B. Lee
Title: CFO

PRGX CANADA, LLC, a Georgia limited liability company, formerly known as PRG-Schultz Canada, LLC

By: /s/ Robert B. Lee (SEAL)
Name: Robert B. Lee
Title: CFO

PRGX EUROPE, INC., a Georgia corporation, formerly known as PRG-Schultz Europe, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

(Signatures continue on following page)

PRGX FRANCE, INC., a Georgia corporation, formerly known as PRG-Schultz France, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX GERMANY, INC., a Georgia corporation, formerly known as The Profit Recovery Group Germany, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX MEXICO, INC., a Georgia corporation, formerly known as The Profit Recovery Group Mexico, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

(Signatures continue on following page)

PRGX NETHERLANDS, INC., a Georgia corporation, formerly known as The Profit Recovery Group Netherlands, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX NEW ZEALAND, INC., a Georgia corporation, formerly known as The Profit Recovery Group New Zealand, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX PORTUGAL, INC., a Georgia corporation, formerly known as PRG-Schultz Portugal, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

(Signatures continue on following page)

PRGX SCANDINAVIA, INC., a Georgia corporation, formerly known as PRG-Schultz Scandinavia, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX SPAIN, INC., a Georgia corporation, formerly known as The Profit Recovery Group Spain, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX SWITZERLAND, INC., a Georgia corporation, formerly known as PRG-Schultz Switzerland, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

PRGX TEXAS, INC., a Texas corporation, formerly known as HS&A Acquisition - UK, Inc.

By: /s/ Robert B. Lee
Name: Robert B. Lee
Title: CFO

[CORPORATE SEAL]

(Signatures continue on following page)

PRGX COMMERCIAL LLC, a Georgia limited liability company

By: /s/ Robert B. Lee (SEAL)
Name: Robert B. Lee
Title: CFO

(Signatures continue on following page)

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

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

(End of signatures)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “Agreement”) is made and entered into as of September 11, 2014 (the “Effective Date”) by and between PRGX Global, Inc., a Georgia corporation (the “Company”), and Michael Reene (the “Executive”).

WITNESSETH:

WHEREAS, the Company considers the availability of the Executive’s services to be important to the management and conduct of the Company’s business and desires to secure the availability of the Executive’s services; and

WHEREAS, the Executive is willing to make the Executive’s services available to the Company on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements hereinafter set forth and intending to be legally bound, the Company and the Executive agree as follows:

1. **Employment and Duties.**

(a) **Position.** The Company hereby employs the Executive, and the Executive hereby accepts such employment, as the Senior Vice President-Growth & Market Development of the Company, effective as of the Effective Date, on the terms and subject to the conditions of this Agreement. The Executive agrees to perform such duties and responsibilities as are customarily performed by persons acting in such capacity or as are assigned to Executive from time to time by the Board of Directors of the Company or its designees. The Executive acknowledges and agrees that from time to time the Company may assign Executive additional positions with the Company or the Company’s subsidiaries, with such title, duties and responsibilities as shall be determined by the Company. The Executive agrees to serve in any and all such positions without additional compensation. The Executive will report directly to the Chief Executive Officer of the Company.

(b) **Duties.** The Executive shall devote the Executive’s best efforts and full professional time and attention to the business and affairs of the Company and the Company’s subsidiaries. During the Term, as defined below, Executive shall not serve as a director or principal of any other company or charitable or civic organization without the prior written consent of the Board of Directors of the Company. The principal place(s) of employment of the Executive shall be the Company’s executive offices in Atlanta, Georgia, subject to travel required for the business of the Company or the Company’s subsidiaries. The Executive shall be expected to follow and be bound by the terms of the Company’s Code of Conduct and Code of Ethics for Senior Financial Officers and any other applicable policies as the Company from time to time may adopt.

2 . **Term.** This Agreement is effective as of the Effective Date, and will continue through the first anniversary of the Effective Date, unless terminated or extended as hereinafter provided. This Agreement shall be extended for successive one-year periods following the original term (through each subsequent anniversary thereafter) unless any party notifies the other in writing at least 30 days prior to the end of the original term, or the end of any additional one-year renewal term, that the Agreement shall not be extended

beyond its then current term. The term of this Agreement, including any renewal term, is referred to herein as the “Term.”

3. **Compensation.**

(a) **Base Salary.** The Company shall pay the Executive an annual base salary of \$280,000.00. The annual base salary shall be paid to the Executive in accordance with the established payroll practices of the Company (but no less frequently than monthly) subject to ordinary and lawful deductions. The Compensation Committee of the Company will review the Executive’s base salary from time to time to consider whether any increase should be made. The base salary during the Term will not be less than that in effect at any time during the Term.

(b) **Annual Bonus.** During the Term, the Executive will be eligible to participate in an annual incentive bonus plan that will establish measurable criteria and incentive compensation levels payable to the Executive for performance in relation to defined targets established by the Compensation Committee of the Company, after consultation with management, and consistent with the Company’s business plans and objectives. To the extent the targeted performance levels are exceeded, the incentive bonus plan will provide a means by which the annual bonus will be increased. Similarly, the incentive plan will provide a means by which the annual bonus will be decreased or eliminated if the targeted performance levels are not achieved. In connection with such annual incentive bonus plan, subject to the corresponding performance levels being achieved, the Executive shall be eligible for an annual target bonus equal to 50 percent of the Executive’s annual base salary and an annual maximum bonus equal to 100 percent of the Executive’s annual base salary. Any bonus payments due hereunder shall be payable to the Executive no later than the 15th day of the third month following the end of the applicable year to which the incentive bonus relates.

(c) **Stock Compensation.** The Company shall grant to the Executive, effective as of the Effective Date, as an initial equity award, nonqualified stock options covering 180,000 shares of the common stock, no par value per share, of the Company (the “Initial Options”) and restricted stock covering 20,000 shares of such common stock (the “Initial Restricted Stock”). The Initial Options and Initial Restricted Stock will vest and become nonforfeitable as follows:

(i) The Initial Options will be time-vested options, have a term of six years and will vest and become exercisable with respect to (i) the first one-third of the Initial Options (rounded down to the nearest whole number of Shares) on the first anniversary of the date of grant with an exercise price equal to the fair market value of the common stock as of the date of grant, (ii) the second one-third of the Initial Options (rounded down to the nearest whole number of Shares) on the second anniversary of the date of grant with an exercise price equal to 110 percent of the fair market value of the common stock on the date of grant and (iii) the remainder of the Initial Options on the third anniversary of the date of grant with an exercise price equal to 120 percent of the fair market value of the common stock as of the date of grant, subject to the Executive’s continued employment through such date(s).

(ii) The Initial Restricted Stock will be time-vested restricted stock and will vest and become nonforfeitable with respect to one-third of the Initial Restricted Stock (rounded down to the nearest whole share) on each of the first and second anniversaries of the date of grant and with respect to the remaining Initial Restricted Stock on the third anniversary of the date of grant, subject to the Executive’s continued employment through such date(s).

Beginning in 2015, the Executive shall be eligible to receive stock options, restricted stock, stock appreciation rights and/or other equity awards under the Company's applicable equity plans on such basis as the Compensation Committee or the Board of Directors of the Company or their designees, as the case may be, may determine on a basis not less favorable than that provided to the class of employees that includes the Executive. Except as specifically set forth above, however, nothing herein shall require the Company to make any equity grants or other awards to the Executive in any specific year.

4 . **Indemnity.** The Company and the Executive will enter into the Company's standard indemnification agreement for executive officers.

5. **Benefits.**

(a) **Benefit Programs.** The Executive shall be eligible to participate in any plans, programs or forms of compensation or benefits that the Company or the Company's subsidiaries provide to the class of employees that includes the Executive, on a basis not less favorable than that provided to such class of employees, including, without limitation, group medical, disability and life insurance, paid time-off, and retirement plan, subject to the terms and conditions of such plans, programs or forms of compensation or benefits.

(b) **Paid Time-Off.** The Executive shall be entitled to five weeks of paid time-off annually, to be accrued and used in accordance with the normal Company paid time-off policy.

6. **Reimbursement of Expenses.** The Company shall reimburse the Executive, subject to presentation of adequate substantiation, including receipts, for the reasonable travel, entertainment, lodging and other business expenses incurred by the Executive in accordance with the Company's expense reimbursement policy in effect at the time such expenses are incurred. In no event will such reimbursements, if any, be made later than the last day of the year following the year in which the Executive incurs the expense.

7. **Termination of Employment.**

(a) **Death or Incapacity.** The Executive's employment under this Agreement shall terminate automatically upon the Executive's death. If the Company determines that the Incapacity, as hereinafter defined, of the Executive has occurred, it may terminate the Executive's employment and this Agreement. "Incapacity" shall mean the inability of the Executive to perform the essential functions of the Executive's job, with or without reasonable accommodation, for a period of 90 days in the aggregate in any rolling 180-day period.

(b) **Termination by Company For Cause.** The Company may terminate the Executive's employment during the Term of this Agreement for Cause. For purposes of this Agreement, "Cause" shall mean, as determined by the Board of Directors of the Company in good faith, the following:

(i) the Executive's willful misconduct or gross negligence in connection with the performance of the Executive's duties which the Board of Directors of the Company believes does or is likely to result in material harm to the Company or any of its subsidiaries;

- (ii) the Executive's misappropriation or embezzlement of funds or property of the Company or any of its subsidiaries;
- (iii) the Executive's fraud or dishonesty with respect to the Company or any of its subsidiaries;
- (iv) the Executive's conviction of, indictment for (or its procedural equivalent), or entering of a guilty plea or plea of no contest with respect to any felony or any other crime involving moral turpitude or dishonesty; or
- (v) the Executive's breach of a material term of this Agreement, or violation in any material respect of any code or standard of behavior generally applicable to officers of the Company (including, without, limitation the Company's Code of Conduct, Code of Ethics for Senior Financial Officers and any other applicable policies as the Company from time to time may adopt), after being advised in writing of such breach or violation and being given 30 days to remedy such breach or violation, to the extent that such breach or violation can be cured;
- (vi) the Executive's breach of fiduciary duties owed to the Company or any of its subsidiaries;
- (vii) the Executive's engagement in habitual insobriety or the use of illegal drugs or substances; or
- (viii) the Executive's willful failure to cooperate, or willful failure to cause and direct persons under the Executive's management or direction, or employed by, or consultants or agents to, the Company or its subsidiaries to cooperate, with all corporate investigations or independent investigations by the Board of Directors of the Company or its subsidiaries, all governmental investigations of the Company or its subsidiaries or orders involving the Executive, the Company or the Company's subsidiaries entered by a court of competent jurisdiction.

Notwithstanding the above, and without limitation, the Executive shall not be deemed to have been terminated for Cause unless and until there has been delivered to the Executive (i) a letter from the Board of Directors of the Company finding that the Executive has engaged in the conduct set forth in any of the preceding clauses and specifying the particulars thereof in detail and (ii) a copy of a resolution duly adopted by the affirmative vote of the majority of the members of the Board of Directors of the Company who are not officers of the Company at a meeting of the Board of Directors called and held for such purpose or such other appropriate written consent (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board of Directors of the Company), finding that the Executive has engaged in such conduct and specifying the particulars thereof in detail.

(c) **Termination by Executive for Good Reason.** The Executive may terminate the Executive's employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without the Executive's consent, the following:

- (i) any action taken by the Company which results in a material reduction in the Executive's authority, duties or responsibilities (except that any change in

the foregoing that results solely from (A) the Company ceasing to be a publicly traded entity or from the Company becoming a wholly-owned subsidiary of another publicly traded entity or (B) any change in the geographic scope of the Executive's authority, duties or responsibilities will not, in any event and standing alone, constitute a substantial reduction in the Executive's authority, duties or responsibilities), including any requirement that the Executive report directly to anyone other than the Chief Executive Officer of the Company;

(ii) the assignment to the Executive of duties that are materially inconsistent with Executive's authority, duties or responsibilities;

(iii) any material decrease in the Executive's base salary or annual bonus opportunity or the benefits generally available to the class of employees that includes the Executive, except to the extent the Company has instituted a salary, bonus or benefits reduction generally applicable to all executives of the Company other than in contemplation of or after a Change in Control;

(iv) the relocation of the Executive to any principal place of employment other than Atlanta, Georgia, or any requirement that executive relocate his residence other than to the Atlanta, Georgia metropolitan area, without the Executive's express written consent to either such relocation; provided, however, this subsection (iv) shall not apply in the case of business travel which requires the Executive to relocate temporarily for periods of 90 days or less;

(v) the failure by the Company to pay to the Executive any portion of the Executive's base salary, annual bonus or other benefits within 10 days after the date the same is due; or

(vi) any material failure by the Company to comply with the terms of this Agreement.

Notwithstanding the above, and without limitation, "Good Reason" shall not include any resignation by the Executive where Cause for the Executive's termination by the Company exists and the Company then follows the procedures described above. The Executive must give the Company notice of any event or condition that would constitute "Good Reason" within 30 days of the event or condition which would constitute "Good Reason," and upon the receipt of such notice the Company shall have 30 days to remedy such event or condition. If such event or condition is not remedied within such 30-day period, any termination of employment by the Executive for "Good Reason" must occur within 30 days after the period for remedying such condition or event has expired.

(d) **Termination by Company Without Cause or by Executive Other than For Good Reason**. The Company may terminate the Executive's employment during the Term of this Agreement without Cause, and Executive may terminate the Executive's employment for other than Good Reason, upon 30 days' written notice. The Company may elect to pay the Executive his base salary and the Company's contribution to the cost of the Executive's welfare benefits during any applicable notice period (in accordance with the established payroll practices of the Company, no less frequently than monthly) and remove him from active service.

(e) **Termination on Failure to Renew.** The Company and the Executive agree that the Executive's employment will terminate immediately following the expiration of the Term of the Agreement, if the Company notifies the Executive that the Term of the Agreement shall not be extended as provided in Section 2 above.

(f) **Resignation from Board of Directors and Other Positions.** Notwithstanding any other provision of this Agreement, the Executive agrees to resign, as soon as administratively practicable, from any and all positions held with the Company or any subsidiary or affiliate of the Company, at the time of termination of the Executive's employment if the Executive's employment is terminated pursuant to Sections 7(b), (c), (d) or (e) of this Agreement and the Executive is serving in any such positions at such time.

8. **Obligations of the Company Upon Termination.**

(a) **Without Cause; Good Reason; Non-Renewal (No Change in Control).** If, during the Term, the Company terminates the Executive's employment without Cause in accordance with Section 7(d) hereof, the Executive terminates the Executive's employment for Good Reason in accordance with Section 7(c) hereof, or the Executive's employment terminates upon the Company's failure to renew the Agreement in accordance with Section 7(e) hereof, other than within two years after a Change in Control, subject to Section 20 below, the Executive shall be entitled to receive:

(i) payment of the Executive's annual base salary in effect immediately preceding the date of the Executive's termination of employment (or, if greater, the Executive's annual base salary in effect immediately preceding any action by the Company described in Section 7(c)(iii) above for which the Executive has terminated the Executive's employment for Good Reason), for the period equal to the greater of one year or the sum of four weeks for each full year of continuous service the Executive has with the Company and its subsidiaries at the time of termination of employment, beginning immediately following termination of employment (the "Severance Period"), payable in accordance with the established payroll practices of the Company (but no less frequently than monthly), beginning on the first payroll date following 60 days after termination of employment, with the Executive to receive at that time a lump sum payment with respect to any installments the Executive was entitled to receive during the first 60 days following termination of employment, and the remaining payments made as if they had commenced immediately following termination of employment;

(ii) payment of an amount equal to the Executive's actual earned full-year bonus for the year in which the termination of Executive's employment occurs, prorated based on the number of days the Executive was employed for the year, payable at the time the Executive's annual bonus for the year otherwise would be paid had the Executive continued employment;

(iii) continuation after the date of termination of employment of any health care (medical, dental and vision) plan coverage, other than that under a flexible spending account, provided to the Executive and the Executive's spouse and dependents at the date of termination for the Severance Period, on a monthly or more frequent basis, on the same basis and at the same cost to the Executive as available to similarly-situated active

employees during such Severance Period, provided that such continued participation is possible under the general terms and provisions of such plans and programs and provided that such continued coverage by the Company shall terminate in the event Executive becomes eligible for any such coverage under another employer's plans. If the Company reasonably determines that maintaining such coverage for the Executive or the Executive's spouse or dependents is not feasible under the terms and provisions of such plans and programs (or where such continuation would adversely affect the tax status of the plan pursuant to which the coverage is provided), the Company shall pay the Executive cash equal to the estimated cost of the expected Company contribution therefor for such same period of time, with such payments to be made in accordance with the established payroll practices of the Company (not less frequently than monthly) for the period during which such cash payments are to be provided;

(iv) payment of any Accrued Obligations. For purposes of this Agreement, "Accrued Obligations" shall mean the sum of (A) the Executive's annual base salary through Executive's termination of employment which remains unpaid, (B) the amount, if any, of any incentive or bonus compensation earned for any completed fiscal year of the Company which has not yet been paid, (C) any reimbursements for expenses incurred but not yet paid, and (D) any benefits or other amounts, including both cash and stock components, which pursuant to the terms of any plans, policies or programs have been earned or become payable, but which have not yet been paid to the Executive, including payment for any unused paid time-off (but not including amounts that previously had been deferred at the Executive's request, which amounts will be paid in accordance with the Executive's existing directions). The Accrued Obligations will be paid to the Executive in a lump sum as soon as administratively feasible after the Executive's termination of employment, which for purposes of any incentive or bonus compensation described in (B) above shall mean at the same time such annual bonus would otherwise have been paid;

(v) vesting of a prorated number of the Executive's outstanding unvested options, restricted stock and other equity-based awards that would have vested based solely on the continued employment of the Executive through the first applicable vesting date immediately following the date of termination of employment for each type of such award (e.g., options, restricted stock, etc.) equal to the number of awards of such type that would vest as of such next vesting date multiplied by a fraction, the numerator of which is the number of monthly anniversaries that have occurred, as measured from the immediately preceding vesting date of such award (or, if none, since the date of grant of such award) to the date of termination of Executive's employment, and the denominator of which is the number of monthly anniversary dates between such immediately preceding vesting date of such award (or, if none, the date of grant of such award) and the first vesting date immediately following the date of termination of Executive's employment for such type of award. Additionally, all of Executive's outstanding stock options shall remain outstanding until the earlier of (i) one year after the date of termination of the Executive's employment 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 the Executive's employment); and

(vi) payment of one year of outplacement services from Executrack or an outplacement service provider of the Executive's choice, limited to \$20,000 in total. This

outplacement services benefit will be forfeited if the Executive does not begin using such services within 90 days after the termination of the Executive's employment.

(b) **Without Cause; Good Reason; Non-Renewal (Change in Control)**. If, during the Term, the Company terminates the Executive's employment without Cause in accordance with Section 7(d) hereof, the Executive terminates the Executive's employment for Good Reason in accordance with Section 7(c) hereof, or the Executive's employment terminates upon the Company's failure to renew the Agreement in accordance with Section 7(e) hereof, within two years after a Change in Control, subject to Section 20 below, the Executive shall be entitled to receive:

(i) payment of the Executive's annual base salary in effect immediately preceding the date of the Executive's termination of employment (or, if greater, the Executive's annual base salary in effect immediately preceding any action by the Company described in Section 7(c)(iii) above for which the Executive has terminated the Executive's employment for Good Reason), for the period equal to the greater of 18 months or the sum of four weeks for each full year of continuous service the Executive has with the Company and its subsidiaries at the time of termination of employment, beginning immediately following termination of employment (the "Change in Control Severance Period"), payable in accordance with the established payable practices of the Company (but no less frequently than monthly), beginning on the first payroll date following 60 days after termination of employment, with the Executive to receive at that time a lump sum payment with respect to any installments the Executive was entitled to receive during the first 60 days following termination of employment;

(ii) payment of an amount equal to the Executive's actual earned full-year bonus for the year in which the termination of Executive's employment occurs, prorated based on the number of days the Executive was employed for the year, payable at the time the Executive's annual bonus for the year otherwise would be paid had the Executive continued employment;

(iii) continuation after the date of termination of employment of any health care (medical, dental and vision) plan coverage, other than that under a flexible spending account, provided to the Executive and the Executive's spouse and dependents at the date of termination for the Change in Control Severance Period, on a monthly or more frequent basis, on the same basis and at the same cost to the Executive as available to similarly-situated active employees during such Change in Control Severance Period, provided that such continued participation is possible under the general terms and provisions of such plans and programs and provided that such continued contribution by the Company shall terminate in the event Executive becomes eligible for any such coverage under another employer's plans. If the Company reasonably determines that maintaining such coverage for the Executive or the Executive's spouse or dependents is not feasible under the terms and provisions of such plans and programs (or where such continuation would adversely affect the tax status of the plan pursuant to which the coverage is provided), the Company shall pay the Executive cash equal to the estimated cost of the expected Company contribution therefor for such same period of time, with such payments to be made in accordance with the established payroll practices of the Company (not less frequently than monthly) for the period during which such cash payments are to be provided;

(iv) payment of any Accrued Obligations in a lump sum as soon as administratively feasible after the Executive's termination of employment, which for purposes of any incentive or bonus compensation described in Section 8(a)(iv)(B) above shall mean at the same time such annual bonus would otherwise have been paid;

(v) vesting in full of the Executive's outstanding unvested options, restricted stock and other equity-based awards that would have vested based solely on the continued employment of the Executive. Additionally, all of the Executive's outstanding stock options shall remain outstanding until the earlier of (i) one year after the date of termination of the Executive's employment 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 the Executive's employment); and

(vi) payment of one year of outplacement services from Executrack or an outplacement service provider of the Executive's choice, limited to \$20,000 in total. This outplacement services benefit will be forfeited if the Executive does not begin using such services within 90 days after the termination of the Executive's employment.

(c) **Death or Incapacity.** If the Executive's employment is terminated by reason of death or Incapacity in accordance with Section 7(a) hereof, the Executive shall be entitled to receive:

(i) payment of an amount equal to the actual full-year bonus earned for the year that includes Executive's death or Incapacity, prorated based on the number of days the Executive is employed for the year, payable at the same time such annual bonus would otherwise have been paid had the Executive continued employment; and

(ii) payment of any Accrued Obligations in a lump sum as soon as administratively feasible after the Executive's termination of employment, which for purposes of any incentive or bonus compensation described in Section 8(a)(iv)(B) above shall mean at the same time such annual bonus would otherwise have been paid.

(d) **Cause; Other Than for Good Reason.** If the Company terminates the Executive's employment for Cause in accordance with Section 7(b) hereof, or the Executive terminates the Executive's employment other than for Good Reason in accordance with Section 7(d) hereof, this Agreement shall terminate without any further obligation to the Executive other than to pay the Accrued Obligations (except that any incentive or bonus compensation earned for any completed fiscal year of the Company which has not yet been paid shall not be paid if the Company terminates the Executive's employment for Cause in accordance with Section 7(b) hereof) as soon as administratively feasible after the Executive's termination of employment.

(e) **Release and Waiver.** Notwithstanding any other provision of this Agreement, the Executive's right to receive any payments or benefits under Sections 8(a)(i), (ii), (iii), (v) and (vi) and 8(b)(i), (ii), (iii), (v) and (vi) of this Agreement upon the termination of the Executive's employment by the Company without Cause, by the Executive for Good Reason, or upon the Company's failure to renew the Agreement is contingent upon and subject to the Executive signing and delivering to the Company a separation agreement and complete general

release of all claims in a form acceptable to Company, and allowing the applicable revocation period required by law to expire without revoking or causing revocation of same, within 60 days following the date of termination of Executive's employment.

(f) **Change in Control.** For purposes of this Agreement, Change of Control means the occurrence of any of the following events:

(i) The accumulation in any number of related or unrelated transactions by any person of beneficial ownership (as such term is used in Rule 13d-3, promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of 50 percent or more of the combined total voting power of the Company's voting stock; provided that for purposes of this subsection (a), a Change in Control will not be deemed to have incurred if the accumulation of 50 percent or more of the voting power of the Company's voting stock results from any acquisition of voting stock (i) by the Company, (ii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of the Company's subsidiaries, or (iii) by any person pursuant to a merger, consolidation, reorganization or other transaction (a "Business Combination") that would not cause a Change in Control under subsection (ii) below; or

(ii) A consummation of a Business Combination, unless, immediately following that Business Combination, substantially all the persons who were the beneficial owners of the voting stock of the Company immediately prior to that Business Combination beneficially own, directly or indirectly, at least 50 percent of the combined voting power of the voting stock of the entity resulting from that Business Combination (including, without limitation, an entity that as a result of that transaction owns the Company, or all or substantially all of the Company assets, either directly or through one or more subsidiaries) in substantially the same proportions relative to each other as the ownership, immediately prior to that Business Combination, of the voting stock of the Company;

(iii) A sale or other disposition of all or substantially all of the assets of the Company except pursuant to a Business Combination that would not cause a Change in Control under subsection (ii) above;

(iv) At any time less than a majority of the members of the Board of Directors of the Company or any entity resulting from any Business Combination are Incumbent Board Members.

(v) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company, except pursuant to a Business Combination that would not cause a Change in Control under subsection (ii) above; or

(vi) Any other transaction or event that the Board of Directors of the Company identifies as a Change in Control for purposes of this Agreement.

(vii) For purposes of this Agreement, an "Incumbent Board Member" shall mean any individual who either is (a) a member of the Company Board of Directors as of the Effective Date or (b) a member who becomes a member of the Company's Board of Directors subsequent to the Effective Date of this Agreement, whose election or nomination by the Company's shareholders, was approved by a vote of at least a majority of the then

Incumbent Board Members (either by specific vote or by approval of a proxy statement of the Company in which that person is named as a nominee for director, without objection to that nomination), but excluding, for that purpose, any individual whose initial assumption of office occurs as a result of an actual or threatened election contest (within the meaning of Rule 14A-11 of the Exchange Act) with respect to the election or removal of directors or other actual threatened solicitation of proxies or consents by or on behalf of the person other than a board of directors. For purposes of this Agreement, a person means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trusts, unincorporated organization or any other entity of any kind.

9. **Business Protection Agreements.**

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

(i) “Business of the 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 the Company or the Company’s subsidiaries and their employees, customers and/or suppliers which is not generally known outside of the Company or the Company’s subsidiaries, which Executive learns of in connection with Executive’s employment with the Company, and which would be useful to competitors or the disclosure of which would be damaging to the Company or the Company’s subsidiaries. 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 the Company or the Company’s subsidiaries obtains products from their suppliers and sells services and products to customers; (C) the nature, origin, composition and development of the Company or the Company’s subsidiaries’ services and products; and (D) the manner in which the Company or the Company’s subsidiaries provide products and services to their customers.

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

(iv) “Restricted Territory” means, and is limited to, the geographic area described in Exhibit A attached hereto. Executive acknowledges and agrees that this is the area in which the Company and its subsidiaries does business at the time of the execution of this Agreement, and in which the Executive will have responsibility, at a minimum, on behalf of the Company and the Company’s subsidiaries. Executive acknowledges and agrees that if the geographic area in which Executive has responsibility should change while

employed under this Agreement, Executive will execute an amendment to the definition of “Restricted Territory” to reflect such change. This duty shall be part of the consideration provided by Executive for Executive’s employment hereunder.

(v) “Trade Secrets” means the trade secrets of the Company or the Company’s subsidiaries as defined under applicable law.

(b) **Confidentiality.** Executive agrees that the Executive will not (other than in the performance of Executive’s duties hereunder), directly or indirectly, use, copy, disclose or otherwise distribute to any other person or entity: (a) any Confidential Information during the period of time the Executive is employed by the Company and for a period of five years thereafter; or (b) any Trade Secret at any time such information constitutes a trade secret under applicable law. Upon the termination of Executive’s employment with the Company (or upon the earlier request of the Company), Executive shall promptly return to the Company all documents and items in the Executive’s possession or under the Executive’s control which contain any Confidential Information or Trade Secrets.

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

(d) **Non-Solicitation of Customers.** Executive agrees that during Executive’s employment with the Company and for a period of two years thereafter, Executive shall not, directly or indirectly, solicit any actual or prospective customers of the Company or the Company’s subsidiaries with whom Executive had Material Contact, for the purpose of selling any products or services which compete with the Business of the Company

(e) **Non-Recruitment of Employees or Contractors.** Executive agrees that during the Executive’s employment with the Company and for a period of two years thereafter, Executive will not, directly or indirectly, solicit or attempt to solicit any employee or contractor of the Company or the Company’s subsidiaries with whom Executive had Material Contact, to terminate or lessen such employment or contract.

(f) **Future Cooperation.** Executive agrees that, notwithstanding the termination of Executive’s employment and for a period of two years thereafter, 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; provided that such cooperation shall not unreasonably interfere with Executive’s other business affairs. The Company will reimburse the Executive for all reasonable out of pocket expenses incurred with such cooperation and, if such cooperation is to be rendered during the time after which no additional severance is owed to the Executive, shall compensate Executive for his services and time as a consultant at customary and market rates to be mutually agreed upon by the parties.

(g) **Obligations of the Company.** The Company agrees to provide Executive with Confidential Information in order to enable Executive to perform Executive's duties hereunder. The covenants of Executive contained in the covenants of Confidentiality, Non-Competition, Non-Solicitation of Customers and Non-Recruitment of Employees or Contractors set forth in Subsections 9(b) - 9(e) above ("Protective Covenants") are made by Executive in consideration for the Company's agreement to provide Confidential Information to Executive, and intended to protect Company's Confidential Information and the investments the Company makes in training Executive and developing customer goodwill.

(h) **Acknowledgments.** Executive hereby acknowledges and agrees that the covenants contained in (b) through (e) of this Section 9 and Section 10 hereof are reasonable as to time, scope and territory given the Company and the Company's subsidiaries' need to protect their business, customer relationships, personnel, Trade Secrets and Confidential Information. 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.

(i) **Specific Performance.** Executive acknowledges and agrees that any breach of any of the Protective Covenants or the provisions of Section 10 by him will cause irreparable damage to the Company or the 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, the 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 Protective Covenants by him.

10. **Ownership of Work Product.**

(a) **Assignment of Inventions.** Executive will make full written disclosure to the Company, and hold in trust for the sole right and benefit of the Company, and hereby assigns to the Company, or its designees, all of the Executive's right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws, which the Executive may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time the Executive is engaged as an employee of the Company (collectively referred to as "Inventions") and which (i) are developed using the equipment, supplies, facilities or Confidential Information or Trade Secrets of the Company or the Company's subsidiaries, (ii) result from or are suggested by work performed by Executive for the Company or the Company's subsidiaries, or (iii) relate at the time of conception or reduction to practice to the business as conducted by the Company or the Company's subsidiaries, or to the actual or demonstrably anticipated research or development of the Company or the Company's subsidiaries, will be the sole and exclusive property of the Company or the Company's subsidiaries, and Executive will and hereby does assign all of the Executive's right, title and interest in such Inventions to the Company and the Company's subsidiaries. Executive further acknowledge that all original works of authorship which are made by him (solely or jointly with others) within the scope of and during the period of the Executive's employment arrangement with the Company and which are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act.

(b) **Patent and Copyright Registrations.** Executive agrees to assist the Company and the Company's subsidiaries, or their designees, at the Company or the Company's subsidiaries' expense, in every proper way to secure the Company's or the Company's subsidiaries' rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company and the Company's subsidiaries of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which the Company or the Company's subsidiaries shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company and its subsidiaries, and their successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Executive further agree that the Executive's obligation to execute or cause to be executed, when it is in the Executive's power to do so, any such instrument or papers shall continue after the termination of this Agreement.

(c) **Inventions Retained and Licensed.** There are no inventions, original works of authorship, developments, improvements, and trade secrets which were made by Executive prior to the Executive's employment with the Company (collectively referred to as "Prior Inventions"), which belong to Executive, which relate to the Company's or the Company's subsidiaries' proposed business, products or research and development, and which are not assigned to the Company or the Company's subsidiaries hereunder.

(d) **Return of Company Property and Information.** The Executive agrees not to remove any property of the Company or the Company's subsidiaries or information from the premises of the Company or the Company's subsidiaries, except when authorized by the Company or the Company's subsidiaries. Executive agrees to return all such property and information within seven days following the cessation of Executive's employment for any reason. 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 the Company or the Company's subsidiaries to the Executive or which the Executive has developed or collected in the scope of the Executive's employment, as well as all issued equipment, supplies, accessories, vehicles, keys, instruments, tools, devices, computers, cell phones, materials, documents, plans, records, notebooks, drawings, or papers. Upon request by the Company, the Executive shall certify in writing that all copies of information subject to this Agreement located on the Executive's computers or other electronic storage devices have been permanently deleted. Provided, however, the Executive may retain copies of documents relating to any employee benefit plans applicable to the Executive and income records to the extent necessary for the Executive to prepare the Executive's individual tax returns.

11. **Mitigation.** The Executive shall not be required to mitigate the amount of any payment the Company becomes obligated to make to the Executive in connection with this Agreement, by seeking other employment or otherwise. Except as specifically provided above with respect to the health care continuation benefit, the amount of any payment provided for in Section 8 shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

12. **Withholding of Taxes.** The Company shall withhold from any amounts or benefits payable under this Agreement all federal, state, city or other taxes that the Company is required to withhold under any applicable law, regulation or ruling.

13. **Modification and Severability.** The terms of this Agreement shall be presumed to be enforceable, and any reading causing unenforceability shall yield to a construction permitting enforcement. If any single covenant or provision in this Agreement shall be found unenforceable, it shall be severed and the remaining covenants and provisions enforced in accordance with the tenor of the Agreement. In the event a court should determine not to enforce a covenant as written due to overbreadth, the parties specifically agree that said covenant shall be enforced to the maximum extent reasonable, whether said revisions be in time, territory, scope of prohibited activities, or other respects.

14. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia.

15. **Remedies and Forum.** The parties agree that they will not file any action arising out of this Agreement other than in 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 attorney's fees from the non-prevailing party(ies) 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 the Executive against the Company or the Company's subsidiaries, including any dispute relating to the termination of this Agreement, shall not constitute a defense to enforcement of said covenants by injunction.

16. **Notices.** All written notices required by this Agreement shall be deemed given when delivered personally or sent by registered or certified mail, return receipt requested, or by a nationally-recognized overnight delivery service to the parties at their addresses set forth on the signature page of this Agreement. Each party may, from time to time, designate a different address to which notices should be sent.

17. **Amendment.** This Agreement may not be varied, altered, modified or in any way amended except by an instrument in writing executed by the parties hereto or their legal representatives.

18. **Binding Effect.** This Agreement shall be binding on the Executive and the Company and their respective successors and assigns effective on the Effective Date. Executive consents to any assignment of this Agreement by the Company, so long as the Company will require any successor to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. If the Executive dies before receiving all payments due under this Agreement, unless expressly otherwise provided hereunder or in a separate plan, program, arrangement or agreement, any remaining payments due after the Executive's death shall be made to the Executive's beneficiary designated in

writing (provided such writing is executed and dated by the Executive and delivered to the Company in a form acceptable to the Company prior to the Executive's death) and surviving the Executive or, if none, to the Executive's estate.

19. **No Construction Against Any Party**. This Agreement is the product of informed negotiations between the Executive and the Company. If any part of this Agreement is deemed to be unclear or ambiguous, it shall be construed as if it were drafted jointly by all parties. The Executive and the Company agree that none of the parties were in a superior bargaining position regarding the substantive terms of this Agreement.

20. **Deferred Compensation Omnibus Provision**. Notwithstanding any other provision of this Agreement, 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 Code shall be provided and paid in a manner, and at such time, including without limitation payment and provision of benefits only in connection with the occurrence of a permissible payment event contained in Section 409A (e.g. separation from service from the Company and its affiliates as defined for purposes of Section 409A of the Code), and in such form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided therein for non-compliance. Notwithstanding any other provision of this Agreement, the Company's Compensation Committee or Board of Directors is authorized to amend this Agreement, to amend or void any election made by the Executive under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by it to be necessary or appropriate to comply, or to evidence or further evidence required compliance, with Section 409A of the Code (including any transition or grandfather rules thereunder). 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. If the Executive is a key employee (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) and any of the Company's stock is publicly traded on an established securities market or otherwise, then payment of any amount or provision of any benefit under this Agreement which is considered deferred compensation subject to Section 409A of the Code shall be deferred for six (6) months after termination of Executive's employment or, if earlier, Executive's death, as required by Section 409A(a)(2)(B)(i) of the Code (the "409A Deferral Period"). In the event such payments are otherwise due to be made in installments or periodically during the 409A Deferral Period, the payments which would otherwise have been made in 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 payments shall be made as otherwise scheduled. In the event benefits are required to be deferred, any such benefit may be provided during the 409A Deferral Period at the Executive's expense, with the Executive having a right to reimbursement from the Company once the 409A Deferral Period ends, and the balance of the benefits shall be provided as otherwise scheduled. For purposes of this Agreement, termination of employment shall mean a "separation from service" within the meaning of Section 409A of the Code where it is reasonably anticipated that no further services would be performed after such date or that the level of bona fide services Executive would perform after that date (whether as an employee or independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed over the immediately preceding 36-month period (or, if lesser, Executive's period of service).

21. **Mandatory Reduction of Payments in Certain Events.** Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be subject to the excise tax (the "Excise Tax") imposed by Section 4999 of the Code, then, prior to the making of any Payment to Executive, a calculation shall be made comparing (i) the net benefit to Executive of the Payment after payment of the Excise Tax to (ii) the net benefit to Executive if the Payment had been limited to the extent necessary to avoid being subject to the Excise Tax. If the amount calculated under (i) above is less than the amount calculated under (ii) above, then the Payment shall be limited to the extent necessary to avoid being subject to the Excise Tax (the "Reduced Amount"). In that event, cash payments shall be modified or reduced first and then any other benefits. The determination of whether an Excise Tax would be imposed, the amount of such Excise Tax, and the calculation of the amounts referred to in clauses (i) and (ii) of the foregoing sentence shall be made by an independent accounting firm selected by Company and reasonably acceptable to the Executive, at the Company's expense (the "Accounting Firm"), and the Accounting Firm shall provide detailed supporting calculations. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Payments which Executive was entitled to, but did not receive pursuant to this Section 21, could have been made without the imposition of the Excise Tax ("Underpayment"). In such event, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

22. **Entire Agreement.** Except as provided in the next sentence, this Agreement constitutes the entire agreement of the parties with respect to the matters addressed herein and it supersedes all other prior agreements and understandings, both written and oral, express or implied, with respect to the subject matter of this Agreement. It is further specifically agreed and acknowledged that, except as provided herein, the Executive shall not be entitled to severance payments or benefits under any severance or similar plan, program, arrangement or agreement of or with the Company for any termination of employment occurring while this Agreement is in effect.

[Signatures are on the following page.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written herein.

PRGX GLOBAL, INC.

By: /s/ Ronald E. Stewart

Its: CEO

600 Galleria Parkway
Suite 100
Atlanta, Georgia 30339
Attn: General Counsel

EXECUTIVE

Michael Reene

/s/ Michael Reene

3629 HABERSHAM RD NW

ATLANTA, GA 30305

EXHIBIT A

RESTRICTED TERRITORY

“Restricted Territory” refers to all of the geographic areas described in I. and II. below, collectively.

I. All of the following Metropolitan Statistical Areas in the U.S., collectively:

Fayetteville-Springdale-Rogers, AR-MO
Danville, IL
Cincinnati-Middletown, OH-KY-IN
Dallas-Fort Worth-Arlington, TX
Chicago-Naperville-Joliet, IL-IN-WI
Boise City-Nampa, ID
Grand Rapids-Wyoming, MI
Minneapolis-Saint Paul-Bloomington, MN-WI
New York-Newark-Jersey City, NY-NJ-PA
Phoenix-Mesa-Scottsdale, AZ
Miami-Fort Lauderdale-Pompano Beach, FL
Waco, TX
Milwaukee-Waukesha-West Allis, WI
Memphis, TN-MS-AR
Seattle-Tacoma-Bellevue, WA
Harrisburg-Carlisle, PA
Indianapolis, IN
Modesto, CA
Houston-Baytown-Sugarland, TX
Jacksonville, FL
Nashville-Davidson-Murfreesboro, TN
Atlanta-Sandy Springs-Marietta, GA

II. All of the area within the city limits of the following cities and within 25 kilometers of the city limits of the following cities, collectively:

Brampton, Ontario, Canada
Cambridge, Ontario, Canada
Mississauga, Ontario, Canada
Toronto, Ontario, Canada
Montreal, Quebec, Canada
Boucherville, Quebec, Canada
Stellarton, Nova Scotia, Canada
Mexico City, Mexico
Monterrey, Mexico
San Paulo, Brazil
Bogota, Columbia
Brno, Czech Republic
Hemel Hempstead, United Kingdom
London, United Kingdom
Luton, United Kingdom
Manchester, United Kingdom
Croydon, United Kingdom
Eastleigh, United Kingdom

Wellingborough, United Kingdom
Croix, Nord-pas-de-Calais, France
Rungis, France
Lyon - Saint Etienne, France
Paris, France
Lille, France
Madrid, Spain
Zug, Switzerland
Hong Kong, China
Shanghai, China
Pune, India
Bangkok, Thailand
Taipei City, Taiwan
Selangor, Malaysia
Sydney, New South Wales, Australia
Auckland, New Zealand
Melbourne, Victoria, Australia
Chestnut, United Kingdom
Surrey, United Kingdom
Boulogne-Billancourt, France

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “Agreement”) is made and entered into as of January 19, 2015 (the “Effective Date”) by and between PRGX Global, Inc., a Georgia corporation (the “Company”), and Catherine Lee (the “Executive”).

WITNESSETH:

WHEREAS, the Company considers the availability of the Executive’s services to be important to the management and conduct of the Company’s business and desires to secure the availability of the Executive’s services; and

WHEREAS, the Executive is willing to make the Executive’s services available to the Company on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements hereinafter set forth and intending to be legally bound, the Company and the Executive agree as follows:

1. **Employment and Duties.**

(a) **Position.** The Company hereby employs the Executive, and the Executive hereby accepts such employment, as the Senior Vice President-Human Resources of the Company, effective as of the Effective Date, on the terms and subject to the conditions of this Agreement. The Executive agrees to perform such duties and responsibilities as are customarily performed by persons acting in such capacity or as are assigned to Executive from time to time by the Board of Directors of the Company or its designees. The Executive acknowledges and agrees that from time to time the Company may assign Executive additional positions with the Company or the Company’s subsidiaries, with such title, duties and responsibilities as shall be determined by the Company. The Executive agrees to serve in any and all such positions without additional compensation. The Executive will report directly to the Chief Executive Officer of the Company.

(b) **Duties.** The Executive shall devote the Executive’s best efforts and full professional time and attention to the business and affairs of the Company and the Company’s subsidiaries. During the Term, as defined below, Executive shall not serve as a director or principal of any other company or charitable or civic organization without the prior written consent of the Board of Directors of the Company. The principal place(s) of employment of the Executive shall be the Company’s executive offices in Atlanta, Georgia, subject to travel required for the business of the Company or the Company’s subsidiaries. The Executive shall be expected to follow and be bound by the terms of the Company’s Code of Conduct and Code of Ethics for Senior Financial Officers and any other applicable policies as the Company from time to time may adopt.

2 . **Term.** This Agreement is effective as of the Effective Date, and will continue through the first anniversary of the Effective Date, unless terminated or extended as hereinafter provided. This Agreement shall be extended for successive one-year periods following the original term (through each subsequent anniversary thereafter) unless any party notifies the other in writing at least 30 days prior to the end of the original term, or the end of any additional one-year renewal term, that the Agreement shall not be extended beyond its then current term. The term of this Agreement, including any renewal term, is referred to herein as the “Term.”

3. Compensation.

(a) **Base Salary.** The Company shall pay the Executive an annual base salary of \$240,000.00. The annual base salary shall be paid to the Executive in accordance with the established payroll practices of the Company (but no less frequently than monthly) subject to ordinary and lawful deductions. The Compensation Committee of the Company will review the Executive's base salary from time to time to consider whether any increase should be made. The base salary during the Term will not be less than that in effect at any time during the Term.

(b) **Annual Bonus.** During the Term, the Executive will be eligible to participate in an annual incentive bonus plan that will establish measurable criteria and incentive compensation levels payable to the Executive for performance in relation to defined targets established by the Compensation Committee of the Company, after consultation with management, and consistent with the Company's business plans and objectives. To the extent the targeted performance levels are exceeded, the incentive bonus plan will provide a means by which the annual bonus will be increased. Similarly, the incentive plan will provide a means by which the annual bonus will be decreased or eliminated if the targeted performance levels are not achieved. In connection with such annual incentive bonus plan, subject to the corresponding performance levels being achieved, the Executive shall be eligible for an annual target bonus equal to 50 percent of the Executive's annual base salary and an annual maximum bonus equal to 100 percent of the Executive's annual base salary. Any bonus payments due hereunder shall be payable to the Executive no later than the 15th day of the third month following the end of the applicable year to which the incentive bonus relates.

(c) **Supplemental 2015 Bonus.** The Company shall pay the Executive a supplemental bonus in the amount of \$20,000 (subject to ordinary and lawful deductions) on the first regularly-scheduled pay date following the six-month anniversary of the Effective Date, subject to the Executive's continued employment through such six-month anniversary.

(d) **Stock Compensation.** The Company shall grant to the Executive, effective as of the Effective Date, as an initial equity award, nonqualified stock options covering 25,000 shares of the common stock, no par value per share, of the Company (the "Initial Options") and restricted stock covering 5,000 shares of such common stock (the "Initial Restricted Stock"). The Initial Options and Initial Restricted Stock will vest and become nonforfeitable as follows:

(i) The Initial Options will be time-vested options, have a term of six years and will vest and become exercisable with respect to (i) the first one-third of the Initial Options (rounded down to the nearest whole number of Shares) on the first anniversary of the date of grant with an exercise price equal to the fair market value of the common stock as of the date of grant, (ii) the second one-third of the Initial Options (rounded down to the nearest whole number of Shares) on the second anniversary of the date of grant with an exercise price equal to 110 percent of the fair market value of the common stock on the date of grant and (iii) the remainder of the Initial Options on the third anniversary of the date of grant with an exercise price equal to 120 percent of the fair market value of the common stock as of the date of grant, subject to the Executive's continued employment through such date(s).

(ii) The Initial Restricted Stock will be time-vested restricted stock and will vest and become nonforfeitable with respect to one-third of the Initial Restricted Stock (rounded down to the nearest whole share) on each of the first and second anniversaries of the date of grant and with respect to the remaining Initial Restricted Stock on the third anniversary of the date of grant, subject to the Executive's continued employment through such date(s).

Beginning in 2015, the Executive shall be eligible to receive stock options, restricted stock, stock appreciation rights and/or other equity awards under the Company's applicable equity plans on such basis as the Compensation Committee or the Board of Directors of the Company or their designees, as the case may be, may determine on a basis not less favorable than that provided to the class of employees that includes the Executive. Except as specifically set forth above, however, nothing herein shall require the Company to make any equity grants or other awards to the Executive in any specific year.

4 . **Indemnity.** The Company and the Executive will enter into the Company's standard indemnification agreement for executive officers.

5. **Benefits.**

(a) **Benefit Programs.** The Executive shall be eligible to participate in any plans, programs or forms of compensation or benefits that the Company or the Company's subsidiaries provide to the class of employees that includes the Executive, on a basis not less favorable than that provided to such class of employees, including, without limitation, group medical, disability and life insurance, paid time-off, and retirement plan, subject to the terms and conditions of such plans, programs or forms of compensation or benefits.

(b) **Paid Time-Off.** The Executive shall be entitled to five weeks of paid time-off annually, to be accrued and used in accordance with the normal Company paid time-off policy.

6. **Reimbursement of Expenses.** The Company shall reimburse the Executive, subject to presentation of adequate substantiation, including receipts, for the reasonable travel, entertainment, lodging and other business expenses incurred by the Executive in accordance with the Company's expense reimbursement policy in effect at the time such expenses are incurred. In no event will such reimbursements, if any, be made later than the last day of the year following the year in which the Executive incurs the expense.

7. **Termination of Employment.**

(a) **Death or Incapacity.** The Executive's employment under this Agreement shall terminate automatically upon the Executive's death. If the Company determines that the Incapacity, as hereinafter defined, of the Executive has occurred, it may terminate the Executive's employment and this Agreement. "Incapacity" shall mean the inability of the Executive to perform the essential functions of the Executive's job, with or without reasonable accommodation, for a period of 90 days in the aggregate in any rolling 180-day period.

(b) **Termination by Company For Cause.** The Company may terminate the Executive's employment during the Term of this Agreement for Cause. For purposes of this

Agreement, "Cause" shall mean, as determined by the Board of Directors of the Company in good faith, the following:

- (i) the Executive's willful misconduct or gross negligence in connection with the performance of the Executive's duties which the Board of Directors of the Company believes does or is likely to result in material harm to the Company or any of its subsidiaries;
- (ii) the Executive's misappropriation or embezzlement of funds or property of the Company or any of its subsidiaries;
- (iii) the Executive's fraud or dishonesty with respect to the Company or any of its subsidiaries;
- (iv) the Executive's conviction of, indictment for (or its procedural equivalent), or entering of a guilty plea or plea of no contest with respect to any felony or any other crime involving moral turpitude or dishonesty; or
- (v) the Executive's breach of a material term of this Agreement, or violation in any material respect of any code or standard of behavior generally applicable to officers of the Company (including, without, limitation the Company's Code of Conduct, Code of Ethics for Senior Financial Officers and any other applicable policies as the Company from time to time may adopt), after being advised in writing of such breach or violation and being given 30 days to remedy such breach or violation, to the extent that such breach or violation can be cured;
- (vi) the Executive's breach of fiduciary duties owed to the Company or any of its subsidiaries;
- (vii) the Executive's engagement in habitual insobriety or the use of illegal drugs or substances; or
- (viii) the Executive's willful failure to cooperate, or willful failure to cause and direct persons under the Executive's management or direction, or employed by, or consultants or agents to, the Company or its subsidiaries to cooperate, with all corporate investigations or independent investigations by the Board of Directors of the Company or its subsidiaries, all governmental investigations of the Company or its subsidiaries or orders involving the Executive, the Company or the Company's subsidiaries entered by a court of competent jurisdiction.

Notwithstanding the above, and without limitation, the Executive shall not be deemed to have been terminated for Cause unless and until there has been delivered to the Executive (i) a letter from the Board of Directors of the Company finding that the Executive has engaged in the conduct set forth in any of the preceding clauses and specifying the particulars thereof in detail and (ii) a copy of a resolution duly adopted by the affirmative vote of the majority of the members of the Board of Directors of the Company who are not officers of the Company at a meeting of the Board of Directors called and held for such purpose or such other appropriate written consent (after reasonable notice to the Executive and an opportunity for the Executive, together with the

Executive's counsel, to be heard before the Board of Directors of the Company), finding that the Executive has engaged in such conduct and specifying the particulars thereof in detail.

(c) **Termination by Executive for Good Reason.** The Executive may terminate the Executive's employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without the Executive's consent, the following:

(i) any action taken by the Company which results in a material reduction in the Executive's authority, duties or responsibilities (except that any change in the foregoing that results solely from (A) the Company ceasing to be a publicly traded entity or from the Company becoming a wholly-owned subsidiary of another publicly traded entity or (B) any change in the geographic scope of the Executive's authority, duties or responsibilities will not, in any event and standing alone, constitute a substantial reduction in the Executive's authority, duties or responsibilities), including any requirement that the Executive report directly to anyone other than the Chief Executive Officer of the Company;

(ii) the assignment to the Executive of duties that are materially inconsistent with Executive's authority, duties or responsibilities;

(iii) any material decrease in the Executive's base salary or annual bonus opportunity or the benefits generally available to the class of employees that includes the Executive, except to the extent the Company has instituted a salary, bonus or benefits reduction generally applicable to all executives of the Company other than in contemplation of or after a Change in Control;

(iv) the relocation of the Executive to any principal place of employment other than Atlanta, Georgia, or any requirement that executive relocate her residence other than to the Atlanta, Georgia metropolitan area, without the Executive's express written consent to either such relocation; provided, however, this subsection (iv) shall not apply in the case of business travel which requires the Executive to relocate temporarily for periods of 90 days or less;

(v) the failure by the Company to pay to the Executive any portion of the Executive's base salary, annual bonus or other benefits within 10 days after the date the same is due; or

(vi) any material failure by the Company to comply with the terms of this Agreement.

Notwithstanding the above, and without limitation, "Good Reason" shall not include any resignation by the Executive where Cause for the Executive's termination by the Company exists and the Company then follows the procedures described above. The Executive must give the Company notice of any event or condition that would constitute "Good Reason" within 30 days of the event or condition which would constitute "Good Reason," and upon the receipt of such notice the Company shall have 30 days to remedy such event or condition. If such event or condition is not remedied within such 30-day period, any termination of employment by the Executive for "Good Reason" must occur within 30 days after the period for remedying such condition or event has expired.

(d) **Termination by Company Without Cause or by Executive Other than For Good Reason.** The Company may terminate the Executive's employment during the Term of this Agreement without Cause, and Executive may terminate the Executive's employment for other than Good Reason, upon 30 days' written notice. The Company may elect to pay the Executive her base salary and the Company's contribution to the cost of the Executive's welfare benefits during any applicable notice period (in accordance with the established payroll practices of the Company, no less frequently than monthly) and remove her from active service.

(e) **Termination on Failure to Renew.** The Company and the Executive agree that the Executive's employment will terminate immediately following the expiration of the Term of the Agreement, if the Company notifies the Executive that the Term of the Agreement shall not be extended as provided in Section 2 above.

(f) **Resignation from Board of Directors and Other Positions.** Notwithstanding any other provision of this Agreement, the Executive agrees to resign, as soon as administratively practicable, from any and all positions held with the Company or any subsidiary or affiliate of the Company, at the time of termination of the Executive's employment if the Executive's employment is terminated pursuant to Sections 7(b), (c), (d) or (e) of this Agreement and the Executive is serving in any such positions at such time.

8. **Obligations of the Company Upon Termination.**

(a) **Without Cause; Good Reason; Non-Renewal (No Change in Control).** If, during the Term, the Company terminates the Executive's employment without Cause in accordance with Section 7(d) hereof, the Executive terminates the Executive's employment for Good Reason in accordance with Section 7(c) hereof, or the Executive's employment terminates upon the Company's failure to renew the Agreement in accordance with Section 7(e) hereof, other than within two years after a Change in Control, subject to Section 20 below, the Executive shall be entitled to receive:

(i) payment of the Executive's annual base salary in effect immediately preceding the date of the Executive's termination of employment (or, if greater, the Executive's annual base salary in effect immediately preceding any action by the Company described in Section 7(c)(iii) above for which the Executive has terminated the Executive's employment for Good Reason), for the period equal to the greater of one year or the sum of four weeks for each full year of continuous service the Executive has with the Company and its subsidiaries at the time of termination of employment, beginning immediately following termination of employment (the "Severance Period"), payable in accordance with the established payroll practices of the Company (but no less frequently than monthly), beginning on the first payroll date following 60 days after termination of employment, with the Executive to receive at that time a lump sum payment with respect to any installments the Executive was entitled to receive during the first 60 days following termination of employment, and the remaining payments made as if they had commenced immediately following termination of employment;

(ii) payment of an amount equal to the Executive's actual earned full-year bonus for the year in which the termination of Executive's employment occurs, prorated

based on the number of days the Executive was employed for the year, payable at the time the Executive's annual bonus for the year otherwise would be paid had the Executive continued employment;

(iii) continuation after the date of termination of employment of any health care (medical, dental and vision) plan coverage, other than that under a flexible spending account, provided to the Executive and the Executive's spouse and dependents at the date of termination for the Severance Period, on a monthly or more frequent basis, on the same basis and at the same cost to the Executive as available to similarly-situated active employees during such Severance Period, provided that such continued participation is possible under the general terms and provisions of such plans and programs and provided that such continued coverage by the Company shall terminate in the event Executive becomes eligible for any such coverage under another employer's plans. If the Company reasonably determines that maintaining such coverage for the Executive or the Executive's spouse or dependents is not feasible under the terms and provisions of such plans and programs (or where such continuation would adversely affect the tax status of the plan pursuant to which the coverage is provided), the Company shall pay the Executive cash equal to the estimated cost of the expected Company contribution therefor for such same period of time, with such payments to be made in accordance with the established payroll practices of the Company (not less frequently than monthly) for the period during which such cash payments are to be provided;

(iv) payment of any Accrued Obligations. For purposes of this Agreement, "Accrued Obligations" shall mean the sum of (A) the Executive's annual base salary through Executive's termination of employment which remains unpaid, (B) the amount, if any, of any incentive or bonus compensation earned for any completed fiscal year of the Company which has not yet been paid, (C) any reimbursements for expenses incurred but not yet paid, and (D) any benefits or other amounts, including both cash and stock components, which pursuant to the terms of any plans, policies or programs have been earned or become payable, but which have not yet been paid to the Executive, including payment for any unused paid time-off (but not including amounts that previously had been deferred at the Executive's request, which amounts will be paid in accordance with the Executive's existing directions). The Accrued Obligations will be paid to the Executive in a lump sum as soon as administratively feasible after the Executive's termination of employment, which for purposes of any incentive or bonus compensation described in (B) above shall mean at the same time such annual bonus would otherwise have been paid;

(v) vesting of a prorated number of the Executive's outstanding unvested options, restricted stock and other equity-based awards that would have vested based solely on the continued employment of the Executive through the first applicable vesting date immediately following the date of termination of employment for each type of such award (e.g., options, restricted stock, etc.) equal to the number of awards of such type that would vest as of such next vesting date multiplied by a fraction, the numerator of which is the number of monthly anniversaries that have occurred, as measured from the immediately preceding vesting date of such award (or, if none, since the date of grant of such award) to the date of termination of Executive's employment, and the denominator of which is the number of monthly anniversary dates between such immediately preceding vesting date of such award (or, if none, the date of grant of such award) and the first vesting date

immediately following the date of termination of Executive's employment for such type of award. Additionally, all of Executive's outstanding stock options shall remain outstanding until the earlier of (i) one year after the date of termination of the Executive's employment 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 the Executive's employment); and

(vi) payment of one year of outplacement services from Executrack or an outplacement service provider of the Executive's choice, limited to \$20,000 in total. This outplacement services benefit will be forfeited if the Executive does not begin using such services within 90 days after the termination of the Executive's employment.

(b) **Without Cause; Good Reason; Non-Renewal (Change in Control)**. If, during the Term, the Company terminates the Executive's employment without Cause in accordance with Section 7(d) hereof, the Executive terminates the Executive's employment for Good Reason in accordance with Section 7(c) hereof, or the Executive's employment terminates upon the Company's failure to renew the Agreement in accordance with Section 7(e) hereof, within two years after a Change in Control, subject to Section 20 below, the Executive shall be entitled to receive:

(i) payment of the Executive's annual base salary in effect immediately preceding the date of the Executive's termination of employment (or, if greater, the Executive's annual base salary in effect immediately preceding any action by the Company described in Section 7(c)(iii) above for which the Executive has terminated the Executive's employment for Good Reason), for the period equal to the greater of 18 months or the sum of four weeks for each full year of continuous service the Executive has with the Company and its subsidiaries at the time of termination of employment, beginning immediately following termination of employment (the "Change in Control Severance Period"), payable in accordance with the established payable practices of the Company (but no less frequently than monthly), beginning on the first payroll date following 60 days after termination of employment, with the Executive to receive at that time a lump sum payment with respect to any installments the Executive was entitled to receive during the first 60 days following termination of employment;

(ii) payment of an amount equal to the Executive's actual earned full-year bonus for the year in which the termination of Executive's employment occurs, prorated based on the number of days the Executive was employed for the year, payable at the time the Executive's annual bonus for the year otherwise would be paid had the Executive continued employment;

(iii) continuation after the date of termination of employment of any health care (medical, dental and vision) plan coverage, other than that under a flexible spending account, provided to the Executive and the Executive's spouse and dependents at the date of termination for the Change in Control Severance Period, on a monthly or more frequent basis, on the same basis and at the same cost to the Executive as available to similarly-situated active employees during such Change in Control Severance Period, provided that such continued participation is possible under the general terms and provisions of such plans and programs and provided that such continued contribution by the Company

shall terminate in the event Executive becomes eligible for any such coverage under another employer's plans. If the Company reasonably determines that maintaining such coverage for the Executive or the Executive's spouse or dependents is not feasible under the terms and provisions of such plans and programs (or where such continuation would adversely affect the tax status of the plan pursuant to which the coverage is provided), the Company shall pay the Executive cash equal to the estimated cost of the expected Company contribution therefor for such same period of time, with such payments to be made in accordance with the established payroll practices of the Company (not less frequently than monthly) for the period during which such cash payments are to be provided;

(iv) payment of any Accrued Obligations in a lump sum as soon as administratively feasible after the Executive's termination of employment, which for purposes of any incentive or bonus compensation described in Section 8(a)(iv)(B) above shall mean at the same time such annual bonus would otherwise have been paid;

(v) vesting in full of the Executive's outstanding unvested options, restricted stock and other equity-based awards that would have vested based solely on the continued employment of the Executive. Additionally, all of the Executive's outstanding stock options shall remain outstanding until the earlier of (i) one year after the date of termination of the Executive's employment 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 the Executive's employment); and

(vi) payment of one year of outplacement services from Executrack or an outplacement service provider of the Executive's choice, limited to \$20,000 in total. This outplacement services benefit will be forfeited if the Executive does not begin using such services within 90 days after the termination of the Executive's employment.

(c) **Death or Incapacity.** If the Executive's employment is terminated by reason of death or Incapacity in accordance with Section 7(a) hereof, the Executive shall be entitled to receive:

(i) payment of an amount equal to the actual full-year bonus earned for the year that includes Executive's death or Incapacity, prorated based on the number of days the Executive is employed for the year, payable at the same time such annual bonus would otherwise have been paid had the Executive continued employment; and

(ii) payment of any Accrued Obligations in a lump sum as soon as administratively feasible after the Executive's termination of employment, which for purposes of any incentive or bonus compensation described in Section 8(a)(iv)(B) above shall mean at the same time such annual bonus would otherwise have been paid.

(d) **Cause; Other Than for Good Reason.** If the Company terminates the Executive's employment for Cause in accordance with Section 7(b) hereof, or the Executive terminates the Executive's employment other than for Good Reason in accordance with Section 7(d) hereof, this Agreement shall terminate without any further obligation to the Executive other than to pay the Accrued Obligations (except that any incentive or bonus compensation earned for any

completed fiscal year of the Company which has not yet been paid shall not be paid if the Company terminates the Executive's employment for Cause in accordance with Section 7(b) hereof) as soon as administratively feasible after the Executive's termination of employment.

(e) **Release and Waiver.** Notwithstanding any other provision of this Agreement, the Executive's right to receive any payments or benefits under Sections 8(a)(i), (ii), (iii), (v) and (vi) and 8(b)(i), (ii), (iii), (v) and (vi) of this Agreement upon the termination of the Executive's employment by the Company without Cause, by the Executive for Good Reason, or upon the Company's failure to renew the Agreement is contingent upon and subject to the Executive signing and delivering to the Company a separation agreement and complete general release of all claims in a form acceptable to Company, and allowing the applicable revocation period required by law to expire without revoking or causing revocation of same, within 60 days following the date of termination of Executive's employment.

(f) **Change in Control.** For purposes of this Agreement, Change of Control means the occurrence of any of the following events:

(i) The accumulation in any number of related or unrelated transactions by any person of beneficial ownership (as such term is used in Rule 13d-3, promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of 50 percent or more of the combined total voting power of the Company's voting stock; provided that for purposes of this subsection (a), a Change in Control will not be deemed to have incurred if the accumulation of 50 percent or more of the voting power of the Company's voting stock results from any acquisition of voting stock (i) by the Company, (ii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of the Company's subsidiaries, or (iii) by any person pursuant to a merger, consolidation, reorganization or other transaction (a "Business Combination") that would not cause a Change in Control under subsection (ii) below; or

(ii) A consummation of a Business Combination, unless, immediately following that Business Combination, substantially all the persons who were the beneficial owners of the voting stock of the Company immediately prior to that Business Combination beneficially own, directly or indirectly, at least 50 percent of the combined voting power of the voting stock of the entity resulting from that Business Combination (including, without limitation, an entity that as a result of that transaction owns the Company, or all or substantially all of the Company assets, either directly or through one or more subsidiaries) in substantially the same proportions relative to each other as the ownership, immediately prior to that Business Combination, of the voting stock of the Company;

(iii) A sale or other disposition of all or substantially all of the assets of the Company except pursuant to a Business Combination that would not cause a Change in Control under subsection (ii) above;

(iv) At any time less than a majority of the members of the Board of Directors of the Company or any entity resulting from any Business Combination are Incumbent Board Members.

(v) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company, except pursuant to a Business Combination that would not cause a Change in Control under subsection (ii) above; or

(vi) Any other transaction or event that the Board of Directors of the Company identifies as a Change in Control for purposes of this Agreement.

(vii) For purposes of this Agreement, an “Incumbent Board Member” shall mean any individual who either is (a) a member of the Company Board of Directors as of the Effective Date or (b) a member who becomes a member of the Company’s Board of Directors subsequent to the Effective Date of this Agreement, whose election or nomination by the Company’s shareholders, was approved by a vote of at least a majority of the then Incumbent Board Members (either by specific vote or by approval of a proxy statement of the Company in which that person is named as a nominee for director, without objection to that nomination), but excluding, for that purpose, any individual whose initial assumption of office occurs as a result of an actual or threatened election contest (within the meaning of Rule 14A-11 of the Exchange Act) with respect to the election or removal of directors or other actual threatened solicitation of proxies or consents by or on behalf of the person other than a board of directors. For purposes of this Agreement, a person means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trusts, unincorporated organization or any other entity of any kind.

9. **Business Protection Agreements.**

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

(i) “Business of the 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 the Company or the Company’s subsidiaries and their employees, customers and/or suppliers which is not generally known outside of the Company or the Company’s subsidiaries, which Executive learns of in connection with Executive’s employment with the Company, and which would be useful to competitors or the disclosure of which would be damaging to the Company or the Company’s subsidiaries. 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 the Company or the Company’s subsidiaries obtains products from their suppliers and sells services and products to customers; (C) the nature, origin, composition and development of the Company or the Company’s subsidiaries’ services and products; and

(D) the manner in which the Company or the Company's subsidiaries provide products and services to their customers.

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

(iv) "Restricted Territory" means, and is limited to, the geographic area described in Exhibit A attached hereto. Executive acknowledges and agrees that this is the area in which the Company and its subsidiaries does business at the time of the execution of this Agreement, and in which the Executive will have responsibility, at a minimum, on behalf of the Company and the Company's subsidiaries. Executive acknowledges and agrees that if the geographic area in which Executive has responsibility should change while employed under this Agreement, Executive will execute an amendment to the definition of "Restricted Territory" to reflect such change. This duty shall be part of the consideration provided by Executive for Executive's employment hereunder.

(v) "Trade Secrets" means the trade secrets of the Company or the Company's subsidiaries as defined under applicable law.

(b) **Confidentiality.** Executive agrees that the Executive will not (other than in the performance of Executive's duties hereunder), directly or indirectly, use, copy, disclose or otherwise distribute to any other person or entity: (a) any Confidential Information during the period of time the Executive is employed by the Company and for a period of five years thereafter; or (b) any Trade Secret at any time such information constitutes a trade secret under applicable law. Upon the termination of Executive's employment with the Company (or upon the earlier request of the Company), Executive shall promptly return to the Company all documents and items in the Executive's possession or under the Executive's control which contain any Confidential Information or Trade Secrets.

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

(d) **Non-Solicitation of Customers.** Executive agrees that during Executive's employment with the Company and for a period of two years thereafter, Executive shall not, directly or indirectly, solicit any actual or prospective customers of the Company or the Company's subsidiaries with whom Executive had Material Contact, for the purpose of selling any products or services which compete with the Business of the Company

(e) **Non-Recruitment of Employees or Contractors.** Executive agrees that during the Executive's employment with the Company and for a period of two years thereafter, Executive will not, directly or indirectly, solicit or attempt to solicit any employee or contractor of the Company or the Company's subsidiaries with whom Executive had Material Contact, to terminate or lessen such employment or contract.

(f) **Future Cooperation.** Executive agrees that, notwithstanding the termination of Executive's employment and for a period of two years thereafter, Executive upon reasonable notice will make herself 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; provided that such cooperation shall not unreasonably interfere with Executive's other business affairs. The Company will reimburse the Executive for all reasonable out of pocket expenses incurred with such cooperation and, if such cooperation is to be rendered during the time after which no additional severance is owed to the Executive, shall compensate Executive for her services and time as a consultant at customary and market rates to be mutually agreed upon by the parties.

(g) **Obligations of the Company.** The Company agrees to provide Executive with Confidential Information in order to enable Executive to perform Executive's duties hereunder. The covenants of Executive contained in the covenants of Confidentiality, Non-Competition, Non-Solicitation of Customers and Non-Recruitment of Employees or Contractors set forth in Subsections 9(b) - 9(e) above ("Protective Covenants") are made by Executive in consideration for the Company's agreement to provide Confidential Information to Executive, and intended to protect Company's Confidential Information and the investments the Company makes in training Executive and developing customer goodwill.

(h) **Acknowledgments.** Executive hereby acknowledges and agrees that the covenants contained in (b) through (e) of this Section 9 and Section 10 hereof are reasonable as to time, scope and territory given the Company and the Company's subsidiaries' need to protect their business, customer relationships, personnel, Trade Secrets and Confidential Information. 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.

(i) **Specific Performance.** Executive acknowledges and agrees that any breach of any of the Protective Covenants or the provisions of Section 10 by her will cause irreparable damage to the Company or the 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, the 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 Protective Covenants by her.

10. **Ownership of Work Product.**

(a) **Assignment of Inventions.** Executive will make full written disclosure to the Company, and hold in trust for the sole right and benefit of the Company, and hereby assigns to the Company, or its designees, all of the Executive's right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws, which the Executive may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time the Executive is engaged as an employee of the Company (collectively referred to as "Inventions") and which (i) are developed using the

equipment, supplies, facilities or Confidential Information or Trade Secrets of the Company or the Company's subsidiaries, (ii) result from or are suggested by work performed by Executive for the Company or the Company's subsidiaries, or (iii) relate at the time of conception or reduction to practice to the business as conducted by the Company or the Company's subsidiaries, or to the actual or demonstrably anticipated research or development of the Company or the Company's subsidiaries, will be the sole and exclusive property of the Company or the Company's subsidiaries, and Executive will and hereby does assign all of the Executive's right, title and interest in such Inventions to the Company and the Company's subsidiaries. Executive further acknowledges that all original works of authorship which are made by her (solely or jointly with others) within the scope of and during the period of the Executive's employment arrangement with the Company and which are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act.

(b) **Patent and Copyright Registrations.** Executive agrees to assist the Company and the Company's subsidiaries, or their designees, at the Company or the Company's subsidiaries' expense, in every proper way to secure the Company's or the Company's subsidiaries' rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company and the Company's subsidiaries of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which the Company or the Company's subsidiaries shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company and its subsidiaries, and their successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Executive further agrees that the Executive's obligation to execute or cause to be executed, when it is in the Executive's power to do so, any such instrument or papers shall continue after the termination of this Agreement.

(c) **Inventions Retained and Licensed.** There are no inventions, original works of authorship, developments, improvements, and trade secrets which were made by Executive prior to the Executive's employment with the Company (collectively referred to as "Prior Inventions"), which belong to Executive, which relate to the Company's or the Company's subsidiaries' proposed business, products or research and development, and which are not assigned to the Company or the Company's subsidiaries hereunder.

(d) **Return of Company Property and Information.** The Executive agrees not to remove any property of the Company or the Company's subsidiaries or information from the premises of the Company or the Company's subsidiaries, except when authorized by the Company or the Company's subsidiaries. Executive agrees to return all such property and information within seven days following the cessation of Executive's employment for any reason. 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 the Company or the Company's subsidiaries to the Executive or which the Executive has developed or collected in the scope of the Executive's employment, as well as all issued equipment, supplies, accessories, vehicles, keys, instruments, tools, devices, computers, cell phones, materials, documents, plans, records, notebooks, drawings, or papers. Upon request by the Company, the Executive shall certify in writing that all copies of information subject to this Agreement located on the Executive's computers or other electronic storage devices have been permanently deleted. Provided, however, the Executive may retain

copies of documents relating to any employee benefit plans applicable to the Executive and income records to the extent necessary for the Executive to prepare the Executive's individual tax returns.

11. **Mitigation.** The Executive shall not be required to mitigate the amount of any payment the Company becomes obligated to make to the Executive in connection with this Agreement, by seeking other employment or otherwise. Except as specifically provided above with respect to the health care continuation benefit, the amount of any payment provided for in Section 8 shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

12. **Withholding of Taxes.** The Company shall withhold from any amounts or benefits payable under this Agreement all federal, state, city or other taxes that the Company is required to withhold under any applicable law, regulation or ruling.

13. **Modification and Severability.** The terms of this Agreement shall be presumed to be enforceable, and any reading causing unenforceability shall yield to a construction permitting enforcement. If any single covenant or provision in this Agreement shall be found unenforceable, it shall be severed and the remaining covenants and provisions enforced in accordance with the tenor of the Agreement. In the event a court should determine not to enforce a covenant as written due to overbreadth, the parties specifically agree that said covenant shall be enforced to the maximum extent reasonable, whether said revisions be in time, territory, scope of prohibited activities, or other respects.

14. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia.

15. **Remedies and Forum.** The parties agree that they will not file any action arising out of this Agreement other than in 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 attorney's fees from the non-prevailing party(ies) 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 the Executive against the Company or the Company's subsidiaries, including any dispute relating to the termination of this Agreement, shall not constitute a defense to enforcement of said covenants by injunction.

16. **Notices.** All written notices required by this Agreement shall be deemed given when delivered personally or sent by registered or certified mail, return receipt requested, or by a nationally-recognized overnight delivery service to the parties at their addresses set forth on the signature page of this Agreement. Each party may, from time to time, designate a different address to which notices should be sent.

17. **Amendment**. This Agreement may not be varied, altered, modified or in any way amended except by an instrument in writing executed by the parties hereto or their legal representatives.

18. **Binding Effect**. This Agreement shall be binding on the Executive and the Company and their respective successors and assigns effective on the Effective Date. Executive consents to any assignment of this Agreement by the Company, so long as the Company will require any successor to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. If the Executive dies before receiving all payments due under this Agreement, unless expressly otherwise provided hereunder or in a separate plan, program, arrangement or agreement, any remaining payments due after the Executive's death shall be made to the Executive's beneficiary designated in writing (provided such writing is executed and dated by the Executive and delivered to the Company in a form acceptable to the Company prior to the Executive's death) and surviving the Executive or, if none, to the Executive's estate.

19. **No Construction Against Any Party**. This Agreement is the product of informed negotiations between the Executive and the Company. If any part of this Agreement is deemed to be unclear or ambiguous, it shall be construed as if it were drafted jointly by all parties. The Executive and the Company agree that none of the parties were in a superior bargaining position regarding the substantive terms of this Agreement.

20. **Deferred Compensation Omnibus Provision**. Notwithstanding any other provision of this Agreement, 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 Code shall be provided and paid in a manner, and at such time, including without limitation payment and provision of benefits only in connection with the occurrence of a permissible payment event contained in Section 409A (e.g. separation from service from the Company and its affiliates as defined for purposes of Section 409A of the Code), and in such form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided therein for non-compliance. Notwithstanding any other provision of this Agreement, the Company's Compensation Committee or Board of Directors is authorized to amend this Agreement, to amend or void any election made by the Executive under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by it to be necessary or appropriate to comply, or to evidence or further evidence required compliance, with Section 409A of the Code (including any transition or grandfather rules thereunder). 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. If the Executive is a key employee (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) and any of the Company's stock is publicly traded on an established securities market or otherwise, then payment of any amount or provision of any benefit under this Agreement which is considered deferred compensation subject to Section 409A of the Code shall be deferred for six (6) months after termination of Executive's employment or, if earlier, Executive's death, as required by Section 409A(a)(2)(B)(i) of the Code (the "409A Deferral Period"). In the event such payments are otherwise due to be made in installments or periodically during the 409A Deferral Period, the payments which would otherwise have been made in 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 payments shall be made as otherwise scheduled. In the event benefits are required to be deferred, any such benefit may be provided during the 409A Deferral Period at the Executive's expense, with the Executive having a right to reimbursement from the Company once the 409A Deferral Period ends, and the balance of the benefits shall be provided as otherwise scheduled. For purposes of this Agreement, termination of employment shall mean a "separation from service" within the meaning of Section 409A of the Code where it is reasonably anticipated that no further services would be performed after such date or that the level of bona fide services Executive would perform after that date (whether as an employee or independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed over the immediately preceding 36-month period (or, if lesser, Executive's period of service).

21. **Mandatory Reduction of Payments in Certain Events**. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be subject to the excise tax (the "Excise Tax") imposed by Section 4999 of the Code, then, prior to the making of any Payment to Executive, a calculation shall be made comparing (i) the net benefit to Executive of the Payment after payment of the Excise Tax to (ii) the net benefit to Executive if the Payment had been limited to the extent necessary to avoid being subject to the Excise Tax. If the amount calculated under (i) above is less than the amount calculated under (ii) above, then the Payment shall be limited to the extent necessary to avoid being subject to the Excise Tax (the "Reduced Amount"). In that event, cash payments shall be modified or reduced first and then any other benefits. The determination of whether an Excise Tax would be imposed, the amount of such Excise Tax, and the calculation of the amounts referred to in clauses (i) and (ii) of the foregoing sentence shall be made by an independent accounting firm selected by Company and reasonably acceptable to the Executive, at the Company's expense (the "Accounting Firm"), and the Accounting Firm shall provide detailed supporting calculations. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Payments which Executive was entitled to, but did not receive pursuant to this Section 21, could have been made without the imposition of the Excise Tax ("Underpayment"). In such event, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

22. **Entire Agreement**. Except as provided in the next sentence, this Agreement constitutes the entire agreement of the parties with respect to the matters addressed herein and it supersedes all other prior agreements and understandings, both written and oral, express or implied, with respect to the subject matter of this Agreement. It is further specifically agreed and acknowledged that, except as provided herein, the Executive shall not be entitled to severance payments or benefits under any severance or similar plan, program, arrangement or agreement of or with the Company for any termination of employment occurring while this Agreement is in effect.

[Signatures are on the following page.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written herein.

PRGX GLOBAL, INC.

By: /s/ Ron Stewart
Its: CEO & President

600 Galleria Parkway
Suite 100
Atlanta, Georgia 30339
Attn: General Counsel

EXECUTIVE

/s/ Catherine Lee
Catherine Lee
9190 Huntcliff Trace
Atlanta, Georgia 30350

EXHIBIT A

RESTRICTED TERRITORY

“Restricted Territory” refers to the Atlanta-Sandy Springs-Marietta, GA Metropolitan Statistical Area.

24224044v3

PRGX GLOBAL, INC.

SUBSIDIARIES
As of December 31, 2014

<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.	Columbia
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 and No. 333-185027) 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 and No. 333-189010) of PRGX Global, Inc. and subsidiaries of our reports dated March 13, 2015, 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 13, 2015

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 13, 2015

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 13, 2015

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

