

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2020

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**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer  
 Non-accelerated filer

Accelerated filer  
 Smaller reporting company  
 Emerging growth company

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

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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, no par value	PRGX	Nasdaq Global Select Market

Common shares of the registrant outstanding at July 31, 2020 were 23,612,686.

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**PRGX GLOBAL, INC.**  
**FORM 10-Q**  
**For the Quarter Ended June 30, 2020**  
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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Revenue, net	\$ 39,011	\$ 41,974	\$ 75,850	\$ 80,778
Operating expenses:				
Cost of revenue	20,584	26,312	43,118	51,547
Selling, general and administrative expenses	14,726	15,748	28,190	29,665
Depreciation of property, equipment and software assets	1,965	2,381	4,106	4,584
Amortization of intangible assets	828	872	1,657	1,734
Total operating expenses	38,103	45,313	77,071	87,530
Operating income (loss) from continuing operations	908	(3,339)	(1,221)	(6,752)
Foreign currency transaction (gains) losses on short-term intercompany balances	(819)	(77)	637	129
Interest expense, net	303	592	645	1,065
Other loss (income)	2	11	2	(8)
Income (loss) from continuing operations before income tax	1,422	(3,865)	(2,505)	(7,938)
Income tax expense	1,004	311	960	479
Net income (loss) from continuing operations	\$ 418	\$ (4,176)	\$ (3,465)	\$ (8,417)
Discontinued operations:				
Loss from discontinued operations	\$ —	\$ (103)	\$ —	\$ (258)
Net loss from discontinued operations	\$ —	\$ (103)	\$ —	\$ (258)
Net income (loss)	\$ 418	\$ (4,279)	\$ (3,465)	\$ (8,675)
Basic income (loss) per common share (Note 2):				
Basic income (loss) from continuing operations	\$ 0.02	\$ (0.18)	\$ (0.15)	\$ (0.37)
Basic loss from discontinued operations	—	—	—	(0.01)
Total basic income (loss) per common share	\$ 0.02	\$ (0.18)	\$ (0.15)	\$ (0.38)
Diluted income (loss) per common share (Note 2):				
Diluted income (loss) from continuing operations	\$ 0.02	\$ (0.18)	\$ (0.15)	\$ (0.37)
Diluted loss from discontinued operations	—	—	—	(0.01)
Total diluted income (loss) per common share	\$ 0.02	\$ (0.18)	\$ (0.15)	\$ (0.38)
Weighted-average common shares outstanding (Note 2):				
Basic	22,606	22,763	22,542	22,687
Diluted	22,716	22,763	22,542	22,687

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net income (loss)	\$ 418	\$ (4,279)	\$ (3,465)	\$ (8,675)
Foreign currency translation adjustments, net of tax	748	(269)	(1,200)	244
Comprehensive income (loss)	<u>\$ 1,166</u>	<u>\$ (4,548)</u>	<u>\$ (4,665)</u>	<u>\$ (8,431)</u>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

	June 30, 2020	December 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 21,061	\$ 14,982
Restricted cash	123	46
Receivables:		
Contract receivables, less allowances of \$1,379 in 2020 and \$1,781 in 2019		
Billed	32,748	38,201
Unbilled	3,312	4,911
	36,060	43,112
Employee advances and miscellaneous receivables, net	740	704
Total receivables	36,800	43,816
Prepaid expenses and other current assets	4,062	5,582
Total current assets	62,046	64,426
Property, equipment and software	66,950	63,557
Less accumulated depreciation and amortization	(47,813)	(45,811)
Property, equipment and software, net	19,137	17,746
Operating lease right-of-use assets (Note 9)	11,044	10,969
Goodwill	14,962	15,070
Intangible assets, less accumulated amortization of \$48,206 in 2020 and \$47,097 in 2019	9,714	11,506
Unbilled receivables	865	1,282
Deferred income taxes	3,636	3,921
Other assets	531	546
Total assets	\$ 121,935	\$ 125,466
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,094	\$ 4,326
Accrued payroll and related expenses	14,070	12,951
Current portion of operating lease liabilities (Note 9)	4,077	3,717
Refund liabilities	4,152	4,513
Deferred revenue	1,970	2,217
Current portion of debt (Note 5)	—	17
Total current liabilities	26,363	27,741
Long-term debt (Note 5)	36,650	36,603
Long-term operating lease liabilities (Note 9)	7,368	7,435
Refund liabilities	21	9
Deferred income taxes (Note 8)	628	628
Total liabilities	71,030	72,416
Commitments and contingencies (Note 7)		
Shareholders' equity (Note 2):		
Common stock, no par value; \$.01 stated value per share. Authorized 50,000,000 shares; 23,612,686 shares issued and outstanding at June 30, 2020 and 23,369,433 shares issued and outstanding at December 31, 2019	236	234
Additional paid-in capital	584,922	582,404
Accumulated deficit	(532,641)	(529,176)
Accumulated other comprehensive loss	(1,612)	(412)
Total shareholders' equity	50,905	53,050
Total liabilities and shareholders' equity	\$ 121,935	\$ 125,466

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**PRGX GLOBAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(Unaudited)**  
**(In thousands, except share data)**

	<u>Common Stock</u>				Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit		
Balance at March 31, 2020	23,595,079	\$ 236	\$ 583,161	\$ (533,059)	\$ (2,360)	\$ 47,978
Net income	—	—	—	418	—	418
Foreign currency translation adjustments	—	—	—	—	748	748
Issuances of common stock:						
Restricted share awards	30,769	—	—	—	—	—
Restricted shares remitted by employees for taxes	(27,977)	—	(115)	—	—	(115)
Restricted stock unit settlement	17,519	—	—	—	—	—
Forfeited restricted share awards	(2,704)	—	—	—	—	—
Stock-based compensation expense	—	—	1,876	—	—	1,876
Balance at June 30, 2020	<u>23,612,686</u>	<u>\$ 236</u>	<u>\$ 584,922</u>	<u>\$ (532,641)</u>	<u>\$ (1,612)</u>	<u>\$ 50,905</u>
Balance at March 31, 2019	23,438,058	\$ 234	\$ 581,356	\$ (519,852)	\$ (508)	\$ 61,230
Net loss	—	—	—	(4,279)	—	(4,279)
Foreign currency translation adjustments	—	—	—	—	(269)	(269)
Issuances of common stock:						
Restricted share awards	183,403	2	(2)	—	—	—
Restricted shares remitted by employees for taxes	(38,304)	—	(246)	—	—	(246)
Stock option exercises	35,319	—	170	—	—	170
Restricted stock unit settlement	17,517	—	—	—	—	—
Forfeited restricted share awards	(24,590)	—	—	—	—	—
Stock-based compensation expense	—	—	1,704	—	—	1,704
Balance at June 30, 2019	<u>23,611,403</u>	<u>\$ 236</u>	<u>\$ 582,982</u>	<u>\$ (524,131)</u>	<u>\$ (777)</u>	<u>\$ 58,310</u>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**PRGX GLOBAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(Unaudited)**  
**(In thousands, except share data)**

	Common Stock				Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit		
Balance at December 31, 2019	23,369,433	\$ 234	\$ 582,404	\$ (529,176)	\$ (412)	\$ 53,050
Net loss	—	—	—	(3,465)	—	(3,465)
Foreign currency translation adjustments	—	—	—	—	(1,200)	(1,200)
Issuances of common stock:						
Restricted share awards	429,269	4	(4)	—	—	—
Restricted shares remitted by employees for taxes	(112,020)	(1)	(397)	—	—	(398)
Restricted stock unit settlement	61,521	—	—	—	—	—
Forfeited restricted share awards	(31,655)	—	—	—	—	—
Repurchase of common stock	(103,862)	(1)	(283)	—	—	(284)
Stock-based compensation expense	—	—	3,202	—	—	3,202
Balance at June 30, 2020	23,612,686	\$ 236	\$ 584,922	\$ (532,641)	\$ (1,612)	\$ 50,905
Balance at December 31, 2018	23,186,258	\$ 232	\$ 582,574	\$ (515,456)	\$ (1,021)	\$ 66,329
Net loss	—	—	—	(8,675)	—	(8,675)
Foreign currency translation adjustments	—	—	—	—	244	244
Issuances of common stock:						
Restricted share awards	516,955	5	(5)	—	—	—
Restricted shares remitted by employees for taxes	(99,885)	(1)	(749)	—	—	(750)
Stock option exercises	45,380	—	221	—	—	221
Performance-based restricted stock unit settlement	203,524	2	(2)	—	—	—
Restricted stock unit settlement	27,516	—	—	—	—	—
Forfeited restricted share awards	(24,590)	—	—	—	—	—
Repurchase of common stock	(243,755)	(2)	(2,226)	—	—	(2,228)
Stock-based compensation expense	—	—	3,169	—	—	3,169
Balance at June 30, 2019	23,611,403	\$ 236	\$ 582,982	\$ (524,131)	\$ (777)	\$ 58,310

*See accompanying Notes to Condensed Consolidated Financial Statements*



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

	<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (3,465)	\$ (8,675)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	5,763	6,318
Operating lease right-of-use asset expense	2,195	2,248
Amortization of deferred loan costs	48	117
Noncash interest expense	643	—
Stock-based compensation expense	3,196	3,046
Foreign currency transaction losses on short-term intercompany balances	637	129
Deferred income taxes	338	—
<b>Changes in operating assets and liabilities</b>		
Billed receivables	4,550	6,593
Unbilled receivables	2,018	(851)
Prepaid expenses and other current assets	1,438	(1,296)
Operating lease liabilities	(1,979)	—
Other assets	(53)	(1,567)
Accounts payable and accrued expenses	(3,890)	(2,930)
Accrued payroll and related expenses	1,326	(4,970)
Refund liabilities	(270)	(314)
Deferred revenue	(224)	(292)
Net cash provided by (used in) operating activities	<u>12,271</u>	<u>(2,444)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property, equipment and software, net of disposal proceeds	(5,620)	(7,640)
Net cash used in investing activities	<u>(5,620)</u>	<u>(7,640)</u>
<b>Cash flows from financing activities:</b>		
Repayments of credit facility	(38,000)	(3,000)
Proceeds from credit facility	38,000	14,400
Payment of deferred loan costs	—	(394)
Payment of earnout liability related to business acquisitions	—	(479)
Restricted stock repurchased from employees for withholding taxes	(398)	(750)
Repurchases of common stock	(284)	(2,228)
Proceeds from option exercises	—	221
Net cash (used in) provided by financing activities	<u>(682)</u>	<u>7,770</u>
Effect of exchange rates on cash and cash equivalents	187	(55)
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>6,156</u>	<u>(2,369)</u>
Cash, cash equivalents and restricted cash at beginning of period	15,028	14,019
Cash, cash equivalents and restricted cash at end of period	<u>\$ 21,184</u>	<u>\$ 11,650</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest	\$ 716	\$ 385
Cash paid during the period for income taxes, net of refunds received	\$ 804	\$ 1,638

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

**(1) Basis of Presentation**

The accompanying Condensed Consolidated Financial Statements (Unaudited) of PRGX Global, Inc. and its wholly-owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions for the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six-month periods ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

Except as otherwise indicated or unless the context otherwise requires, "PRGX," "we," "us," "our" and the "Company" refer to PRGX Global, Inc. and its subsidiaries. For further information, refer to the Consolidated Financial Statements and the related Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

**Significant Accounting Policies**

A summary of the Company's significant accounting policies is included in Note 1 of the "Notes to Consolidated Financial Statements" contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. The Company did not experience any significant changes during the quarter ended June 30, 2020 in any of the Critical Accounting Policies from those contained in the Company's Form 10-K for the year ended December 31, 2019.

**COVID-19**

In December 2019, a novel strain of coronavirus was first identified, and in March 2020, the World Health Organization categorized COVID-19, the disease resulting from this coronavirus strain, as a pandemic. To help control the spread of the virus and protect the health and safety of our employees and customers, many of the Company's teams worldwide have been working remotely since the middle of March.

The Company evaluates the recoverability of goodwill annually 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. The impairment test performed in the fourth quarter of 2019 indicated significant excess fair value over carrying value for the Recovery Audit Services reporting units. The Company evaluated whether there were indicators of impairment as of June 30, 2020 as a result of COVID-19 conditions including deterioration in the macro-economic environment and the volatility in our share price. While there were negative macro-economic factors, the positive evidence outweighed the negative evidence of the fair value of our reporting units more likely than not exceeding the carrying amount of those units as of June 30, 2020. Further, since the negative financial impacts on the Company from the COVID-19 pandemic have not been significant to date, COVID-19 considerations do not significantly affect the assumptions underpinning our long-term revenue and cash flow growth rates, operating models and business strategies. Therefore, the Company did not consider the COVID-19 pandemic to require an interim quantitative goodwill impairment analysis. As a result, no impairment charges for goodwill and indefinite-lived intangible assets were recorded during the three and six months ended June 30, 2020.

The Company also evaluated its remaining assets, particularly accounts receivable. The allowance for doubtful accounts is calculated based on historical experience and various other information available. The Company also assessed incremental risks due to the COVID-19 pandemic on our customers' financial viability. The Company did not experience a significant deterioration of its accounts receivable portfolio during the quarter ended June 30, 2020. The Company will continue to monitor the collectability of its accounts receivable balances.

The Company received an immaterial amount of COVID-19-related rent concessions for certain office space leases in the second quarter of 2020. Consistent with updated guidance from the Financial Accounting Standards Board ("FASB") in April 2020, the Company elected to treat COVID-19-related rent concessions as variable rent. While the Company is having ongoing conversations with landlords, it does not expect significant concessions for the remainder of the year.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which among other things, provides employer payroll tax credits for wages paid to employees who are unable to work during the COVID-19 pandemic and options to defer payroll tax payments. Based on evaluation of the CARES Act, the Company is deferring qualified payroll and other tax payments as permitted by the CARES Act.

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

The full extent of the future impact of COVID-19 on the Company's operations is uncertain. Such events, including a prolonged or recurring outbreak, are generally outside of our control and could have a material adverse impact on our business, operating results and financial conditions in future reporting periods.

### **Impact of Recently Issued Accounting Standards**

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

#### **Adopted by the Company in Fiscal Year 2020**

*FASB ASU 2018-13* - In August 2018, the FASB issued Accounting Standards Update ("ASU") 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which adds and modifies certain disclosure requirements for fair value measurements. Under the new guidance, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, or valuation processes for Level 3 fair value measurements. However, public companies are required to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and related changes in unrealized gains and losses included in other comprehensive income. Certain provisions of the ASU must be applied retrospectively, while others must be applied prospectively. The Company adopted this ASU on January 1, 2020. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

*FASB ASU 2018-15* - In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company adopted this ASU prospectively on January 1, 2020. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

#### **Accounting Standards Not Yet Adopted**

*FASB ASU 2016-13* - In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires entities to record expected credit losses for certain financial instruments, including trade receivables, as an allowance that reflects the entity's current estimate of credit losses expected to be incurred. ASU 2016-13 is effective for annual periods beginning after December 15, 2022, including interim periods within those annual periods, and early adoption is permitted. The Company is currently evaluating the effect that the adoption of this standard will have on the Company's condensed consolidated financial statements.

*FASB ASU 2019-12* - In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies accounting for income taxes, changes the accounting for certain income tax transactions and makes certain improvements to the codification. These amendments will be effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the new standard to determine the impact it will have on the Company's condensed consolidated financial statements.

*FASB ASU 2020-04* - In March 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) and other interbank offered rates. Companies may adopt this guidance at any time but no later than December 31, 2022. The Company is currently evaluating the new standard to determine the impact it will have on the Company's condensed consolidated financial statements.

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

**(2) Net Income (Loss) Per Common Share**

The following table sets forth the computations of basic and diluted net income (loss) per common share for the three and six months ended June 30, 2020 and 2019 (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Numerator:</b>				
Net income (loss) from continuing operations	\$ 418	\$ (4,176)	\$ (3,465)	\$ (8,417)
Net loss from discontinued operations	\$ —	\$ (103)	\$ —	\$ (258)
<b>Denominator:</b>				
Weighted-average common shares outstanding	22,606	22,763	22,542	22,687
Effect of dilutive securities from stock-based compensation plans	110	—	—	—
Weighted-average diluted common shares outstanding	22,716	22,763	22,542	22,687
Basic net income (loss) per common share from continuing operations	\$ 0.02	\$ (0.18)	\$ (0.15)	\$ (0.37)
Basic net loss per common share from discontinued operations	—	—	—	(0.01)
Total basic net income (loss) per common share	\$ 0.02	\$ (0.18)	\$ (0.15)	\$ (0.38)
Diluted income (loss) per common share from continuing operations	\$ 0.02	\$ (0.18)	\$ (0.15)	\$ (0.37)
Diluted loss per common share from discontinued operations	—	—	—	(0.01)
Total diluted income (loss) per common share	\$ 0.02	\$ (0.18)	\$ (0.15)	\$ (0.38)
Anti-dilutive securities excluded from diluted net income (loss) per share calculation	4,011	4,277	4,120	4,277

**(3) Stock-Based Compensation**

The Company has two stock-based compensation plans under which outstanding equity awards have been granted, the 2008 Equity Incentive Plan ("2008 EIP") and the 2017 Equity Incentive Compensation Plan ("2017 EICP") (collectively, the "Plans"). No additional awards may be granted under the 2008 EIP. Awards granted outside of the Plans are referred to as inducement awards.

During the three months ended June 30, 2020, equity awards were granted to non-employee directors, and in the six months ended June 30, 2020, equity awards were granted to non-employee directors and certain key employees. The awards included restricted stock, restricted stock units, and performance-based restricted stock units ("PBUs").

**Summary of Grant Activity**

The following is a summary of grant activity for the three and six months ended June 30, 2020 (in thousands, except number of awards):

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

	Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
	# of Awards Granted	Grant Date Fair Value	# of Awards Granted	Grant Date Fair Value
Restricted stock	30,769	\$ 120	429,269	\$ 1,830
Restricted stock units	123,076	480	142,076	562
PBUs	—	—	659,301	2,828
	153,845	\$ 600	1,230,646	\$ 5,220

The awards granted in the three months ended June 30, 2020 had the following terms:

- The restricted stock and restricted stock units vest one year from grant date.

The awards granted in the six months ended June 30, 2020 had the following terms:

- 398,500 shares of the restricted stock vest over three years in approximately equal annual installments and 30,769 shares of the restricted stock vest one year from grant date.
- 123,076 restricted stock units vest one year from grant date and 19,000 restricted stock units vest over three years in approximately equal annual installments.
- The vesting of the PBUs is subject to the satisfaction of certain specified financial performance conditions for the two-year performance period ending on December 31, 2021. PBUs that vest will be settled in shares of the Company's common stock. Stock-based compensation expense for these PBUs is being recognized at the target level of financial performance, as if 100% of the awards will vest. The Company reevaluates this likelihood on a quarterly basis.

**Additional Information**

As of June 30, 2020, there were approximately 1.8 million shares available for future grant under the 2017 EICP.

Stock-based compensation expense for the three months ended June 30, 2020 and 2019 was \$1.9 million and \$1.7 million, respectively, and \$3.2 million and \$3.0 million for the six months ended June 30, 2020 and 2019, respectively, and is included in *Selling, general and administrative expenses* in the Company's Condensed Consolidated Statements of Operations. As of June 30, 2020, there was \$8.6 million of unrecognized stock-based compensation expense related to the Company's outstanding equity awards which will be recognized over approximately 1.7 years.

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

**(4) Operating Segments and Related Information**

The Company conducts its operations through the following three reportable segments:

**Recovery Audit Services – Americas** represents 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** represents data transformation, spend analytics and associated advisory services.

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

**Discontinued Operations**

There was no activity in the Company's discontinued operations segment for the three and six months ended June 30, 2020. The following table presents the discontinued operations of the Healthcare Claims Recovery Audit (“HCRA”) services business in the Consolidated Statements of Operations, for the three and six months ended June 30, 2019 (in thousands):

	<b>Three Months Ended June 30, 2019</b>	<b>Six Months Ended June 30, 2019</b>
Revenue, net	\$ —	\$ —
Cost of sales	96	245
Selling, general and administrative expense	7	13
Depreciation and amortization	—	—
Loss from discontinued operations before income taxes	\$ (103)	\$ (258)
Income tax expense	—	—
Loss from discontinued operations	<u>\$ (103)</u>	<u>\$ (258)</u>

The following table presents the discontinued operations of the HCRA services business in the Consolidated Statements of Cash Flows, for the six months ended June 30, 2019 (in thousands):

	<b>Six Months Ended June 30, 2019</b>
Net cash (used in) provided by operating activities	\$ (258)
Net cash (used in) provided by investing activities	—
Net cash (used in) provided by financing activities	—
Decrease in cash and cash equivalents	<u>\$ (258)</u>

The Company evaluates the performance of its reportable segments based upon revenue and measures of profit or loss referred to as EBITDA and Adjusted EBITDA. The Company defines 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. The Company does not have any inter-segment revenue.

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

Segment information for the three and six months ended June 30, 2020 and 2019 (in thousands) is as follows:

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Corporate Support	Total
<b>Three Months Ended June 30, 2020</b>					
Revenue, net	\$ 26,962	\$ 11,157	\$ 892	\$ —	\$ 39,011
Net income from continuing operations					418
Income tax expense					1,004
Interest expense, net					303
EBIT	\$ 8,895	\$ 4,426	\$ 24	\$ (11,620)	\$ 1,725
Depreciation of property, equipment and software	1,777	155	33	—	1,965
Amortization of intangible assets	408	41	379	—	828
EBITDA	\$ 11,080	\$ 4,622	\$ 436	\$ (11,620)	\$ 4,518
Other loss	—	—	—	2	2
Foreign currency transaction (gains) losses on short-term intercompany balances	(176)	(752)	—	109	(819)
Transformation, severance, and other expenses	327	181	47	117	672
Investigation and settlement of employment matter	—	—	—	1,306	1,306
Stock-based compensation	—	—	—	1,876	1,876
Adjusted EBITDA from continuing operations	\$ 11,231	\$ 4,051	\$ 483	\$ (8,210)	\$ 7,555
	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Corporate Support	Total
<b>Three Months Ended June 30, 2019</b>					
Revenue, net	\$ 28,935	\$ 11,836	\$ 1,203	\$ —	\$ 41,974
Net loss from continuing operations					(4,176)
Income tax expense					311
Interest expense, net					592
EBIT	\$ 6,960	\$ 1,877	\$ (2,914)	\$ (9,196)	\$ (3,273)
Depreciation of property, equipment and software	1,919	182	280	—	2,381
Amortization of intangible assets	438	48	386	—	872
EBITDA	\$ 9,317	\$ 2,107	\$ (2,248)	\$ (9,196)	\$ (20)
Other loss	1	—	—	10	11
Foreign currency transaction (gains) losses on short-term intercompany balances	(106)	(99)	6	122	(77)
Transformation, severance, and other expenses	250	122	605	303	1,280
Stock-based compensation	—	—	—	1,662	1,662
Adjusted EBITDA from continuing operations	\$ 9,462	\$ 2,130	\$ (1,637)	\$ (7,099)	\$ 2,856

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

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Corporate Support	Total
<b>Six Months Ended June 30, 2020</b>					
Revenue, net	\$ 53,185	\$ 20,942	\$ 1,723	\$ —	\$ 75,850
Net loss from continuing operations					(3,465)
Income tax expense					960
Interest expense, net					645
EBIT	\$ 13,373	\$ 5,865	\$ 162	\$ (21,260)	\$ (1,860)
Depreciation of property, equipment and software	3,715	324	67	—	4,106
Amortization of intangible assets	816	83	758	—	1,657
EBITDA	\$ 17,904	\$ 6,272	\$ 987	\$ (21,260)	\$ 3,903
Other loss	—	—	—	2	2
Foreign currency transaction (gains) losses on short-term intercompany balances	720	122	4	(209)	637
Transformation, severance, and other expenses	1,015	389	127	448	1,979
Investigation and settlement of employment matter	—	—	—	1,306	1,306
Stock-based compensation	—	—	—	3,196	3,196
Adjusted EBITDA from continuing operations	<u>\$ 19,639</u>	<u>\$ 6,783</u>	<u>\$ 1,118</u>	<u>\$ (16,517)</u>	<u>\$ 11,023</u>



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

	Recovery Audit Services – Americas	Recovery Audit Services – Europe/Asia- Pacific	Adjacent Services	Corporate Support	Total
<b>Six Months Ended June 30, 2019</b>					
Revenue, net	\$ 56,308	\$ 21,595	\$ 2,875	\$ —	\$ 80,778
Net loss from continuing operations					(8,417)
Income tax expense					479
Interest expense, net					1,065
EBIT	\$ 12,964	\$ 2,190	\$ (5,059)	\$ (16,968)	\$ (6,873)
Depreciation of property, equipment and software	3,681	344	559	—	4,584
Amortization of intangible assets	876	85	773	—	1,734
EBITDA	\$ 17,521	\$ 2,619	\$ (3,727)	\$ (16,968)	\$ (555)
Other loss (income)	1	9	—	(18)	(8)
Foreign currency transaction (gains) losses on short-term intercompany balances	(179)	300	—	8	129
Transformation, severance, and other expenses	378	245	623	731	1,977
Stock-based compensation	—	—	—	3,046	3,046
Adjusted EBITDA from continuing operations	<u>\$ 17,721</u>	<u>\$ 3,173</u>	<u>\$ (3,104)</u>	<u>\$ (13,201)</u>	<u>\$ 4,589</u>

**(5) Debt**

On March 14, 2019, the Company, as co-borrower with PRGX USA, Inc. (“PRGX-USA” and, collectively with the Company, the “Borrowers”), a wholly-owned subsidiary that is the Company’s principal domestic operating subsidiary, entered into a five-year Credit Agreement (the “BOA Credit Facility”) with Bank of America, N.A. (“BOA”) and Synovus Bank as the initial lenders thereunder, and with BOA as the letter-of-credit issuer thereunder, as the swingline lender thereunder, and as the administrative agent (the “Administrative Agent”) for the lenders from time to time party thereto. The BOA Credit Facility consists of a \$60.0 million senior revolving credit facility (the “Revolver”), with a \$5.0 million subfacility for the issuance of letters of credit, and a \$5.0 million swingline loan subfacility (the “Swingline Loan”). The BOA Credit Facility is guaranteed by each of PRGX’s direct and indirect domestic wholly-owned subsidiaries (other than PRGX-USA), except for certain immaterial domestic subsidiaries. None of PRGX’s direct or indirect foreign subsidiaries have guaranteed the BOA Credit Facility. The BOA Credit Facility is secured by substantially all of the assets of PRGX, PRGX-USA and each guarantor (including the equity interests in substantially all of the Company’s domestic subsidiaries and up to sixty-five percent (65%) of the equity interests of certain of the Company’s first-tier material foreign subsidiaries).

The BOA Credit Facility will mature on March 14, 2024. Interest is payable quarterly in arrears. There are no prepayment penalties in the event the Company elects to prepay and terminate the BOA Credit Facility prior to its scheduled maturity date, subject to breakage and redeployment costs in certain limited circumstances.

The Revolver bears interest at a rate per annum comprised of a specified index rate based on LIBOR plus an applicable interest rate margin determined under the BOA Credit Facility. For U.S. Dollar-denominated loans under the Revolver, at the option of the Borrowers, such loans shall bear interest at a rate per annum equal to (x) the LIBOR daily floating rate plus an applicable interest rate margin determined under the BOA Credit Facility or (y) the base rate plus the applicable interest rate margin, each as determined under the BOA Credit Facility. Although the Company does not anticipate the need for Swingline Loans, were any Swingline Loans to be made they would bear interest at the base rate plus the applicable interest rate margin for base rate loans, each as determined under the BOA Credit Facility. The applicable interest rate margin varies from 1.50% per annum to 2.25% per annum, for LIBOR daily floating rate loans, and from 0.50% per annum to 1.25% per annum, for loans based on the base rate, and in either case depending on the Company’s consolidated leverage ratio, and is determined in accordance with a pricing grid under the BOA Credit Facility.

The BOA Credit Facility includes customary affirmative, negative, and financial covenants binding on the Company, including delivery of financial statements and other reports and maintenance of existence. The negative covenants limit the ability of the Company, among other things, to incur debt, incur liens, make investments and sell assets, but does provide for certain permitted repurchases of shares of its capital stock and the declaration and payment of certain dividends on its capital stock. The financial covenants included in the BOA Credit Facility set forth a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio for the Company, each which will be tested on a quarterly basis; and with the Company having the ability to increase the maximum leverage ratio for a limited time when needed in connection with permitted acquisitions. In addition, the BOA Credit Facility includes customary events of default.

As of June 30, 2020, there was \$37.0 million in debt outstanding under the BOA Credit Facility that will be due March 14, 2024. The amount available for additional borrowing under the BOA Credit Facility was \$23.0 million as of June 30, 2020. Based on the terms of the BOA Credit Facility, on June 30, 2020 the applicable interest rate (inclusive of the applicable interest rate margin) for LIBOR daily floating rate loans (the only type outstanding on June 30, 2020) was approximately 2.18%. As of June 30, 2020, the Company was required to pay a commitment fee of 0.25% per annum, payable quarterly, on the unused portion of the BOA Credit Facility.

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

Long-term debt as of June 30, 2020 and December 31, 2019 consists of the following (in thousands):

	As of June 30, 2020	As of December 31, 2019
Credit facility <sup>(1)</sup>	\$ 37,000	\$ 37,000
DFC <sup>(2)</sup>	(350)	(397)
Net credit facility	36,650	36,603
Finance lease obligations <sup>(1)</sup>	—	17
Total debt	36,650	36,620
Less: Current portion of long-term debt	—	17
Long-term debt, excluding current portion	\$ 36,650	\$ 36,603

(1) Principal portion of long-term debt. Refer to Future Commitments table below for principal payments to be made on long-term debt.

(2) DFC refers to deferred financing costs related to the Company's long-term debt.

#### **Future Commitments**

The following is a summary of the combined principal maturities of all long-term debt and principal payments to be made under the Company's credit facility for each of the fiscal years presented in the table below (in thousands):

Year Ending December 31,	
2020	\$ —
2021	—
2022	—
2023	—
2024	37,000
Total	\$ 37,000

#### **(6) Fair Value of Financial Instruments**

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

The Company records bank debt, if any, as of the period end date based on the effective borrowing rate and repayment terms when originated. The Company had \$37.0 million in bank debt outstanding as of both June 30, 2020 and December 31, 2019. The Company believes the carrying value of the bank debt approximates its fair value. The Company considers the factors used in determining the fair value of this debt to be Level 3 inputs (significant unobservable inputs).

The Company states certain assets at fair value on a nonrecurring basis as required by GAAP. Generally, these assets are recorded at fair value on a nonrecurring basis as a result of impairment charges.

#### **(7) Commitments and Contingencies**

##### ***Legal Proceedings***

The Company is 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 the Company's financial position, results of operations or cash flows.

**(8) Income Taxes**

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

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

The Company applies 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. PRGX refers to GAAP for guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In accordance with FASB ASC 740, the Company's 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 tax position is audited and finally resolved or when a tax assessment is raised. The number of years subject to tax assessments also varies by tax jurisdiction.

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

**(9) Leases**

The Company primarily leases office space and certain office equipment using noncancelable operating leases. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the implicit rate is not readily determinable in most of the Company's lease agreements, the Company uses its estimated secured incremental borrowing rate, which takes into consideration the relevant term of the underlying lease, in determining the present value of lease payments. Lease expense is recognized on a straight-line basis over the lease terms. Certain of our lease agreements include variable lease payments, primarily related to common area maintenance, insurance and taxes. The variable portion of payments is not included in the initial measurement of the right-of-use asset or lease liability due to the uncertainty of the payment amount and are recorded as lease expense in the period incurred.

The Company's leases have original lease periods expiring between 2020 and 2027, which may include the option to extend the lease when it is reasonably certain the Company will exercise that option. The Company does not have lease agreements with residual value guarantees, sale leaseback terms or material restrictive covenants.

The components of lease expense, lease term and discount rate are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating lease cost	\$ 1,086	\$ 1,182	\$ 2,187	\$ 2,448
Short-term lease cost	17	21	34	42
Variable lease cost	178	411	372	454
Sublease income	(18)	(18)	(36)	(35)
<b>Total lease cost</b>	<b>\$ 1,263</b>	<b>\$ 1,596</b>	<b>\$ 2,557</b>	<b>\$ 2,909</b>

As of June 30, 2020 and December 31, 2019, the weighted average remaining lease term and weighted average discount rate for the Company's operating leases were as follows:

	June 30, 2020	December 31, 2019
Weighted Average Remaining Lease Term	3.7 years	3.5 years
Weighted Average Discount Rate	3.6 %	4.1 %

The following is a schedule, by years, of maturities of lease liabilities as of June 30, 2020 (in thousands):

	<b>Operating Leases</b>
The remainder of 2020	\$ 4,396
2021	3,632
2022	1,905
2023	1,462
2024	887
Thereafter	637
<b>Total undiscounted cash flows</b>	<b>12,919</b>
Less imputed interest	(1,474)
<b>Present value of lease liabilities</b>	<b>\$ 11,445</b>

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

Supplemental cash flow information related to the Company's operating leases are as follows (in thousands):

	<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Non-cash activity:		
Right-of-use assets obtained in exchange for operating lease obligations	\$ 2,271	\$ 14,479
Operating cash flows:		
Cash paid for amounts included in the measurement of lease liabilities	\$ 1,106	\$ 2,442

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

### Forward-Looking Statements

Some of the information in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which statements involve substantial risks and uncertainties including, without limitation, statements regarding the expected impact of the global COVID-19 pandemic; future results of operations or the Company’s financial condition; the adequacy of the Company’s current working capital and other available sources of funds for capital expenditures and otherwise; the Company’s goals and plans for the future, including its strategic initiatives and growth opportunities; and expectations regarding future revenue and growth trends. All statements that cannot be assessed until the occurrence of a future event or events should be considered forward-looking. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and can be identified by the use of forward-looking words such as “may,” “will,” “expect,” “anticipate,” “believe,” “estimate” and “continue” or similar words. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, the volatility of our stock price, and current competitive conditions. Risks and uncertainties that may potentially impact these forward-looking statements include, without limitation, those set forth under Part I, Item 1A “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 and its other periodic reports filed with the Securities and Exchange Commission. The Company disclaims any obligation or duty to update or modify these forward-looking statements whether as a result of new information, future events or otherwise, except as may be required by law.

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

You should read the following discussion and analysis in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2019 and our other periodic reports filed with the Securities and Exchange Commission and the condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

Except as otherwise indicated or unless context otherwise requires, “PRGX”, “we,” “us,” “our” and the “Company” refer to PRGX Global, Inc. and its subsidiaries.

### Impact of COVID-19

In March 2020, the World Health Organization categorized COVID-19, the disease resulting from a novel strain of coronavirus, as a global pandemic, which continues to spread worldwide, including in the United States, several European countries and throughout Asia. To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines, and these mitigation measures have adversely impacted the U.S. and global economy, leading to reduced consumer and business spending, reduced economic activity and disruptions and volatility in the U.S. and global capital markets. There was not a significant negative impact on our financial results from the COVID-19 pandemic for the three and six months ended June 30, 2020. While the Company received an immaterial amount of COVID-19-related rent concessions for certain office space leases in the second quarter of 2020 and has deferred qualified payroll and other taxes as permitted under the Coronavirus Aid, Relief, and Economic Security Act (“CARES ACT”), we are unable to reasonably estimate the impact that the ongoing global COVID-19 pandemic may have on our business operations and financial condition.

### Business Overview

PRGX Global, Inc., together with its subsidiaries, is a global leader in recovery audit and spend analytics, providing a suite of services targeted at our clients’ source-to-pay (“S2P”) business processes. At the heart of our services suite is the core capability of mining client data to deliver “actionable insights.” Actionable insights allow our clients to improve their cash flow and profitability by reducing costs, improving business processes and managing risks.

Our solutions include services and technologies for recovery audit, contract compliance and advanced analytics. We deliver services to hundreds of clients and serve clients in more than 30 countries. We conduct our operations through three reportable segments: Recovery Audit Services - Americas, Recovery Audit Services - Europe/Asia-Pacific and Adjacent Services. The Recovery Audit Services - Americas segment represents recovery audit services we provide in the U.S., Canada

and Latin America. The Recovery Audit Services - Europe/Asia-Pacific segment represents recovery audit services we provide in Europe, Asia and the Pacific region. Our Adjacent Services line of business includes our supplier information management (“SIM”) and deduction management solutions as well as S2P analytics tools offered as part of our Lumen Advanced Analytics suite. We include the unallocated portion of corporate selling, general and administrative expenses not specifically attributable to the three reportable segments in Corporate Support.

Recovery auditing is a business service focused on finding overpayments created by errors in payment transactions, such as missed or inaccurate discounts, allowances and rebates, vendor pricing errors, erroneous coding and duplicate payments. Recovery audit services are part of the broader S2P services market space, focused on the payment side of the S2P market.

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

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

- Diverse client base - our clients include a diverse mix of discounters, grocery, pharmacy, department and other stores that tend to be impacted to varying degrees by general economic fluctuations, and even in opposite directions from each other depending on their positions in the market and their market segments;
- 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 generally took place 3 to 15 months prior to the data being provided to us for audit. As a result, we generally experience a delayed impact from economic changes that varies by client and the impact may be positive or negative depending on the individual clients’ circumstances.

We have processes in place to mitigate the financial impact arising from fluctuations in our businesses. These processes include reviewing and monitoring financial and operational results through our internal reporting, devoting substantial efforts to develop an improved service delivery model to enable us to more cost effectively serve our clients, and maintaining the flexibility to control the compensation-related portions of our cost structure.

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



our advanced analytics solutions. We believe that our recovery audit business uniquely positions us to create value for clients and gives us a competitive advantage over other players in the broader S2P market for four fundamental reasons:

- We already have the clients' spend data - we serve a large and impressive list of very large, multinational companies in our core recovery audit business, which requires access to and processing of these clients' detailed S2P data on a daily, weekly or at least periodic basis;
- We know the clients' spend data and underlying processes - the work we do in recovery audit requires that we fully understand our clients' systems, buying practices, receiving and payment procedures, as well as their suppliers' contracting, performance and billing practices;
- We take a different perspective in analyzing the clients' spend data - we look horizontally across our clients' processes and organizational structures versus vertically, which is how most companies are organized and enterprise resource planning systems are designed; and
- Our contingent fee recovery audit value proposition minimizes our clients' cost of entry and truly aligns us with our clients.

As our clients' data volumes and complexity levels continue to grow, we are using our deep data management experience to develop new actionable insight solutions, as well as to develop custom analytics. Taken together, our deep understanding of our clients' S2P data and our technology-based solutions provide multiple routes to help our clients achieve greater profitability. Our Adjacent Services business targets client functional and process areas where we have established expertise, enabling us to provide services to finance, merchandising and procurement executives to improve working capital, reduce supplier discrepancies, 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.

Looking ahead, we expect to continue the evolution of our business from its historical auditor-led recovery audit operation, to today's data-driven, technology-led recovery audit, and advanced analytics solutions, to tomorrow's next generation payment assurance solutions, which will provide access to software and enable services closer in time to or contemporaneous with the transaction. We believe this evolution will allow us to provide incremental value to our clients and ultimately transform our business from one primarily focused on post-transaction analysis, error identification and recovery, to one with its major emphasis on error prevention and S2P process efficiency.

We believe that for the foreseeable future, our revenue will remain at a level that will allow us to continue investing in our growth strategy, including developing and enhancing our technology platforms and improved operational processes within our recovery audit business. We have processes in place to mitigate the financial impact arising from fluctuations in our businesses. These processes include reviewing and monitoring financial and operational results through our internal reporting, devoting substantial efforts to develop an improved service delivery model to enable us to more cost-effectively serve our clients, and maintaining the flexibility to control the compensation-related portions of our cost structure.

We expect to continue our information technology and product development efforts to improve our services and solutions. We expect to continue investing in sales and marketing and will continue to assess the success and effectiveness of our sales and marketing efforts and the optimal level of sales and marketing investment for future periods. We also expect to adjust headcount in product development, data services, advisory services and recovery audit to support our services and client contracts. We believe that our investments in next generation recovery audit technology will further increase the operating leverage in our recovery audit platform in future years.

## Results of Operations from Continuing Operations

The discussions and financial results in this Item 2 reflect our results from continuing operations.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue, net	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Cost of revenue	52.8	62.7	56.8	63.8
Selling, general and administrative expenses	37.7	37.5	37.2	36.7
Depreciation of property, equipment and software	5.0	5.7	5.4	5.7
Amortization of intangible assets	2.1	2.1	2.2	2.1
Total operating expenses	97.6	108.0	101.6	108.3
Operating income (loss) from continuing operations	2.4	(8.0)	(1.6)	(8.3)
Foreign currency transaction (gains) losses on short-term intercompany balances	(2.1)	(0.2)	0.8	0.2
Interest expense, net	0.8	1.4	0.9	1.3
Net income (loss) from continuing operations before income tax	3.7	(9.2)	(3.3)	(9.8)
Income tax expense	2.6	0.7	1.3	0.6
Net income (loss) from continuing operations	1.1 %	(9.9)%	(4.6)%	(10.4)%

## Three and Six Months Ended June 30, 2020 Compared to the Corresponding Period of the Prior Year

Revenue, net. Revenue, net was as follows (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Recovery Audit Services – Americas	\$ 26,962	\$ 28,935	(6.8)%	\$ 53,185	\$ 56,308	(5.5)%
Recovery Audit Services – Europe/Asia-Pacific	11,157	11,836	(5.7)%	20,942	21,595	(3.0)%
Adjacent Services	892	1,203	(25.9)%	1,723	2,875	(40.1)%
Total	\$ 39,011	\$ 41,974	(7.1)%	\$ 75,850	\$ 80,778	(6.1)%

Consolidated revenue for the three months ended June 30, 2020 decreased 7.1% compared to the same period in 2019. Consolidated revenue for the six months ended June 30, 2020 decreased 6.1% compared to the same period in 2019. Below is a discussion of our revenue for our three reportable segments.

Recovery Audit Services – Americas revenue decreased 6.8% and 5.5% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. Within the segment, retail recovery audit revenue was down moderately year-over-year while revenue from the commercial (non-retail) and contract compliance businesses experienced a larger decline.

Recovery Audit Services – Europe/Asia-Pacific revenue decreased 5.7% and 3.0% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. Revenue from the retail recovery audit business in this segment declined while revenue from the segment's commercial business was improved compared to the three and six months ended June 30, 2019.

Adjacent Services revenue decreased 25.9% and 40.1% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The year-over-year decreases were primarily the result of management's decision to discontinue certain advisory projects.

*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, our data services costs allocated to client projects, 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. Since the timing of our recognition of recovery audit revenue is impacted by the timing of claims recovery by our clients, which can often take between two and four months for a typical recovery audit engagement and even longer for the more complex contract compliance engagements, our revenue growth may lag incremental variable COR as we grow.

COR was as follows (in thousands):

	Three Months Ended June 30,			% of Revenue		Six Months Ended June 30,			% of Revenue	
	2020	2019	Change	2020	2019	2020	2019	Change	2020	2019
Recovery Audit Services – Americas	\$ 14,346	\$ 16,076	(10.8)%	53.2 %	55.6 %	\$ 30,334	\$ 31,939	(5.0)%	57.0 %	56.7 %
Recovery Audit Services – Europe/Asia-Pacific	5,742	7,189	(20.1)%	51.5 %	60.7 %	11,999	13,915	(13.8)%	57.3 %	64.4 %
Adjacent Services	496	3,047	(83.7)%	55.6 %	253.3 %	785	5,693	(86.2)%	45.6 %	198.0 %
Total	\$ 20,584	\$ 26,312	(21.8)%	52.8 %	62.7 %	\$ 43,118	\$ 51,547	(16.4)%	56.8 %	63.8 %

Recovery Audit Services - Americas COR decreased 10.8% and 5.0% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The decreases in expense were primarily due to decreases in payroll expenses. COR as a percentage of revenue for Recovery Audit Services - Americas was 53.2% and 57.0% for the three and six months ended June 30, 2020, respectively, compared to 55.6% and 56.7% for the three and six months ended June 30, 2019. The improvement in COR as a percentage of revenue for the three months ended June 30, 2020 was primarily the result of a reduction in payroll expenses.

Recovery Audit Services - Europe/Asia-Pacific COR decreased 20.1% and 13.8% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The decreases in expense were primarily due to decreases in payroll expenses. COR as a percentage of revenue for Recovery Audit Services - Europe/Asia-Pacific was 51.5% and 57.3% for the three and six months ended June 30, 2020, respectively, compared to 60.7% and 64.4% for the three and six months ended June 30, 2019. The improvement in COR as a percentage of revenue for both periods was primarily the result of a reduction in payroll expenses.

Adjacent Services COR decreased 83.7% and 86.2% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The decreases in expense were primarily due to decreases in payroll expenses. COR as a percentage of revenue for Adjacent Services was 55.6% and 45.6% for the three and six months ended June 30, 2020, respectively, compared to 253.3% and 198.0% for the three and six months ended June 30, 2019. The improvement in COR as a percentage of revenue for both periods was primarily the result of a reduction in payroll expenses.

*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, finance, executive management, accounting, treasury, administration, and stock-based compensation expense.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Recovery Audit Services – Americas	\$ 1,712	\$ 3,647	(53.1)%	\$ 4,227	\$ 7,026	(39.8)%
Recovery Audit Services – Europe/Asia-Pacific	1,545	2,639	(41.5)%	2,549	4,752	(46.4)%
Adjacent Services	(40)	398	(110.1)%	(53)	909	(105.8)%
Subtotal for reportable segments	3,217	6,684	(51.9)%	6,723	12,687	(47.0)%
Corporate Support	11,509	9,064	27.0 %	21,467	16,978	26.4 %
Total	\$ 14,726	\$ 15,748	(6.5)%	\$ 28,190	\$ 29,665	(5.0)%

Recovery Audit Services – Americas SG&A expenses decreased 53.1% and 39.8% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The year-over-year decreases in SG&A expense were primarily due to decreases in payroll and travel expenses.

Recovery Audit Services – Europe/Asia-Pacific SG&A expenses decreased 41.5% and 46.4% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The year-over-year decreases in SG&A expense were primarily due to a decrease in bad debt expense.

Adjacent Services SG&A expenses decreased 110.1% and 105.8% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The year-over-year decreases in SG&A expense were primarily due to decreases in payroll and various other operating expenses.

Corporate Support SG&A expenses increased 27.0% and 26.4% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. Corporate Support SG&A expenses include stock-based compensation of \$1.9 million and \$3.2 million for the three and six months ended June 30, 2020, respectively. Excluding stock-based compensation expense, Corporate Support SG&A expenses increased year-over-year primarily as a result of costs incurred in connection with the investigation and settlement of claims raised by a former employee whose position was eliminated in the fourth quarter of 2019.

*Depreciation of property, equipment and software assets.* Depreciation of property, equipment and software assets was as follows (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Recovery Audit Services – Americas	\$ 1,777	\$ 1,919	(7.4)%	\$ 3,715	\$ 3,681	0.9 %
Recovery Audit Services – Europe/Asia-Pacific	155	182	(14.8)%	324	344	(5.8)%
Adjacent Services	33	280	(88.2)%	67	559	(88.0)%
Total	\$ 1,965	\$ 2,381	(17.5)%	\$ 4,106	\$ 4,584	(10.4)%

Depreciation expense decreased for the three and six months ended June 30, 2020 compared to the same periods in 2019 due to a reduced level of capital expenditures and assets placed into service.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Recovery Audit Services – Americas	\$ 408	\$ 438	(6.8)%	\$ 816	\$ 876	(6.8)%
Recovery Audit Services – Europe/Asia-Pacific	41	48	(14.6)%	83	85	(2.4)%
Adjacent Services	379	386	(1.8)%	758	773	(1.9)%
Total	\$ 828	\$ 872	(5.0)%	\$ 1,657	\$ 1,734	(4.4)%

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.

*Foreign Currency Transaction (Gains) Losses on Short-Term Intercompany Balances.* Foreign currency transaction gains and losses on short-term intercompany balances result from fluctuations in the exchange rates for foreign currencies and the U.S. dollar and the impact of these fluctuations, primarily on balances payable by our foreign subsidiaries to their U.S. parent. Substantial changes from period to period in foreign currency exchange rates may significantly impact the amount of such gains and losses. The strengthening of the U.S. dollar relative to other currencies results in recorded losses on short-term intercompany receivables from our foreign subsidiaries while the relative weakening of the U.S. dollar results in recorded gains. In the three and six months ended June 30, 2020, we recorded foreign currency transaction gains of \$0.8 million and losses of \$0.6 million, respectively, on short-term intercompany balances compared to gains of less than \$0.1 million and losses of \$0.1 million, respectively, for the same periods in 2019.

*Interest Expense, net.* Interest expense, net decreased \$0.3 and \$0.4 million, respectively, for the three and six months ended June 30, 2020 compared to the same periods in 2019.

*Income Tax Expense.* Our income tax expense amounts as reported in the accompanying Condensed Consolidated Financial Statements (Unaudited) do not reflect amounts that normally would be expected due to several factors. The most significant of these factors is that for U.S. tax reporting purposes we have net operating loss carryforwards and other tax attributes which created deferred tax assets on our balance sheet. We reduce our deferred tax assets by a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. Generally, these factors have resulted in minimal income tax expense or benefit relating to our operations in the United States. Reported income tax expense for both the three and six months ended June 30, 2020 was \$1.0 million and income tax expense for the three and six months ended June 30, 2019 was \$0.3 million and \$0.5 million, respectively. Reported income tax expense primarily results from taxes on the income of certain of our foreign subsidiaries.

As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to the future realization of deferred tax assets. Over the next twelve months, management may be in the position to have sufficient positive evidence to release partially or in full the valuation allowance held over our U.S. deferred tax assets.

## Non-GAAP Financial Measures

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, certain severance charges and foreign currency transaction gains and losses on short-term intercompany balances viewed by management as individually or collectively significant.

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 (“GAAP”). We believe these measures provide additional meaningful information in evaluating our 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 our secured credit facility. However, EBIT, EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation, or as substitutes for analysis of our results as reported under GAAP. The adjustments impacting the calculations of EBIT, EBITDA and Adjusted EBITDA may vary from period to period and in the future, we expect to incur expenses of a similar nature such as those used in calculating these measures. Our presentation of these measures should not be construed as an inference that future results will be unaffected by unusual or nonrecurring items.

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

### EBIT, EBITDA, and Adjusted EBITDA

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Net income (loss)	\$ 418	\$ (4,279)	(109.8)%	\$ (3,465)	\$ (8,675)	(60.1)%
Income tax expense	1,004	311	222.8 %	960	479	100.4 %
Interest expense, net	303	592	(48.8)%	645	1,065	(39.4)%
EBIT	1,725	(3,376)	(151.1)%	(1,860)	(7,131)	(73.9)%
Depreciation of property, equipment and software	1,965	2,381	(17.5)%	4,106	4,584	(10.4)%
Amortization of intangible assets	828	872	(5.0)%	1,657	1,734	(4.4)%
EBITDA	4,518	(123)	(3773.2)%	3,903	(813)	(580.1)%
Foreign currency transaction (gains) losses on short-term intercompany balances	(819)	(77)	963.6 %	637	129	393.8 %
Transformation, severance, and other expenses	672	1,280	(47.5)%	1,979	1,977	0.1 %
Investigation and settlement of employment matter	1,306	—	100.0 %	1,306	—	100.0 %
Other loss (income)	2	11	(81.8)%	2	(8)	(125.0)%
Stock-based compensation	1,876	1,662	12.9 %	3,196	3,046	4.9 %
Adjusted EBITDA	\$ 7,555	\$ 2,753	174.4 %	\$ 11,023	\$ 4,331	154.5 %
Adjusted EBITDA from continuing operations	\$ 7,555	\$ 2,856	164.5 %	\$ 11,023	\$ 4,589	140.2 %

Transformation, severance, and other expenses decreased \$0.6 million for the three months ended June 30, 2020 and was essentially unchanged for the six months ended June 30, 2020, compared to the same periods in 2019. The year-over-year decrease was primarily the result of the elimination of fewer positions in the Company in the three months ended June 30, 2020 compared to the three months ended June 30, 2019. Transformation, severance, and other expenses fluctuate as we transform our business or adjust our cost structure.

Costs associated with the investigation and settlement of an employment matter were \$1.3 million during the quarter ended June 30, 2020. The matter related to claims raised by a former employee whose position was eliminated during the fourth quarter of 2019. Independent counsel was retained and following the conclusion of the investigation, the matter was settled.

Stock-based compensation increased for the three and six months ended June 30, 2020 compared to the same periods in 2019 primarily due to higher compensation expense associated with our performance-based restricted stock units in the 2020 periods.

### Adjusted EBITDA

We include a detailed calculation of Adjusted EBITDA by segment in Note 4 of “Notes to Consolidated Financial Statements” in Item 1 of this Form 10-Q. A summary of Adjusted EBITDA, from continuing operations by segment, for the three and six months ended June 30, 2020 and 2019 is as follows (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Recovery Audit Services – Americas	\$ 11,231	\$ 9,462	18.7 %	\$ 19,639	\$ 17,721	10.8 %
Recovery Audit Services – Europe/Asia-Pacific	4,051	2,130	90.2 %	6,783	3,173	113.8 %
Adjacent Services	483	(1,637)	129.5 %	1,118	(3,104)	136.0 %
Subtotal for reportable segments	15,765	9,955	58.4 %	27,540	17,790	54.8 %
Corporate Support	(8,210)	(7,099)	(15.7)%	(16,517)	(13,201)	(25.1)%
Total	\$ 7,555	\$ 2,856	164.5 %	\$ 11,023	\$ 4,589	140.2 %

Adjusted EBITDA for the three and six months ended June 30, 2020 increased 164.5% and 140.2%, respectively, compared to the same periods in 2019. Adjusted EBITDA as a percentage of revenue increased 12.6% and 8.8% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019.

Recovery Audit Services – Americas Adjusted EBITDA increased for the three and six months ended June 30, 2020 compared to the same periods in 2019. The improvements in Adjusted EIBTDA were primarily due to decreases in payroll expenses.

Recovery Audit Services – Europe/Asia-Pacific Adjusted EBITDA increased for the three and six months ended June 30, 2020 compared to the same periods in 2019. The increases were primarily due to decreases in bad debt expense and payroll expenses.

Adjacent Services Adjusted EBITDA increased for the three and six months ended June 30, 2020 compared to the same periods in 2019. The increases were primarily due to decreases in payroll expenses.

Corporate Support Adjusted EBITDA decreased for the three and six months ended June 30, 2020 compared to the same periods in 2019. The decreases were primarily due to increases in selling, general and administrative expenses, including the costs associated with the investigation and settlement of an employment matter.

### Liquidity and Capital Resources and Financial Position

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

As of June 30, 2020, we had \$21.1 million in cash and cash equivalents and \$37.0 million of borrowings under our credit facility with Bank of America, N.A. (“BOA”). As of June 30, 2020, the limit on the credit facility was \$60.0 million and, subject to compliance with the covenants under the credit facility, we had \$23.0 million of availability for additional borrowings. As of June 30, 2020, we were in compliance with the covenants in the credit facility.

The \$21.1 million in cash and cash equivalents includes \$4.1 million held at banks in the U.S. and the remainder held at banks in other jurisdictions, primarily, in the United Kingdom, Australia, France, India, Thailand, Canada and Mexico. 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 jurisdictions 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 for 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 reinvested, and have provided for deferred taxes relating to the potential repatriation of the funds held in Canada.

Our cash and cash equivalents as of June 30, 2020 included short-term investments of approximately \$0.6 million, the majority of which was held at banks outside of the United States, primarily in Canada and Brazil.

*Operating Activities.* Net cash provided by operating activities was \$12.3 million for the six months ended June 30, 2020 and net cash used in operating activities was \$2.4 million for the six months ended June 30, 2019. These amounts consist of two components, specifically, net loss adjusted for certain non-cash items (such as depreciation, amortization, stock-based compensation expense, non-cash interest expense, foreign currency transaction losses on short term intercompany balances and deferred income taxes) and changes in assets and liabilities, primarily working capital, as follows (in thousands):

	<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Net loss	\$ (3,465)	\$ (8,675)
Adjustments for certain non-cash items	12,820	11,858
	9,355	3,183
Changes in operating assets and liabilities	2,916	(5,627)
Net cash provided by (used in) operating activities	<u>\$ 12,271</u>	<u>\$ (2,444)</u>

*Investing Activities.* Net cash used in investing activities was \$5.6 million for the six months ended June 30, 2020 and \$7.6 million for the six months ended June 30, 2019. The decrease was due to a reduced level of purchases of property and equipment in 2020 compared to the same period in 2019.

*Financing Activities.* Net cash used in financing activities was \$0.7 million for the six months ended June 30, 2020, resulting primarily from \$0.4 million of shares of common stock surrendered by employees to satisfy withholding taxes and \$0.3 million paid for shares of common stock repurchased by the Company. Net cash provided by financing activities was \$7.8 million for the six months ended June 30, 2019, primarily resulting from \$11.4 million in net borrowings offset by \$2.2 million paid for shares of common stock repurchased by the Company, \$0.8 million of shares of common stock surrendered by employees to satisfy withholding taxes, \$0.5 million in payments for an acquisition earnout liability and \$0.4 million in deferred loan cost payments.

#### ***Future Cash Requirements and Restrictions***

We expect our capital expenditures through the remainder of 2020 to continue at a rate lower than in 2019, with such expenditures primarily related to technology infrastructure and software development. Capital expenditures are discretionary, and we currently expect to continue to make capital expenditures to enhance our information technology infrastructure (both hardware and software) and analytics tools in the foreseeable future. Should we experience a change in our operating results, we may alter our capital expenditure plan in accordance with the needs of the Company.

We believe that our existing cash and cash equivalent balances, cash provided from operations, and borrowings available under our BOA Credit Facility (defined below) will provide sufficient liquidity to meet our operations for at least twelve months from the date of issuance of these financial statements.

As we continue to operate our business during this COVID-19 pandemic period, we may seek to strengthen our liquidity through a variety of means, including curtailing discretionary spending and delaying certain investments. Additionally, we may pursue additional sources of financing to further enhance our liquidity.

#### **Secured Credit Facility**

On March 14, 2019, the Company, as co-borrower with PRGX USA, Inc. ("PRGX-USA" and, collectively with the Company, the "Borrowers"), a wholly-owned subsidiary that is the Company's principal domestic operating subsidiary, entered



into a five-year Credit Agreement (the “BOA Credit Facility”) with BOA and Synovus Bank as the initial lenders thereunder, and with BOA as the letter-of-credit issuer thereunder, as the swingline lender thereunder, and as the administrative agent (the “Administrative Agent”) for the lenders from time to time party thereto. The BOA Credit Facility consists of a \$60.0 million senior revolving credit facility (the “Revolver”), with a \$5.0 million subfacility for the issuance of letters of credit, and a \$5.0 million swingline loan subfacility (the “Swingline Loan”). The BOA Credit Facility is guaranteed by each of PRGX’s direct and indirect domestic wholly-owned subsidiaries (other than PRGX-USA), except for certain immaterial domestic subsidiaries. None of PRGX’s direct or indirect foreign subsidiaries have guaranteed the BOA Credit Facility. The BOA Credit Facility is secured by substantially all of the assets of PRGX, PRGX-USA and each guarantor (including the equity interests in substantially all of the Company’s domestic subsidiaries and up to sixty-five percent (65%) of the equity interests of certain of the Company’s first-tier material foreign subsidiaries).

The BOA Credit Facility will mature on March 14, 2024. Interest is payable quarterly in arrears. There are no prepayment penalties in the event the Company elects to prepay and terminate the BOA Credit Facility prior to its scheduled maturity date, subject to breakage and redeployment costs in certain limited circumstances.

The Revolver bears interest at a rate per annum comprised of a specified index rate based on LIBOR plus an applicable interest rate margin determined under the BOA Credit Facility. For U.S. Dollar denominated loans under the Revolver, at the option of the Borrowers, such loans bear interest at a rate per annum equal to (x) the LIBOR daily floating rate plus an applicable interest rate margin determined under the BOA Credit Facility or (y) the base rate plus the applicable interest rate margin, each as determined under the BOA Credit Facility. Although the Company does not anticipate the need for Swingline Loans, were any Swingline Loans to be made they would bear interest at the base rate plus the applicable interest rate margin for base rate loans, each as determined under the BOA Credit Facility. The applicable interest rate margin varies from 1.50% per annum to 2.25% per annum, for LIBOR daily floating rate loans, and from 0.50% per annum to 1.25% per annum, for loans based on the base rate, and in either case depending on the Company’s consolidated leverage ratio, and is determined in accordance with a pricing grid under the BOA Credit Facility.

The BOA Credit Facility includes customary affirmative, negative, and financial covenants binding on the Company, including delivery of financial statements and other reports and maintenance of existence. The negative covenants limit the ability of the Company, among other things, to incur debt, incur liens, make investments and sell assets, but does provide for certain permitted repurchases of shares of its capital stock and the declaration and payment of certain dividends on its capital stock. The financial covenants included in the BOA Credit Facility set forth a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio for the Company, each of which will be tested on a quarterly basis; and with the Company having the ability to increase the maximum leverage ratio for a limited time when needed in connection with permitted acquisitions. In addition, the BOA Credit Facility includes customary events of default.

As of June 30, 2020, there was \$37.0 million in debt outstanding under the BOA Credit Facility. The Company was in compliance with the covenants of the BOA Credit Facility as of June 30, 2020.

### **Capital Allocation**

The Company allocates its capital resources to invest in the capital expenditures and operations as needed to execute its business strategy. Today, this includes our investments in our sales and marketing organization, our information technology infrastructure and talent, and our technology solutions. We also look for merger and acquisition opportunities that advance our growth strategy or accelerate our acquisition of key technologies. Finally, we look to return capital to our investors.

On March 9, 2020, the Company’s Board of Directors approved a stock repurchase program under which the Company may repurchase up to \$20 million of its outstanding common stock from time to time through December 31, 2021. The Company repurchased approximately 0.1 million shares of its outstanding common stock for an aggregate price of \$0.3 million in the six months ended June 30, 2020. 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. As of July 31, 2020, the Company has approximately 23.6 million shares of common stock outstanding.

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

### **Off-Balance Sheet Arrangements**

As of June 30, 2020, the Company did not have any material off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of the SEC’s Regulation S-K.

## **Critical Accounting Policies**

We describe the Company's significant accounting policies in Note 1 of the Company's Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2019. We consider certain of these accounting policies to be "critical" to the portrayal of the Company's financial position and results of operations, as they require the application of significant judgment by management. As a result, they are subject to an inherent degree of uncertainty. We identify and discuss these "critical" accounting policies in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's Annual Report on Form 10-K for the year ended December 31, 2019. There have been no significant changes in our critical accounting policies since December 31, 2019.

Management bases its estimates and judgments on historical experience and on various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, in particular any effect from the continued COVID-19 pandemic. On an ongoing basis, management evaluates its estimates and judgments, including those considered "critical". Management has discussed the development, selection and evaluation of accounting estimates, including those deemed "critical," and the associated disclosures in this Quarterly Report on Form 10-Q with the Audit Committee of the Board of Directors.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

*Foreign Currency Market Risk.* Our reporting currency is the U.S. dollar, although we transact business in various foreign locations and currencies. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we provide our services. Our operating results are exposed to changes in exchange rates between the U.S. dollar and the currencies of the other countries in which we operate. When the U.S. dollar strengthens against other currencies, the translated value of foreign functional currency results in lower net income. When the U.S. dollar weakens, the translated value of the foreign functional currency results in higher net income. We therefore are adversely affected by a stronger dollar relative to major currencies worldwide. During the three and six months ended June 30, 2020, we recognized \$5.7 million and \$8.6 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 \$0.6 million and \$0.9 million for the three and six months ended June 30, 2020. We currently do not have any arrangements in place to hedge our foreign currency risk. The implementation of the United Kingdom's referendum to withdraw from membership in the European Union (referred to as "Brexit"), has had a detrimental effect, and could have further detrimental effects, on the value of either or both of the euro and the British pound sterling, which could negatively impact our business (principally from the translation of sales and earnings in those foreign currencies into our reporting currency).

*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 the BOA Credit Facility, if any. As of June 30, 2020, we had \$23.0 million of borrowing availability under our BOA Credit Facility and \$37.0 million borrowed under the BOA Credit Facility as of that date. The Revolver bears interest under the BOA Credit Facility at a rate per annum comprised of a specified index rate based on LIBOR plus an applicable interest rate margin determined under the BOA Credit Facility. For U.S. dollar denominated loans under the Revolver, at the option of the Borrowers, such loans bear interest at a rate per annum equal to (x) the LIBOR daily floating rate plus an applicable interest rate margin determined under the BOA Credit Facility or (y) the base rate plus the applicable interest rate margin, each as determined under the BOA Credit Facility. Although the Company does not anticipate the need for Swingline Loans, were any Swingline Loans to be made they would bear interest at the base rate plus the applicable interest rate margin for base rate loans, each as determined under the BOA Credit Facility. The applicable interest rate margin varies from 1.50% per annum to 2.25% per annum, for LIBOR daily floating rate loans, and from 0.50% per annum to 1.25% per annum, for loans based on the base rate, and in either case depending on the Company's consolidated leverage ratio, and is determined in accordance with a pricing grid under the BOA Credit Facility. Assuming full utilization of the BOA Credit Facility, a hypothetical 100 basis point change in interest rates applicable to the revolver would result in an approximate \$0.6 million change in annual pre-tax income.

**Item 4. Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2020.

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019 (as amended, the “2019 Form 10-K”) except as noted below. The disclosure set forth below supplements and updates, and should be read together with, the risk factors in the 2019 Form 10-K.

#### ***The COVID-19 coronavirus pandemic could adversely impact our business, results of operations and financial performance.***

In December 2019, a novel strain of coronavirus was reported to have surfaced. COVID-19, the disease which results from this coronavirus strain, has spread worldwide. The World Health Organization declared the COVID-19 outbreak as a global pandemic on March 11, 2020. The pandemic has caused various governments, including in the United States at Federal and state levels, to impose restrictions on people and businesses, such as quarantines, closures, cancellations and travel restrictions, and these mitigation measures have adversely impacted the U.S. and global economy, leading to reduced consumer and business spending, reduced economic activity and disruptions and volatility in the U.S. and global capital markets. We continue to work diligently to ensure that we can continue to operate with minimal disruption, mitigate the impact of the pandemic on our employees’ health and safety, and address potential business interruptions. However, we cannot assure you that we will be successful in these efforts.

The global pandemic caused by COVID-19 continues to evolve. The extent to which the pandemic could impact our business, results of operations, and financial condition is uncertain and will depend on numerous evolving factors that we may not be able to accurately predict, including:

- the duration and scope of the pandemic;
- governmental, business and individual actions taken in response to the pandemic and the impact of those actions on global economic activity;
- the actions taken in response to economic disruption;
- the impact of business disruptions on our clients and the resulting impact on their demand for our services and solutions;
- our clients’ ability to pay for our services and solutions; and
- our ability to provide our services and solutions, including as a result of our employees or our clients’ employees working remotely and/or closures of offices and facilities.

Due to the widespread impact of the COVID-19 pandemic, it is possible that our consolidated financial results for future fiscal quarters and for 2020 may be negatively impacted, including as a result of increased government regulation and introduction of mitigation and prevention measures. In addition, the COVID-19 pandemic has adversely affected, and is expected to continue to adversely affect the United States and the global economy, possibly resulting in an economic downturn and recession. Such events that are generally outside of our control and could have a material adverse impact on our business, operating results and financial conditions.

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

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

The following table sets forth information regarding the purchases of the Company's equity securities made by or on behalf of the Company or any affiliated purchaser (as defined in Exchange Act Rule 10b-18) during the three months ended June 30, 2020.

2020	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)
April 1 - April 30	—	\$ —	—	\$ —
May 1 - May 31	16,817	\$ 3.89	—	\$ —
June 1 - June 30	11,160	\$ 4.42	—	\$ —
	<u>27,977</u>	<u>\$ 4.10</u>	<u>—</u>	<u>\$ 19.7</u>

(a) Amount represents shares surrendered by employees to satisfy tax withholding obligations resulting from restricted stock awards that vested during the three months ended June 30, 2020.

(b) On March 9, 2020, our Board of Directors authorized a stock repurchase program under which we could repurchase up to \$20 million of our common stock from time to time through December 31, 2021. 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.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

## Item 6. Exhibits

Exhibit Number	Description
3.1	<a href="#"><u>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).</u></a>
3.1.1	<a href="#"><u>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).</u></a>
3.2	<a href="#"><u>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).</u></a>
4.1	<a href="#"><u>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).</u></a>
4.2	See Restated Articles of Incorporation and Bylaws of the Registrant, filed as Exhibits 3.1 and 3.2, respectively.
31.1	<a href="#"><u>Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended June 30, 2020.</u></a>
31.2	<a href="#"><u>Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended June 30, 2020.</u></a>
32.1	<a href="#"><u>Certification of the Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, for the quarter ended June 30, 2020.</u></a>
101.INS	InlineXBRL Instance Document
101.SCH	InlineXBRL Taxonomy Extension Schema
101.CAL	InlineXBRL Taxonomy Extension Calculation Linkbase
101.DEF	InlineXBRL Taxonomy Extension Definition Linkbase
101.LAB	InlineXBRL Taxonomy Extension Label Linkbase
101.PRE	InlineXBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

**SIGNATURES**

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

PRGX GLOBAL, INC.

August 7, 2020

By: \_\_\_\_\_ /s/ Ronald E. Stewart

Ronald E. Stewart

*President, Chief Executive Officer, Director*

*(Principal Executive Officer)*

August 7, 2020

By: \_\_\_\_\_ /s/ Kurt J. Abkemeier

Kurt J. Abkemeier

*Chief Financial Officer and Treasurer*

*(Principal Financial Officer)*







