

# Section 1: 10-K (10-K)

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549  
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

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 001-33287  
**Information Services Group, Inc.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

20-5261587  
(I.R.S. Employer Identification Number)

2187 Atlantic Street  
Stamford, CT 06902  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (203) 517-3100

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

Title of each class	Name of each exchange on which registered
Shares of Common Stock, \$0.001 par value	The Nasdaq Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant 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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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.

The aggregate market value of the voting common stock, par value \$0.001 per share, held by non-affiliates of the registrant computed by reference to the closing sales price for the registrant's common stock on June 30, 2018, as reported on the Nasdaq Stock Market was approximately \$161,507,918.

In determining the market value of the voting stock held by any non-affiliates, shares of common stock of the registrant beneficially owned by directors, officers and other holders of non-publicly traded shares of common stock of the registrant have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 1, 2019, the registrant had outstanding 45,799,605 shares of common stock, par value \$0.001 per share.

**Documents Incorporated by Reference**

Document Description	10-K Part
Portions of the Proxy Statement for the 2019 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended December 31, 2018, are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.	III (Items 10, 11, 12, 13, 14)

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### SAFE HARBOR STATEMENT

Information Services Group (“ISG”) believes that some of the information in this Annual Report on Form 10-K constitutes forward-looking statements. You can identify these statements by forward-looking words such as “may,” “expect,” “anticipate,” “contemplate,” “believe,” “estimate,” “intends” and “continue” or similar words, but this is not an exclusive way of identifying such statements. You should read statements that contain these words carefully because they:

- discuss future expectations;
- contain projections of future results of operations or financial condition; or
- state other “forward-looking” information.

These forward-looking statements include, but are not limited to, statements relating to:

- ability to retain existing clients and contracts;
- ability to integrate recent acquisitions;
- ability to win new clients and engagements;
- ability to implement cost reductions and productivity improvements;
- beliefs about future trends in the sourcing industry;
- expected spending on sourcing services by clients;
- growth of our markets;
- foreign currency exchange rates;
- effective tax rate; and
- competition in the sourcing industry.

ISG believes it is important to communicate its expectations to its stockholders. However, there may be events in the future that ISG is not able to predict accurately or over which it has no control. The risk factors and cautionary language discussed in this Annual Report provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations in such forward-looking statements, including among other things:

- the amount of cash on hand;
- the abilities to achieve or maintain adequate utilization for our consultants;
- our business strategy;
- cost reductions and productivity improvements may not be fully realized or realized within the expected time frame;
- continued compliance with government regulations;
- legislation or regulatory environments, requirements or changes adversely affecting the business in which ISG is engaged;

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fluctuations in client demand;  
ability to grow the business and effectively manage growth and international operations while maintaining effective internal controls;  
ability to hire and retain enough qualified employees to support operations;  
increases in wages in locations in which ISG has operations;  
ability to retain senior management;  
fluctuations in exchange rates between the U.S. dollar and foreign currencies;  
ability to attract and retain clients and the ability to develop and maintain client relationships based on attractive terms;  
legislation in the United States or elsewhere that adversely affects the performance of sourcing services offshore;  
increased competition;  
telecommunications or technology disruptions or breaches, or natural or other disasters;  
ability to protect ISG intellectual property and the intellectual property of others;  
the international nature of ISG's business;  
political or economic instability in countries where ISG has operations;  
worldwide political, economic and business conditions; and  
ability to source, successfully consummate or integrate strategic acquisitions.

All forward-looking statements included herein attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. Except to the extent required by applicable laws and regulations, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events.

You should also review the risks and uncertainties we describe in the reports we will file from time to time with the SEC after the date of this Annual Report.

## PART I

### Item 1. Business

As used herein, unless the context otherwise requires, ISG, the registrant, is referred to in this Form 10-K annual report (“Form 10-K”) as the “Company,” “we,” “us” and “our.”

#### Our Company

ISG (Information Services Group) (Nasdaq: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including more than 70 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 digital-ready professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry’s most comprehensive marketplace data. For more information, visit [www.isg-one.com](http://www.isg-one.com).

Our Company was founded in 2006 with the strategic vision to become a high-growth, leading provider of information-based advisory services. We continue to believe that our vision will be realized through the acquisition, integration, and successful operation of market-leading brands within the data, analytics and advisory industry. Following the initial announcement of the merger of our individual corporate brands into one globally integrated go-to-market business under the ISG brand in January 2012, we continue to add the businesses we acquire into the ISG brand, creating one unified company. Including our most recent acquisitions, we operate in over 20 countries and employ approximately 1,300 professionals specializing in digital transformation services, including automation, cloud and data analytic, sourcing advisory, managed governance and risk services, network carrier services, technology strategy and operation design, change management, market intelligence and technology research and analysis.

Our private and public sector clients continue to face significant technological, business and economic challenges that will continue to fuel demand for the professional services we provide. In the private sector, for example, we believe that companies will continue to face significant challenges associated with globalization and technological innovation, including the need to decrease operating costs, increase efficiencies and deal with increasing numbers of emerging and transformational technologies such as cloud computing. Similarly, public sector organizations at the national, regional and local levels increasingly must deal with the complex and converging issues of outdated technology systems, significantly impaired revenue sources and an aging workforce.

Overall, we believe that the global marketplace dynamics at work in both the private and public sectors support the increased demand of the professional services, analytics and advice ISG can provide. In this dynamic environment, the strength of our client relationships greatly depends on the quality of our advice and insight, the independence of our thought leadership and the effectiveness of our people in assisting our clients to implement strategies that successfully address their most pressing operational challenges.

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We are organized as a corporation under the laws of the State of Delaware. The current mailing address of the Company's principal executive office is: Information Services Group, Inc., 2187 Atlantic Street, Stamford, CT 06902. Our telephone number is (203) 517-3100.

### **Our Services**

ISG specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. ISG supports both private and public sector organizations to transform and optimize their operational environments. During periods of expansion or contraction, for enterprises large or small, public or private, in the Americas, Europe or Asia Pacific, our services have helped organizations address their most complex operational issues. The functional domain experience of our experts and deep empirical data resources help clients better understand their strategic options. We provide four key lines of service:

*Research.* We utilize our extensive experience and proprietary data assets to provide subscription and custom research services to senior business and IT executives, technology and software vendors and business/IT services providers. Our mission is to help our clients make better business decisions and create new business value through trusted and objective insights into the key market trends and emerging technologies driving real change. Our combined data sources, compiled from over 30 years of servicing global corporations, provide a rich source of benchmark data into the comparative cost and quality of operational alternatives. For enterprise clients, we use these data sources to provide them with in-depth analysis into the implications of different service strategies, allowing them to compare and contrast and make informed decisions regarding strategic change. For service providers, our views into the buying behaviors, needs and objectives of global corporations examining transformation of their operations provide unique insights that help them tailor and market their offerings to these enterprises. ISG's research will continue to play a supporting role for digital services with the production of our Index Reports which include coverage of technology providers, SaaS providers, Cloud and automation platforms in addition to the traditional service provider outsourcing industry.

*Consulting.* We help private and public sector organizations transform and optimize their operational environments with a complete range of consulting services, focusing on information technology, business process transformation, program management services and enterprise resource planning. ISG consulting services include: Business Advisory Services, Data & Analytics, Digital Solutions, Network Advisory Services, Operating Model Design & Implementation, Operations Benchmarking, Organizational Change Management, Performance Management, Qualitative Assessment, Renegotiations, RFX Services, Robotic Process and Cognitive Automation, Software Advisory Services, Strategy, Transition and Transformation. We assist clients with envisioning, designing and implementing change in their operational environments. We evaluate existing practices and operating costs, identifying potential improvement opportunities to enhance service delivery, optimize operations or reduce costs. Solutions are customized by a client situation and may include internal transformation, the adoption of external strategies, or some combination of both. In all cases, we assist with the selection, implementation and ongoing support for these strategic initiatives.

*Managed Services.* Our Managed Services offerings helps clients realize the cost savings and operating efficiencies they expect from their sourcing arrangements. We provide operational governance services to our clients to ensure seamless end-to-end service. Our systems, tools and controls are designed to consistently govern third-party agreements, and our expertise in service integration and management helps clients achieve operational excellence in multi-supplier environments. These offerings assist clients with monitoring and managing their supplier relationships, providing them with real-time accurate market intelligence and insights into all aspects of provider performance and cost, allowing them to focus on the more strategic aspects of supplier management.

*Events.* ISG Events offers a range of industry-leading conferences including, the ISG Sourcing Industry Conference (SIC) series, the premier annual event for service and technology providers in the Americas, EMEA and India; the ISG Executive Provider Summit, a high-value gathering of C-suite provider executives and ISG partners; the ISG Digital Business Summit series, regional events focused on emerging business technologies; the ISG Automation Summit, a conference focused on the latest trends in automation; and the ISG Paragon Awards™, honoring organizations for their contributions to the continuing evolution of sourcing.

### **Our Competitive Advantages**

We believe that the following strengths differentiate us from our competition:

*Independence and Objectivity.* We are not a service provider. We are an independent, fact-based data, analytics and advisory firm with no material conflicting financial or other interests. This enables us to maintain a trusted advisor relationship with our clients through our unbiased focus and ability to align our interests with those of our clients.

*Domain Expertise.* Averaging over 20 years of experience, our strategic consulting teams bring a wealth of industry and domain-specific knowledge and expertise to address our clients' most complex transformational needs.

*Strong Brand Recognition.* ISG continues to gain marketplace traction as a leading brand in our industry. ISG offers an integrated product and service offering for our clients.

*Proprietary Data Assets and Market Intelligence.* We have assembled a comprehensive and unique set of data, analytics and market intelligence built over more than thirty years of data collection and analysis, providing insight into the comparative cost and quality of a variety of operational alternatives.

*Global Reach.* We possess practical experience in global business operations, and we understand the significance of interconnected economies and companies. Our resources in the Americas, Europe and Asia Pacific make us a truly global advisory firm able to consistently serve the strategic and implementation needs of our clients.

We believe that the strengths disclosed above are central to our ability to deal successfully with the challenges that we face.

## Our Strategy

We intend to use our competitive strengths to develop new services and products, sustain our growth and strengthen our existing market position by pursuing the following strategies:

*Preserve and Expand Our Market Share Positions.* We expect the trend toward globalization and greater operating efficiency and technological innovation to play an increasing role in the growth of demand for our services. We plan to leverage our combined operating platform to serve the growing number of private and public enterprises utilizing outside advisors when undertaking transformational projects. We are focused on growing our existing client base with broader services. In addition, we will seek to continue to expand our products and services and the geographic markets we serve opportunistically as global competition spurs demand for cost savings and value creation.

*Strengthen Our Industry Expertise.* We have strengthened our market facing organization to drive increased revenue around seven key areas — (i) Banking and Financial Services; (ii) Insurance; (iii) Manufacturing, Communications and Multimedia; (iv) Energy, Life Sciences and Healthcare; (v) Technology; (vi) Consumer Industries Group; (vii) Private Equity; and (viii) Public Sector/Government.

*Expand Geographically.* Historically, we generated the majority of our revenues in North America. Beginning in 2011, we made significant investments in Europe and Asia Pacific to capitalize on emerging demand for advisory, benchmarking and analytical insight in these geographic regions. During 2018, we realized the benefits of our previous investments in Europe, which resulted in double-digit revenue growth.

*Aggressively Expand Our Market Focus.* We are seeking to drive our service portfolio and relationships with clients further into: Digital Advisory Services including Cloud Solutions, Automation, Business Advisory Services, Strategy, Data & Analytics, Transition and Organization & Operations are all areas where we are investing additional focus to drive increased revenues and expanded relationships with clients.

*Further Develop Digital and Cloud Competency.* There is a nexus of distinct, yet complementary, technology trends that are creating a perfect storm of disruption for some companies. Among the most significant technology trends are the speed with which products get to market, large-scale digitization, the efficiency of the cloud and the immediacy with which new disruptors can become omnipresent. ISG plans to expand resources and intellectual property (“IP”) around digitization and the cloud. Digitization is the ‘softwarization’ of business. Processes that were once executed over analog channels (such as phone and ‘real life’) increasingly happen over software. Also, digitization has elevated the profile of software. Software no longer merely supports business processes, but is central to the enterprise strategy. Our purpose in the digital marketplace is to be the trusted advisor, guiding our clients through the digital transformation toward practical innovation of their business models, leveraging strategic partners, emerging technology and thought leadership.

Our digital services now span a volume of offerings and have become embedded as part of even our traditional transaction service. Advancements continue to be made to ‘digitize’ further our traditional services. For example, we have continued the modernization of our traditional sourcing services toward digital through with the launch of ISG FutureSource™ approach in 2017, which

has brought agility and nimbleness to the process of sourcing, RFP's and contracting. We have also expanded the reach of ISG GovernX™. This proprietary ISG software platform continues to drive broader insights from additional market and performance data, while delivering increased value to our clients. ISG Governance Services now are deployed using automation, cognitive and other digital technologies to greatly enhance the value and quality of service given to our clients. Our digital service offerings also include Robotic Process and Cognitive Automation Technology where we help clients navigate the myriad challenges, risks and opportunities from software selection to building their bot workforce to leverage the technology to transform and improve business outcomes.

*Expand Emerging Services.* The focus will be on creating repeatable methods used to drive growth of emerging services including Robotic Process and Cognitive Automation Technology, Engineering Services and Service Providers as a Business.

1. **Robotic Process and Cognitive Automation Technology:** ISG's capabilities and service offerings include implementation services for Robotic Process and Cognitive Automation Technology. The Automation market size is expected to grow significantly over the next few years. Robotic Process Automation ("RPA") is fundamentally reshaping the world of Information Technology Outsourcing ("ITO") and Business Process Outsourcing ("BPO"). Increasingly mature RPA solutions are enabling automated 24/7/365 execution of business processes at a fraction of the cost of human equivalents, as well as the potential to dramatically reengineer and improve key business processes. We help customers and service providers navigate the myriad risks and seize the significant transformational opportunities offered by robotics and automation. Our solutions will work to optimize repetitive processes using 'bots' instead of human labor. RPA services will continue to be marketed by industry (e.g. claims processing for insurance) and by back office functions (e.g. accounting).
2. **Engineering Services:** We will continue to advance our position, bringing together solutions that leverage digital advancements for engineering services. Our digitally focused engineering services of the future will allow our clients to rapidly harness the power of Internet of Things ("IoT"), enabling the digitization of products, platforms and processes.
3. **HR Technology & Delivery Services:** Advances in technology are transforming the business of HR. From intuitive and mobile self-service software to predictive analytics and integrated talent management suites, technological solutions are changing the way leaders acquire, develop and engage their employees. New applications, enhanced functionality and competition among software providers make it difficult to stay on top of this ever-evolving space. ISG provides deep subject matter expertise, market data and financial frameworks to help organizations develop and execute HR technology strategies that are right for them.
4. **Providers as a Business ("PaaS"):** Historically, ISG had targeted traditional service providers for these types of services, which included a combination of consulting and research solutions. These services include market intelligence, client retention programs, pursuit effectiveness, satisfaction benchmarking, go-to-market consulting and health checks.

*Expand “Recurring Revenue Streams.”* These include such annuity-based ISG offerings as Managed Services, Research, Software as a Subscription (RPA licenses), Benchmarking as a Subscription and the multi-year Public Sector contracts. All are characterized by subscriptions (i.e., renewal-centric as opposed to project centric revenue streams) or multi-year contracts. As companies begin to recognize the importance of managing the post-sourcing-transaction period, managed services has emerged as a revenue driver for us where our offerings are delivered through multi-year managed services contracts. We believe that our experience with outsourcing transactions and software implementation initiatives make us uniquely equipped to provide research insights and direct support to help our clients manage their transformational projects or act as a third-party administrator. We will continue to pursue opportunities to leverage our experience to make research and managed services an even greater revenue generator for us. The U.S. public sector, particularly state governments, local municipalities, and higher education—presents a significant opportunity to ISG. Systems are typically outdated, maintenance is expensive, and the workforce charged with maintenance is ageing. There is a need to refurbish systems to reduce the cost of operations (particularly because governments’ tax revenues are under pressure). We are well-positioned as a third party, objective advisory group with no affiliation to the software providers. ISG will continue to invest in the digitization of these services, driving up automation, greater profitability and even more value for our clients. ISG continues to invest in the digitization of these services, leveraging automation and cognitive technologies to deliver greater value to our clients

*Consider Acquisition and Other Growth Opportunities.* The business services, information and advisory market is highly fragmented. We believe we are well-positioned to leverage our leading market positions and strong brand recognition to expand through acquisitions. Acquiring firms with complementary services and products allows us to further develop and broaden our service offerings and domain expertise. We will consider and may pursue opportunities to enter into joint ventures and to buy or combine with other businesses.

*Retool Our Resource and Delivery Model.* The goal is to evolve our workforce to achieve a more efficient distribution of resources globally and a more flexible staffing model. This will provide ISG’s clients with better value for their money while also improving ISG’s margins.

#### **Our Proprietary Data Assets and Market Intelligence**

One of our core assets is the information, data, analytics, methodologies and other intellectual property the Company possesses. This intellectual property underpins the independent nature of our operational assessments, strategy development, deal-structuring, negotiation and other consulting services we provide to our clients.

With each engagement we conduct, we enhance both the quantity and quality of the intellectual property we employ on behalf of our clients, thus providing a continuous, evolving and unique source of information, data and analytics.

This intellectual property is proprietary and we rely on multiple legal and contractual provisions and devices to protect our intellectual property rights. We recognize the value of our intellectual property and vigorously defend it. As a result, the Company maintains strict policies and procedures regarding ownership, use and protection with all parties, including our employees.

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### **Clients**

We operate in over 20 countries and across numerous industries. Our private sector clients operate primarily in the financial services, telecommunications, healthcare and pharmaceuticals, manufacturing, transportation and travel and energy and utilities industries. Our private sector clients are primarily large businesses ranked in the *Forbes* Global 2000 companies annually. Our public sector clients are primarily state and local governments (cities and counties) and authorities (airport and transit) in the United States and national and provincial government units in the United Kingdom, Italy and Australia.

### **Competition**

Competition in the sourcing, data, information and advisory market is primarily driven by independence and objectivity, expertise, possession of relevant benchmarking data, breadth of service capabilities, reputation and price. We compete with other sourcing advisors, research firms, strategy consultants and sourcing service providers. A significant number of independent sourcing and advisory firms offer similar services. In our view, however, these firms generally lack the benchmarking data, scale and diversity of expertise that we possess. In addition, most research firms do not possess the data repository of recent, comparable transactions and benchmarking data. Management consultants bring strategic service capabilities to the sourcing and advisory market. However, they generally lack the depth of experience that sourcing, data and advisory firms such as ISG possess. In addition, management consultants do not possess the sourcing and technology implementation expertise nor the benchmarking data capabilities that are critical to implementing and managing successful transformational projects for businesses and governments. Other service providers often lack the depth of experience, competitive benchmarking data and independence critical to playing the role of “trusted advisor” to clients.

### **Employees**

As of December 31, 2018, we employed 1,310 people worldwide.

Our employee base includes executive management, service leads, partners, directors, advisors, analysts, technical specialists and functional support staff.

We recruit advisors from service providers and consulting firms with direct operational experience. These advisors leverage extensive practical expertise derived from experiences in corporate leadership, consulting, research, financial analysis, contract negotiations and operational service delivery.

All employees are required to execute confidentiality, conflict of interest and intellectual property agreements as a condition of employment. There are no collective bargaining agreements covering any of our employees.

Our voluntary advisor turnover rate has ranged between 8% and 22% over the last three years.

### **Available Information**

Our Internet address is [www.isg-one.com](http://www.isg-one.com). The content on our website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K or any other filings. We make available through our Internet website under the heading “Investor Relations,” our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K after we electronically file any such materials with the Securities and Exchange Commission. Copies of our key

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corporate governance documents, including our Code of Ethics and Business Conduct for Directors, Officers and Employees, Corporate Governance Guidelines and charters for our Audit Committee, our Nominating and Corporate Governance Committee and our Compensation Committee are also on our website. Stockholders may request free copies of these documents including our Annual Report to Stockholders by writing to Information Services Group, Inc., 2187 Atlantic Street, Stamford CT 06902, Attention: David E. Berger, or by calling (203) 517-3100.

Our annual and quarterly reports and other information statements are also available to the public through the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, the Notice of Annual Meeting of Stockholders, Proxy Statement and 2018 Annual Report to Stockholders are available free of charge at [www.proxyvote.com](http://www.proxyvote.com).

**Item 1A. Risk Factors**

***We have a substantial amount of debt outstanding, which may limit our ability to fund general corporate requirements and obtain additional financing, limit our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic and industry conditions and changes in our debt rating.***

On December 1, 2016, the Company entered into an amended and restated senior secured credit facility comprised of a \$110.0 million term loan facility and a \$30.0 million revolving credit facility, amending and restating the senior secured credit facility entered into on May 3, 2015 ("Amended and Restated Credit Agreement"). Each of the term loan facility and revolving credit facility has a maturity date of December 1, 2021 ("Maturity Date"). The Term Loan is repayable in four consecutive quarterly installments of \$1,375,000 each, that commenced March 31, 2017, followed by eight consecutive quarterly installments in the amount of \$2,062,500 each, that commenced March 31, 2018, followed by seven consecutive quarterly installments of \$2,750,000 each, commencing March 31, 2020 and a final payment of the outstanding principal amount of the Term Loan on the Maturity Date. As a result of the substantial fixed costs associated with the debt obligations, we expect that:

a decrease in revenues will result in a disproportionately greater percentage decrease in earnings;

we may not have sufficient liquidity to fund all of these fixed costs if our revenues decline or costs increase;

we may have to use our working capital to fund these fixed costs instead of funding general corporate requirements, including capital expenditures;

we may not have sufficient liquidity to respond to business opportunities, competitive developments and adverse economic conditions; and

our results of operations will be adversely affected if interest rates increase because, based on our current outstanding borrowings in the amount of \$99.1 million, a 1% increase in interest rates would result in a pre-tax impact on earnings of approximately \$1.0 million per year.

These debt obligations may also impair our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business. Our indebtedness under the senior secured revolving credit facility is secured by substantially all of our assets, leaving us with limited collateral for additional financing. Moreover, the terms of our indebtedness under the senior secured revolving credit facility restrict our ability to take certain actions, including the incurrence of additional indebtedness, mergers and acquisitions, investments and asset

sales. Our ability to pay the fixed costs associated with our debt obligations will depend on our operating performance and cash flow, which in turn depend on general economic conditions and the advisory services market. A failure to pay interest or indebtedness when due could result in a variety of adverse consequences, including the acceleration of our indebtedness. In such a situation, it is unlikely that we would be able to fulfill our obligations under or repay the accelerated indebtedness or otherwise cover our fixed costs. As of December 31, 2018, the total principal outstanding under the term loan facility and revolving credit facility was \$95.1 million and \$4.0 million, respectively.

***Our failure to comply with the covenants in our credit agreement could materially and adversely affect our financial condition and liquidity.***

Our credit agreement contains financial covenants requiring that we maintain, among other things, certain levels of debt coverage and fixed charges. Poor financial performance could cause us to be in default of these covenants. While we were in compliance with these covenants at December 31, 2018, there can be no assurance that we will remain in compliance in the future. If we fail to comply with the covenants in our credit agreement, this could result in our having to seek an amendment or waiver from our lenders to avoid the termination of their commitments and/or the acceleration of the maturity of outstanding amounts under the credit facility. The cost of our obtaining an amendment or waiver could be significant, and further, there can be no assurance that we would be able to obtain an amendment or waiver. If our lenders were unwilling to enter into an amendment or provide a waiver, all amounts outstanding under our credit facility would become immediately due and payable.

***We have risks associated with acquisitions or investments.***

Since our inception, we have expanded through acquisitions. In the future, we plan to pursue additional acquisitions and investments as opportunities arise. We may not be able to successfully integrate businesses that we acquire in the future without substantial expense, delays or other operational or financial problems. We may not be able to identify, acquire or profitably manage additional businesses. If we pursue acquisition or investment opportunities, these potential risks could disrupt our ongoing business, result in the loss of key customers or personnel, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial condition.

***Difficulties in integrating businesses we have acquired, or may acquire in the future may demand time and attention from our senior management.***

Integrating businesses we have acquired, or may acquire in the future may involve unanticipated delays, costs and/or other operational and financial problems. In integrating acquired businesses, we may not achieve expected economies of scale or profitability, or realize sufficient revenue to justify our investment. If we encounter unexpected problems as we try to integrate an acquired firm into our business, our management may be required to expend time and attention to address the problems, which would divert their time and attention from other aspects of our business.

***Our operating results have been, and may in the future be, adversely affected by worldwide economic conditions and credit tightening.***

Our results of operations are affected by the level of business activity of our clients, which in turn is affected by the level of economic activity in the industries and markets that they serve. A decline in the level of

business activity of our clients could have a material adverse effect on our revenue and profit margin. Future economic conditions could cause some clients to reduce or defer their expenditures for consulting services. We have implemented and will continue to implement cost-savings initiatives to manage our expenses as a percentage of revenue. However, current and future cost-management initiatives may not be sufficient to maintain our margins if the economic environment should weaken for a prolonged period.

***The rate of growth in the broadly defined business information services & advisory sector and/or the use of technology in business may fall significantly below the levels that we currently anticipate.***

Our business is dependent upon continued growth in sourcing activity, the use of technology in business by our clients and prospective clients and the continued trend towards sourcing of complex information technology and business process tasks by large and small organizations. If sourcing diminishes as a management and operational tool, the growth in the use of technology slows down or the cost of sourcing alternatives rises, our business could suffer. Companies that have already invested substantial resources in developing in-house information technology and business process functions may be particularly reluctant or slow to move to a sourcing solution that may make some of their existing personnel and infrastructure obsolete.

***Our engagements may be terminated, delayed or reduced in scope by clients at any time.***

Our clients may decide at any time to abandon, postpone and/or to reduce our involvement in an engagement. Our engagements can be terminated, or the scope of our responsibilities may be diminished, with limited advance notice. If an engagement is terminated, delayed or reduced unexpectedly, the professionals working on the engagement could be underutilized until we assign them to other projects. Accordingly, the termination or significant reduction in the scope of a single large engagement, or multiple smaller engagements, could harm our business results.

***Our operating results may fluctuate significantly from period to period as a result of factors outside of our control.***

Our revenues and operating results may vary significantly from accounting period to accounting period due to factors including:

- fluctuations in revenues earned on contracts;
- commencement, completion or termination of engagements during any particular period;
- additions and departures of key advisors;
- transitioning of advisors from completed projects to new engagements;
- seasonal trends;
- introduction of new services by us or our competitors;
- changes in fees, pricing policies or compensation arrangements by us or our competitors;
- strategic decisions by us, our clients or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- global economic and political conditions and related risks, including acts of terrorism; and

conditions in the travel industry that could prevent our advisors from traveling to client sites.

***We depend on project-based advisory engagements, and our failure to secure new engagements could lead to a decrease in our revenues.***

Advisory engagements typically are project-based. Our ability to attract advisory engagements is subject to numerous factors, including the following:

- delivering consistent, high-quality advisory services to our clients;
- tailoring our advisory services to the changing needs of our clients;
- matching the skills and competencies of our advisory staff to the skills required for the fulfillment of existing or potential advisory engagements; and
- maintaining a global business operation.

Any material decline in our ability to secure new advisory arrangements could have an adverse impact on our revenues and financial condition.

***If we are unable to achieve or maintain adequate utilization for our consultants, our operating results could be adversely impacted.***

Our profitability depends to a large extent on the utilization of our consultants. Utilization of our consultants is affected by a number of factors, including:

- additional hiring of consultants because there is generally a transition period for new consultants;
- the number and size of client engagements;
- the unpredictability of the completion and termination of engagements;
- our ability to transition our consultants efficiently from completed engagements to new engagements;
- unanticipated changes in the scope of client engagements; and
- our ability to maintain an appropriate level of consultants by forecasting the demand for our services.

***We could lose money on our fixed-fee contracts.***

As part of our strategy, from time to time, we enter into fixed fee contracts, in addition to contracts based on payment for time and materials. Because of the complexity of many of our client engagements, accurately estimating the cost, scope and duration of a particular engagement can be a difficult task. If we fail to make accurate estimates, we could be forced to devote additional resources to these engagements for which we will not receive additional compensation. To the extent that an expenditure of additional resources is required on an engagement, this could reduce the profitability of, or result in a loss on, the engagement.

***Our contracts with contingent-based revenue may cause unusual variations in our operating results.***

As part of our strategy, from time to time, we earn incremental revenues, in addition to hourly or fixed fee billings, which are contingent on the attainment of certain contractual milestones or objectives. Because it is uncertain when the milestones or objectives will be achieved, if ever, any such incremental revenues may cause unusual variations in quarterly revenues and operating results. Also, whether any contractual milestones or objectives are achieved may become subject to dispute.

***We may not be able to maintain our existing services and products.***

We operate in a rapidly evolving market, and our success depends upon our ability to deliver high quality advice and analysis to our clients. Any failure to continue to provide credible and reliable information and advice that is useful to our clients could have a significant adverse effect on future business and operating results. Further, if our advice proves to be materially incorrect and the quality of service is diminished, our reputation may suffer and demand for our services and products may decline. In addition, we must continue to improve our methods for delivering our products and services in a cost-effective manner.

***Expanding our service offerings may not be profitable.***

We may choose to develop new service offerings because of market opportunities or client demands. Developing new service offerings involves inherent risks, including:

- a lack of market understanding;
- competition from more established market participants;
- our inability to estimate demand for the new service offerings; and
- unanticipated expenses to hire qualified consultants and to market our new service offerings.

If we cannot manage the risks associated with new service offerings effectively, we are unlikely to be successful in these efforts, which could harm our ability to sustain profitability.

***We may not have the ability to develop and offer the new services and products that we need to remain competitive.***

Our future success will depend in part on our ability to offer new services and products. To maintain our competitive position, we must continue to enhance and improve our services and products, develop or acquire new services and products in a timely manner, and appropriately position and price new services and products relative to the marketplace and our costs of producing them. These new services and products must successfully gain market acceptance by addressing specific industry and business sectors and by anticipating and identifying changes in client requirements. The process of researching, developing, launching and gaining client acceptance of a new service or product, or assimilating and marketing an acquired service or product is risky and costly. We may not be able to introduce new, or assimilate acquired, services and products successfully. Any failure to achieve successful client acceptance of new services and products could have an adverse effect on our business results.

***We may fail to anticipate and respond to market trends.***

Our success depends in part upon our ability to anticipate rapidly changing technologies and market trends and to adapt our advice, services and products to meet the changing sourcing advisory needs of our clients. Our clients regularly undergo frequent and often dramatic changes. That environment of rapid and continuous change presents significant challenges to our ability to provide our clients with current and timely analysis, strategies and advice on issues of importance to them. Meeting these challenges requires the commitment of substantial resources. Any failure to continue to respond to developments, technologies, and trends in a manner that meets market needs could have an adverse effect on our business results.

***We may be unable to protect important intellectual property rights.***

We rely on copyright and trademark laws, as well as nondisclosure and confidentiality arrangements, to protect our proprietary rights in our methods of performing our services, our data and our tools for analyzing financial and other information. There can be no assurance that the steps we have taken to protect our intellectual property rights will be adequate to deter misappropriation of our rights or that we will be able to detect unauthorized use and take timely and effective steps to enforce our rights. If substantial and material unauthorized uses of our proprietary methodologies, data and analytical tools were to occur, we may be required to engage in costly and time-consuming litigation to enforce our rights. There can be no assurance that we would prevail in such litigation. If others were able to use our intellectual property or were to independently develop our methodologies or analytical tools, our ability to compete effectively and to charge appropriate fees for our services may be adversely affected.

***We face competition and our failure to compete successfully could materially adversely affect our results of operations and financial condition.***

The business information services and advisory sector is highly competitive, fragmented and subject to rapid change. We face competition from many other providers ranging from large organizations to small firms and independent contractors that provide specialized services. Our competitors include any firm that provides sourcing or benchmarking advisory services, IT strategy or business process consulting, which may include a variety of consulting firms, service providers, niche advisors and, potentially, advisors currently or formerly employed by us. Some of our competitors have significantly more financial and marketing resources, larger professional staffs, closer client relationships, broader geographic presence or more widespread recognition than us.

In addition, limited barriers to entry exist in the markets in which we do business. As a result, additional new competitors may emerge and existing competitors may start to provide additional or complementary services. There can be no assurance that we will be able to successfully compete against current and future competitors and our failure to do so could result in loss of market share, diminished value in our products and services, reduced pricing and increased marketing expenditures. Furthermore, we may not be successful if we cannot compete effectively on quality of advice and analysis, timely delivery of information, client service or the ability to offer services and products to meet changing market needs for information, analysis or price.

***The loss of key executives could adversely affect our business.***

The success of our business is dependent upon the continued service of a relatively small group of key executives, including Mr. Connors, Chairman and Chief Executive Officer; Mr. Lavieri, Vice-Chairman; Mr.

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Berger, Executive Vice President, Chief Financial Officer; and Mr. Kucinski, Executive Vice President and Chief Human Resources Officer, among others.

Although we currently intend to retain our existing management, we cannot assure you that such individuals will remain with us for the immediate or foreseeable future. The unexpected loss of the services of one or more of these executives could adversely affect our business.

***We rely heavily on key members of our management team.***

We are dependent on our management team. We grant restricted stock units (“RSUs”) from time to time to key employees and, in connection with such grants, require recipients to execute a restrictive covenant agreement. Vested and unvested RSUs will be forfeited upon any violation of the restrictive covenant agreement. We may not be able to retain these managers and may not be able to enforce the restrictive covenants. If we were to lose a number of key members of our management team and were unable to replace these people quickly, we could have difficulty maintaining our growth and certain key relationships with large clients and face competition from these former managers if the restrictive covenants are unenforceable.

***We depend upon our ability to attract, retain and train skilled advisors and other professionals.***

Our business involves the delivery of advisory and consulting services. Therefore, our continued success depends in large part upon our ability to attract, develop, motivate, retain and train skilled advisors and other professionals who have advanced information technology and business processing domain expertise, financial analysis skills, project management experience and other similar abilities. These advisors could resign and join one of our competitors or provide sourcing advisory services to our clients through their own ventures.

We must also recruit staff globally to support our services and products. We face competition for the limited pool of these qualified professionals from, among others, technology companies, market research firms, consulting firms, financial services companies and electronic and print media companies, some of which have a greater ability to attract and compensate these professionals. Some of the personnel that we attempt to hire may be subject to non-compete agreements that could impede our short-term recruitment efforts. Any failure to retain key personnel or hire and train additional qualified personnel as required supporting the evolving needs of clients or growth in our business could adversely affect the quality of our products and services, and our future business and operating results.

***We may have agreements with certain clients that limit the ability of particular advisors to work on some engagements for a period of time.***

We provide services primarily in connection with significant or complex sourcing transactions and other matters that provide potential competitive advantage and/or involve sensitive client information. Our engagement by a client occasionally precludes us from staffing certain advisors on new engagements with other clients because the advisors have received confidential information from a client who is a competitor of the new client. Furthermore, it is possible that our engagement by a client could preclude us from accepting engagements with such client’s competitors because of confidentiality concerns.

***We derive a significant portion of our revenues from our largest clients and could be materially and adversely affected if we lose one or more of our large clients.***

Our 25 largest clients accounted for approximately 38% of revenue in 2018 and 39% in 2017. If one or more of our large clients terminate or significantly reduce their engagements or fail to remain a viable business, then our revenues could be materially and adversely affected. In addition, sizable receivable balances could be jeopardized if large clients fail to remain a going concern.

***Our international operations expose us to a variety of risks that could negatively impact our future revenue and growth.***

Approximately 42% and 40% of our revenues for 2018 and 2017 were derived from sales outside of the Americas, respectively. Our operating results are subject to the risks inherent in international business activities, including:

- tariffs and trade barriers;
- regulations related to customs and import/export matters;
- restrictions on entry visas required for our advisors to travel and provide services;
- tax issues, such as tax law changes and variations in tax laws as compared to the United States;
- cultural and language differences;
- an inadequate banking system;
- foreign exchange controls;
- restrictions on the repatriation of profits or payment of dividends;
- crime, strikes, riots, civil disturbances, terrorist attacks and wars;
- nationalization or expropriation of property;
- law enforcement authorities and courts that are inexperienced in commercial matters; and
- deterioration of political relations with the United States.

Air travel, telecommunications and entry through international borders are all vital components of our business. If a terrorist attack were to occur, our business could be disproportionately impacted because of the disruption a terrorist attack causes on these vital components.

Further, conducting business abroad subjects us to increased regulatory compliance and oversight. For example, in connection with our international operations, we are subject to laws prohibiting certain payments to governmental officials, such as the Foreign Corrupt Practices Act. A failure to comply with applicable regulations could result in regulatory enforcement actions as well as substantial civil and criminal penalties assessed against us and our employees.

We intend to continue to expand our global footprint in order to meet our clients' needs. This may involve expanding into countries beyond those in which we currently operate. We may involve expanding into less developed countries, which may have less political, social or economic stability and less developed infrastructure and legal systems. As we expand our business into new countries, regulatory, personnel,

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technological and other difficulties may increase our expenses or delay our ability to start up operations or become profitable in such countries. This may affect our relationships with our clients and could have an adverse effect on our business.

***The uncertainty surrounding the implementation and effect of Brexit may cause increased economic volatility, affecting our operations and business.***

Given our operations in the United Kingdom and Continental Europe, we face uncertainty surrounding the implementation and effects of the U.K.'s June 2016 referendum in which voters approved the United Kingdom's exit from the European Union, commonly referred to as "Brexit." It is possible that Brexit will cause increased regulatory and legal complexities and create uncertainty surrounding our business, including our relationships with existing and future clients, suppliers and employees, which could have an adverse effect on our business, financial results and operations.

***Data protection laws and self-regulatory codes may restrict our activities and increase our costs.***

Various statutes and rules regulate conduct in areas such as privacy and data protection which may affect our collection, use, storage and transfer of information both abroad and in the United States. Compliance with these laws and self-regulatory codes may require us to make certain investments or may dictate that we not offer certain types of services or only offer such services after making necessary modifications. Failure to comply with these laws and self-regulatory codes may result in, among other things, civil and criminal liability, negative publicity, restrictions on further use of data and/or liability under contractual warranties.

In addition, there is an increasing public concern regarding data and consumer protection issues, with the result that the number of jurisdictions with data protection laws continues to increase and the scope of existing privacy laws and the data considered to be covered by such laws is expanding. Changes in these laws (including newly released interpretations of these laws by courts and regulatory bodies) may limit our data access, use and disclosure, and may require increased expenditures by us or may dictate that we may not offer certain types of services.

The European Union's General Data Protection Regulation ("GDPR"), which took effect in May 2018, has extra-territorial scope and substantial fines for breaches (up to 4% of global annual revenue or €20 million, whichever is greater). Additionally, compliance with the GDPR is resulting in operational costs to implement new procedures corresponding to new legal rights granted under the law, but has had little direct impact on ISG products. ISG is continuing to monitor the development of the EU's ePrivacy Regulation proposal and industry response and will determine whether to take further action, as needed, following its final adoption.

***We operate in a number of international areas which exposes us to significant foreign currency exchange rate risk.***

We have significant international revenue, which is predominantly collected in local currency. We do enter into forward contracts for hedging of specific transactions. All are settled prior to quarter end. It is expected that our international revenues will continue to grow as European and Asian markets adopt sourcing solutions. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

***We may be subject to claims for substantial damages by our clients arising out of disruptions to their businesses or inadequate service and our insurance coverage may be inadequate.***

Most of our service contracts with clients contain service level and performance requirements, including requirements relating to the quality of our services. Failure to consistently meet service requirements of a client or errors made by our employees in the course of delivering services to our clients could disrupt the client's business and result in a reduction in revenues or a claim for damages against us. Additionally, we could incur liability if a process we manage for a client were to result in internal control failures or impair our client's ability to comply with our own internal control requirements.

Under our service agreements with our clients, our liability for breach of our obligations is generally limited to actual damages suffered by the client and is typically capped at the greater of an agreed amount or the fees paid or payable to us under the relevant agreement. These limitations and caps on liability may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients or liability for breaches of confidentiality, are generally not limited under those agreements. Although we have general commercial liability insurance coverage, the coverage may not continue to be available on acceptable terms or in sufficient amounts to cover one or more large claims. The successful assertion of one or more large claims against us that exceed available insurance coverage or changes in our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements) could have a material adverse effect on our business.

***We could be liable to our clients for damages and subject to liability and our reputation could be damaged if our confidential information or client data is compromised.***

We may be liable to our clients for damages caused by disclosure of confidential information. We are often required to collect and store sensitive or confidential client data in order to perform the services we provide under our contracts. Many of our contracts do not limit our potential liability for breaches of confidentiality. If any person, including any of our current or former employees, penetrates our network security or misappropriates sensitive data or if we do not adapt to changes in data protection legislation, we could be subject to significant liabilities to our clients or to our clients' customers for breaching contractual confidentiality provisions or privacy laws. Also, we could face cyber-based attacks and attempts by hackers and similar unauthorized users to gain access to or corrupt our information technology systems in order to gain access to confidential information and client data. Such attacks could disrupt our business operations, cause us to incur unanticipated losses or expenses, and result in unauthorized disclosures of confidential or proprietary information. Although we seek to prevent, detect and investigate these network security incidents, and have taken steps to mitigate the likelihood of network security breaches, there can be no assurance that attacks by unauthorized users will not be attempted in the future or that our security measures will be effective. Unauthorized disclosure of sensitive or confidential client data, whether through breach of our processes, systems or otherwise, could also damage our reputation and cause us to lose existing and potential clients. We may also be subject to civil actions and criminal prosecution by government or government agencies for breaches relating to such data. Our insurance coverage for breaches or mismanagement of such data may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims against us.

***We could have liability or our reputation could be damaged if we fail to protect client and/or our data from security breaches or cyberattacks.***

We are dependent on information technology networks and systems to securely process, transmit and store electronic information and to communicate among our locations around the world and with our people, clients, alliance partners and vendors. As the breadth and complexity of this infrastructure continues to grow, including as a result of the use of mobile technologies, social media and cloud-based services, the risk of security breaches and cyberattacks increases. Such breaches could lead to shutdowns or disruptions of or damage to our systems and those of our clients, alliance partners and vendors, and unauthorized disclosure of sensitive or confidential information, including personal data.

***Failure to maintain effective internal controls over financial reporting could adversely affect our business and the market price of our Common Stock.***

Pursuant to rules adopted by the SEC implementing Section 404 of the Sarbanes Oxley Act of 2002, we are required to assess the effectiveness of our internal controls over financial reporting and provide a management report on our internal controls over financial reporting in all annual reports. This report contains, among other matters, a statement as to whether or not our internal controls over financial reporting are effective and the disclosure of any material weaknesses in our internal controls over financial reporting identified by management.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework for companies to assess and improve their internal control systems. Auditing Standard No. 5 provides the professional standards and related performance guidance for auditors to attest to, and report on, management's assessment of the effectiveness of internal control over financial reporting under Section 404. Management's assessment of internal controls over financial reporting requires management to make subjective judgments and, some of the judgments will be in areas that may be open to interpretation. Therefore, our management's report on our internal controls over financial reporting may be difficult to prepare, and our auditors may not agree with our management's assessment.

While we currently believe our internal controls over financial reporting are effective, we are required to comply with Section 404 on an annual basis. If, in the future, we identify one or more material weaknesses in our internal controls over financial reporting during this continuous evaluation process, our management will be unable to assert such internal controls are effective. Therefore, if we are unable to assert that our internal controls over financial reporting are effective in the future, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, our investors could lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our business and the market price of our Common Stock.

***Impairment to goodwill and other intangible assets could have a material adverse effect on our financial condition and results of operations.***

Under generally accepted accounting principles, we are required to perform an annual impairment test at the reporting unit level of our goodwill. We may need to perform an impairment test more frequently of goodwill, or perform an impairment test at the asset group level with respect to intangible assets, if events occur or circumstances indicate that the carrying amount of these assets may not be recoverable. These events or circumstances could include a significant change in the business conditions, attrition of key personnel, a prolonged decline in our stock price and market capitalization, legal factors, operating performance indicators, competition and other factors. If the fair market value of our reporting unit is less than the carrying amount of

the related assets, we could be required to record an impairment charge in the future. The valuation of our reporting unit requires judgment in estimating future cash flows, discount rates and other factors. In making these judgments, we evaluate the financial condition of our reporting unit, including such factors as market performance, changes in our client base and projected growth rates. Because these factors are ever changing, due to market and general business conditions, we cannot predict whether, and to what extent, our goodwill and long-lived intangible assets may be impaired in future periods. The amount of any future impairment could be significant and could have a material adverse effect on our financial results.

***Client restrictions on the use of client data could adversely affect our activities.***

The majority of the data we use to populate our databases comes from our client engagements. The insight sought by clients from us relates to the contractual data and terms, including pricing and costs, to which we have access in the course of assisting our clients in the negotiation of our sourcing agreements. Data is obtained through the course of our engagements with clients who agree to contractual provisions permitting us to consolidate and utilize on an aggregate basis such information. If we were unable to utilize key data from previous client engagements, our business, financial condition and results of operations could be adversely affected.

***We may not be able to maintain the equity in our brand name.***

We believe that the ISG brand remains critical to our efforts to attract and retain clients and staff and that the importance of brand recognition will increase as competition increases. We may expand our marketing activities to promote and strengthen our brand and may need to increase our marketing budget, hire additional marketing and public relations personnel, expend additional sums to protect the brand and otherwise increase expenditures to create and maintain client brand loyalty. If we fail to effectively promote and maintain the brand or incur excessive expenses in doing so, our future business and operating results could be adversely impacted.

***Our actual operating results may differ significantly from our guidance.***

From time to time, we release guidance regarding our future performance that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with published guidelines of the Public Company Accounting Oversight Board (United States), and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto. Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons. Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors are urged to put

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the guidance in context and not to place undue reliance on it. Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this Annual Report on Form 10-K could result in the actual operating results being different than the guidance, and such differences may be adverse and material.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We maintain our executive offices in Stamford, Connecticut. The lease on our executive offices covers approximately eighteen thousand square feet and expires on August 31, 2025. The majority of our business activities are performed on client sites. We do not own offices or properties. We have leased offices in the United States, Canada, Denmark, Switzerland, Netherlands, Finland, Australia, France, Germany, India, Italy, China, Spain, Sweden and the United Kingdom.

**Item 3. Legal Proceedings**

From time to time, in the normal course of business, we are a party to various legal proceedings. We are not aware of any asserted or unasserted legal proceedings or claims that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II**

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

The following table sets forth the high and low closing sales price of our common stock, as reported on The Nasdaq Stock Market LLC under the symbol "III" for the periods shown:

Quarter Ending	Common Stock	
	High	Low
March 31, 2018	\$ 4.48	\$ 3.96
June 30, 2018	4.45	3.91
September 30, 2018	5.35	4.04
December 31, 2018	4.56	4.08

Quarter Ending	Common Stock	
	High	Low
March 31, 2017	\$ 3.69	\$ 2.95
June 30, 2017	4.24	3.03
September 30, 2017	4.20	3.55
December 31, 2017	4.54	3.87

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On March 1, 2019, the last reported sale price for our common stock on The Nasdaq Stock Market was \$4.39 per share.

As of December 31, 2018, there were 519 holders of record of ISG common stock. The actual number of stockholders is significantly greater than this number of record holders and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

**Dividend Policy**

On December 2, 2014, the Company's Board of Directors authorized a special dividend of \$0.14 per share on the Company's issued and outstanding shares of common stock. This cash dividend was paid on January 28, 2015 to shareholders of record as of January 15, 2015. Prior to this special dividend we had not paid any dividends on our common stock. Our Credit Agreement limits our ability to pay dividends. We amended the Credit Agreement in order to exclude the payment of the special dividend from the calculation of our fixed charge coverage ratio covenant under the Credit Agreement. The payment of dividends in the future will be within the discretion of our Board of Directors and will be contingent upon our revenues and earnings, if any, capital requirements and general financial condition.

**Issuer Purchases of Equity Securities**

On March 9, 2016, the Company's Board of Directors approved a share repurchase authorization of up to \$15 million. This new share repurchase program took effect upon completion of the Company's prior 2014 share repurchase authorization program in 2016. The shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions, pursuant to a Rule 10b5-1 repurchase plan or by other means in accordance with federal securities laws. The timing and the amount of any repurchases will be determined by the Company's management based on its evaluation of market conditions, capital allocation alternatives, and other factors. There is no guarantee as to the number of shares that will be repurchased, and the repurchase program may be extended, suspended or discontinued at any time without notice at the Company's discretion.

The following table details the repurchases that were made during the three months ended December 31, 2018.

Period	Total Number of Securities Purchased (In thousands)	Average Price per Securities	Total Numbers of Securities Purchased as Part of Publicly Announced Plan (In thousands)	Approximate Dollar Value of Securities That May Yet Be Purchased Under The Plan (In thousands)
October 1 – October 31	3	\$ 4.54	3	\$ 12,342
November 1 – November 30	—	\$ —	—	\$ 12,342
December 1 – December 31	41	\$ 4.23	41	\$ 12,170

**Securities Authorized for Issuance under Equity Compensation Plan**

The following table lists information regarding outstanding options and shares reserved for future issuance under our Amended and Restated 2007 Equity and Incentive Award Plan and our Amended and Restated

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Employee Stock Purchase Plan as of December 31, 2018. We have not issued any shares of our common stock to employees as compensation under a plan that has not been approved by our stockholders.

Plan Category	Number of Shares of Common Stock to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights(1)	Number of Shares of Common Stock Remaining Available for Future Issuance under our Stock Option Plans (Excluding Shares Reflected in Column (1))(2)
Approved by Stockholders	4,756,713	\$ —	4,068,325
Not Approved by Stockholders	—	—	—
Total	4,756,713	\$ —	4,068,325

(1) The weighted-average exercise price includes outstanding options and RSUs, treating RSUs as stock awards with an exercise price of zero.

(2) Includes 440,304 shares available for future issuance under the Company's Employee Stock Purchase Plan. Also includes 3,628,021 shares that were available for grant under the Amended and Restated 2007 Equity and Incentive Award Plan as options and SARs and also for restricted stock, restricted stock units or other awards that could provide to the grantee an opportunity to earn the full value of an underlying share (in other words, such earning opportunity is not limited to the appreciation in value of our stock following the grant of the award).

**Item 6. Selected Financial Data**

As a smaller reporting company, we are not required to provide the information described in this item.

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

You should read the following discussion together with our audited consolidated financial statements and the related notes listed in the index appearing under Item 15 (a)(1). In addition to historical consolidated financial information, this discussion contains forward-looking statements that reflect our plans, estimates and beliefs. These forward-looking statements are subject to numerous risks and uncertainties. Statements, other than those based on historical facts, which address activities, events or developments that we expect or anticipate may occur in the future are forward-looking statements. Such forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors relating to our operations and business environment that may cause actual results to be materially different from any future results, express or implied, by such forward-looking statements. These forward-looking statements must be understood in the context of numerous risks and uncertainties, including, but not limited to, those described previously in section 1A "Risk Factors."

**BUSINESS OVERVIEW**

ISG (Information Services Group) (Nasdaq: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including more than 70 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation

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services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 digital-ready professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry’s most comprehensive marketplace data. For more information, visit [www.isg-one.com](http://www.isg-one.com).

Our strategy is to strengthen our existing market position and develop new services and products to support future growth plans. As a result, we are focused on growing our existing service model, expanding geographically, developing new industry sectors, productizing market data assets, expanding our managed services offerings and growing via acquisitions. Although we do not expect any adverse conditions that will impact our ability to execute against our strategy over the next twelve months, the more significant factors that could limit our ability to grow in these areas include global macro-economic conditions and the impact on the overall sourcing market, competition, our ability to retain advisors and reductions in discretionary spending with our top client accounts or other significant client events. Other areas that could impact the business would also include natural disasters, legislative and regulatory changes and capital market disruptions.

We principally derive revenues from fees for services generated on a project by project basis. Prior to the commencement of a project, we reach agreement with the client on rates for services based upon the scope of the project, staffing requirements and the level of client involvement. Revenues for services rendered are recognized on a time and materials basis or on a fixed fee or capped fee basis in accordance with accounting and disclosure requirements for revenue recognition.

Revenues for time and materials contracts are recognized based on the number of hours worked by our advisors at an agreed upon rate per hour and are recognized in the period in which services are performed. Revenues for time and materials contracts are billed monthly, semimonthly or in accordance with the specific contractual terms of each project.

We also derive our revenues from recurring revenue streams. This includes Managed Services, Research, the U.S. Public Sector, subscription services around RPA and analytic benchmarking. All are characterized by subscriptions (i.e., renewal centric as opposed to project centric revenue streams) or multi-year contracts. Our digital services now span a volume of offerings and have become embedded as part of even our traditional transaction services. Digital enablement provides capabilities, digital insights and better engagement with clients and partners.

Our results are impacted principally by our full-time consultants’ utilization rate, the number of business days in each quarter and the number of our revenue-generating professionals who are available to work. Our utilization rate can be negatively affected by increased hiring because there is generally a transition period for new professionals that result in a temporary drop in our utilization rate. Our utilization rate can also be affected by seasonal variations in the demand for our services from our clients. The number of business work days is also affected by the number of vacation days taken by our consultants and holidays in each quarter. We typically have fewer business work days available in the fourth quarter of the year, which can impact revenues during that period. Time-and-expense engagements do not provide us with a high degree of predictability as to performance in future periods. Unexpected changes in the demand for our services can result in significant variations in utilization and revenues and present a challenge to optimal hiring and staffing. The volume of work performed for any particular client can vary widely from period to period.

## **EXECUTIVE SUMMARY**

2018 was another year of great progress for ISG. Continuing our “Go Digital” journey, we focused our energies on evolving our product and service portfolio to meet the growing digital needs of our clients, while applying those same digital business principles and technologies to improving our own operations.

ISG is in a unique position to help shape the digital future of business for its clients—both buyers and sellers of technology services. Since our founding more than 10 years ago, we have continued to evolve to meet the changing needs of our clients—transforming ourselves from a firm principally focused on sourcing advisory services to one offering a full range of technology research, consulting, managed services and events aimed at helping clients digitally transform their operations for greater efficiency and faster growth.

Clearly, our “Go Digital!” strategy is working. There isn’t a client conversation now that doesn’t include some element of digital, and we are responding by building digital components into each of our service lines. A great example is ISG FutureSource™, our next-generation digital sourcing solution. ISG FutureSource™ reinvents our traditional sourcing services and addresses the need for speed, agility and mastering the increasing complexity of today’s digital sourcing environment.

Some of our services, like ISG Automation, were born digital. ISG Automation is growing in value for both our clients and our firm, as evidenced by the high market valuations being placed on our automation software partners Automation Anywhere, Blue Prism, UiPath and WorkFusion.

Recently we launched ISG Blockchain Now™, a new advisory and sourcing solution that enables our clients to improve the efficiency, accuracy and security of their business processes through distributed ledger technology. We expect our blockchain business to evolve over time, but as with automation, ISG is entering the arena now to create use cases with clients—in preparation for when this technology becomes even more mainstream over the next few years.

We also have been successful growing our recurring-revenue streams. These annuity-like offerings—Managed Services, Research, U.S. Public Sector, Software-as-a-Subscription and Benchmarking-as-a-Subscription. These more predictable revenue streams are highly prized by our shareholders, attract more investment and increase the value of our firm.

ISG Research, meanwhile, continues to bring innovative new solutions to market, including in 2018 alone such new offerings as the ISG Digital Innovation Tour™, ISG Momentum Accelerator™ and the ISG Customer Experience Study. ISG Research also relaunched its ISG Insights™ analyst offering and the enhanced ISG Momentum® Contract KnowledgeBase; continued the global expansion of its ISG Provider Lens™ provider research, and nearly doubled ISG Events. Our research content also is featured on our client-facing ISG Impact™ app, introduced this year.

## **RESULTS OF OPERATIONS**

### **YEAR ENDED DECEMBER 31, 2018 COMPARED TO YEAR ENDED DECEMBER 31, 2017**

#### ***Revenues***

Revenues are generally derived from fixed fee contracts as well as engagements priced on a time and materials basis which are recorded based on actual time worked as the services are performed. In addition, from time to time, we also earn incremental revenues, in addition to hourly or fixed fee billings, which are contingent

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on the attainment of certain contractual milestones. Revenues related to materials (mainly out-of-pocket expenses such as airfare, lodging and meals) required during an engagement generally do not include a profit mark-up and can be charged and reimbursed separately or as part of the overall fee arrangement. Invoices are issued to clients monthly, semimonthly or in accordance with the specific contractual terms of each project.

We operate in one segment, fact-based sourcing advisory services. We operate principally in the Americas, Europe, and Asia Pacific. Our foreign operations are subject to local government regulations and to the uncertainties of the economic and political conditions of those areas, and the revenue for our foreign operations is predominantly collected in local currency.

Geographical information for the segment is as follows:

<b>Geographic Area</b>	<b>Years Ended December 31,</b>			<b>Percent</b>
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>Change</b>
	(in thousands)			
Americas	\$ 159,108	\$ 161,845	\$ (2,737)	(2)%
Europe	95,130	82,910	12,220	15 %
Asia Pacific	21,531	24,799	(3,268)	(13)%
Total revenues	<u>\$275,769</u>	<u>\$269,554</u>	<u>\$ 6,215</u>	2 %

Revenues increased by \$6.2 million or approximately 2% in 2018. The increase in revenues in Europe was primarily attributable to growth in our Consulting service line. The decrease in revenues in the Americas was primarily attributable to a decline in our Consulting service line, including the Public Sector, partially offset by growth attributable to our Managed Services and Events service lines. The decrease in revenues in Asia Pacific was primarily attributable to a decline in our Managed Services service line. The translation of foreign currency revenues into U.S. dollars favorably impacted performance compared to the prior year in Europe and Asia Pacific.

**Operating Expenses**

The following table presents a breakdown of our operating expenses by functional category:

<b>Operating Expenses</b>	<b>Years Ended December 31,</b>			<b>Percent</b>
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>Change</b>
	(in thousands)			
Direct costs and expenses for advisors	\$ 159,921	\$ 156,630	\$ 3,291	2 %
Selling, general and administrative	95,400	91,046	4,354	5 %
Depreciation and amortization	7,771	12,721	(4,950)	(39)%
Total operating expenses	<u>\$263,092</u>	<u>\$260,397</u>	<u>\$ 2,695</u>	1 %

Total operating expenses increased by \$2.7 million for 2018 with increases in direct costs and expenses for advisors and selling, general and administrative (“SG&A”) expenses partially offset by a decrease in depreciation and amortization. The increases in SG&A and direct costs and expenses for advisors were due primarily to higher: license expense of \$3.6 million, stock compensation of \$2.4 million, compensation and benefits of \$2.2 million, computer expense of \$1.0 million, professional fees of \$1.0 million, event expense of

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\$0.6 million, tax indemnity receivable of \$0.5 million and occupancy expense of \$0.3 million. These cost increases were partially offset primarily by lower: contract labor costs of \$2.0 million, severance and integration expenses of \$0.8 million, travel expense of \$0.8 million, acquisition-related costs of \$0.6 million and contingent consideration of \$0.5 million.

Compensation costs consist of a mix of fixed and variable salaries, annual bonuses, benefits and retirement plan contributions. Statutory and 401(k) plans are offered to employees as appropriate. Direct costs also include employee taxes, health insurance, workers compensation and disability insurance.

A portion of compensation expenses for certain billable employees are allocated between direct costs and selling, general and administrative costs based on relative time spent between billable and non-billable activities.

Selling costs consist principally of compensation expense related to business development, proposal preparation and delivery, and negotiation of new client contracts. Selling costs also include travel expenses relating to the pursuit of sales opportunities, expenses for hosting periodic client conferences, public relations activities, participation in industry conferences, industry relations, website maintenance and business intelligence activities. Additionally, we maintain a dedicated global marketing function responsible for developing and managing sales campaigns, brand promotion, the ISG Index and assembling client proposals.

We maintain a comprehensive program for training and professional development with the related costs included in SG&A. Related expenses include product training, updates on new service offerings or methodologies and development of client project management skills. Also included in training and professional development are expenses associated with the development, enhancement and maintenance of our proprietary methodologies and tools and the systems that support them.

Selling, general and administrative expenses consist principally of executive management compensation, allocations of billable employee compensation related to general management activities, IT infrastructure, and costs for the finance, accounting, information technology and human resource functions. General and administrative costs also reflect continued investment associated with implementing and operating client and employee management systems. Because our billable personnel operate primarily on client premises, all occupancy expenses are recorded as general and administrative.

Depreciation and amortization expense in 2018 and 2017 were \$7.8 million and \$12.7 million, respectively. The decrease of \$4.9 million in depreciation and amortization expense was primarily due to prior year intangible assets that are now fully amortized. Depreciation expense is generally computed by applying the straight-line method over the estimated useful lives of assets. We also capitalize some costs associated with the purchase and development of internal-use software, system conversions and website development costs. These costs are amortized over the estimated useful life of the software or system.

We amortize our intangible assets (e.g., client relationships and databases) over their estimated useful lives. Goodwill related to acquisitions are not amortized but are subject to annual impairment testing.

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**Other Expense, Net**

The following table presents a breakdown of other expense, net:

	Years Ended December 31,			Percent Change
	2018	2017	Change	
	(in thousands)			
Interest income	\$ 116	\$ 107	\$ 9	8 %
Interest expense	(6,688)	(6,821)	133	2 %
Foreign currency gain (loss)	7	(343)	350	102 %
Total other expense, net	<u>\$ (6,565)</u>	<u>\$ (7,057)</u>	<u>\$ 492</u>	7 %

The total decrease of \$0.5 million was primarily the result of a net foreign currency gain and lower interest expense attributable to our lower debt balance.

**Income Tax Expense**

Our effective tax rate varies from period to period based on the mix of earnings among the various state and foreign tax jurisdictions in which business is conducted and the level of non-deductible expenses incurred in any given period. Our effective tax rate for the year ended December 31, 2018 was 7.1% compared to 199.9% for the year ended December 31, 2017. The variance between the US statutory rate of 21% for the year ended December 31, 2018 was primarily caused by the release of accruals for uncertain tax positions and the impact of the Tax Cuts and Jobs Act "TCJA".

**NON-GAAP FINANCIAL PRESENTATION**

This management's discussion and analysis presents supplemental measures of our performance that are derived from our consolidated financial information but are not presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We refer to these financial measures, which are considered "non-GAAP financial measures" under SEC rules, as adjusted EBITDA, adjusted net income, and adjusted earnings per diluted share, each as defined below. See "Non-GAAP Financial Measures" below for information about our use of these non-GAAP financial measures, including our reasons for including these measures and reconciliations of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

**NON-GAAP FINANCIAL MEASURES**

We use non-GAAP financial measures to supplement the financial information presented on a GAAP basis. We provide adjusted EBITDA (defined as net income before net income attributable to non-controlling interest, plus interest, taxes, depreciation and amortization, foreign currency transaction gains/losses, non-cash stock compensation, change in contingent consideration, acquisition-related costs, tax indemnity receivable, severance and integration expense), adjusted net income (defined as net income plus amortization of intangible assets, non-cash stock compensation, foreign currency transaction gains/losses, change in contingent consideration, acquisition-related costs, severance and integration expense, on a tax-adjusted basis) and adjusted net income as earnings per diluted share, excluding the net of tax effect of the items set forth in the table below. These are non-GAAP measures that the Company believes provide useful information to both management and

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investors by excluding certain expenses and financial implications of foreign currency translations, which management believes are not indicative of ISG's core operations. These non-GAAP measures are used by the Company to evaluate the Company's business strategies and management's performance. These non-GAAP financial measures exclude non-cash and certain other special charges that many investors believe may obscure the user's overall understanding of the Company's current financial performance and the Company's prospects for the future. We believe that these non-GAAP measures provide useful information to investors because they improve the comparability of the financial results between periods and provide for greater transparency of key measures used to evaluate the Company's performance.

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(in thousands)</b>	
Net income (loss) attributable to ISG	\$ 5,677	\$ (2,130)
Net income attributable to non-controlling interest	—	32
Interest expense (net of interest income)	6,572	6,714
Income taxes	435	4,198
Depreciation and amortization	7,771	12,721
Change in contingent consideration	380	882
Acquisition-related costs <sup>(1)</sup>	613	1,236
Severance and integration expense	801	1,617
Tax indemnity receivable	931	454
Foreign currency transaction (gain) loss	(7)	343
Non-cash stock compensation	9,862	7,439
Adjusted EBITDA	<u>\$ 33,035</u>	<u>\$ 33,506</u>

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(in thousands)</b>	
Net income (loss) attributable to ISG	\$ 5,677	\$ (2,130)
Non-cash stock compensation	9,862	7,439
Intangible amortization	5,032	9,514
Change in contingent consideration	380	882
Acquisition-related costs <sup>(1)</sup>	613	1,236
Severance and integration expense	801	1,617
Foreign currency transaction (gain) loss	(7)	343
Tax effect <sup>(2)</sup>	(5,338)	(7,992)
Adjusted net income	<u>\$ 17,020</u>	<u>\$ 10,909</u>

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	Years Ended December 31,	
	2018	2017
Net income (loss) per diluted share attributable to ISG	\$ 0.12	\$ (0.05)
Non-cash stock compensation	0.21	0.17
Intangible amortization	0.11	0.22
Change in contingent consideration	0.01	0.02
Acquisition-related costs <sup>(1)</sup>	0.01	0.03
Severance and integration expense	0.02	0.04
Foreign currency transaction (gain) loss	(0.00)	0.01
Tax effect <sup>(2)</sup>	(0.11)	(0.19)
Adjusted net income per diluted share	<u>\$ 0.37</u>	<u>\$ 0.25</u>

<sup>(1)</sup> Consists of expenses from acquisition-related costs and non-cash fair value adjustments on pre-acquisition contract liabilities.

<sup>(2)</sup> Marginal tax rate of 32% and 38% applied, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Our primary sources of liquidity are cash flows from operations, existing cash and cash equivalents and borrowings under our revolving line of credit. Operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable, accrued expenses, and accrued payroll and related benefits. The volume of billings and timing of collections and payments affect these account balances.

The following table summarizes our cash flows for the years ended December 31, 2018 and 2017:

	Years Ended December 31,	
	2018	2017
	(in thousands)	
Net cash provided by (used in):		
Operating activities	\$ 19,128	\$ 11,444
Investing activities	(3,999)	(3,655)
Financing activities	(24,003)	(16,139)
Effect of exchange rate changes on cash	(915)	2,285
Net decrease in cash and cash equivalents	<u>\$ (9,789)</u>	<u>\$ (6,065)</u>

As of December 31, 2018, our liquidity and capital resources included cash and cash equivalents of \$18.6 million compared to \$28.4 million as of December 31, 2017, a net decrease of \$9.8 million, which was primarily attributable to the following:

- our operating activities provided net cash of \$19.1 million for the year ended December 31, 2018. Net cash provided from operations was primarily attributable to our net income after adjustments for non-cash charges of approximately \$24.3 million partially offset by a \$5.2 million use of working capital primarily attributable to a \$0.7 million change in accounts payable, contract

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- liabilities, prepaid expenses and accrued expenses and a \$4.5 million change in accounts receivables;
- payments of principal amounts due on the debt under our Credit Agreement of \$10.4 million;
- full payment of the Alsbridge Notes of \$7.0 million;
- payment of contingent consideration of \$1.2 million;
- payments of \$2.9 million related to tax withholding for stock-based compensation;
- capital expenditures for property, plant and equipment of \$4.0 million; and
- equity repurchases of \$3.1 million.

### ***Capital Resources***

The Company's current outstanding debt, may limit our ability to fund general corporate requirements and obtain additional financing, impact our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic and industry conditions.

On December 1, 2016, the Company amended and restated its senior secured credit facility to include a \$110.0 million term facility and a \$30.0 million revolving facility (the "2016 Credit Agreement"). The material terms under the 2016 Credit Agreement are as follows:

Each of the term loan facility and revolving credit facility has a maturity date of December 1, 2021 (the "Maturity Date").

The credit facility is secured by all of the equity interests owned by the Company, and its direct and indirect domestic subsidiaries and, subject to agreed exceptions, the Company's direct and indirect "first-tier" foreign subsidiaries and a perfected first priority security interest in all of the Company's and its direct and indirect domestic subsidiaries' tangible and intangible assets.

The Company's direct and indirect existing and future wholly-owned domestic subsidiaries serve as guarantors to the Company's obligations under the senior secured facility.

At the Company's option, the credit facility bears interest at a rate per annum equal to either (i) the "Base Rate" (which is the highest of (a) the rate publicly announced from time to time by the administrative agent as its "prime rate", (b) the Federal Funds Rate plus 0.5% per annum and (c) the Eurodollar Rate, plus 1.0%), plus the applicable margin (as defined below) or (ii) Eurodollar Rate (adjusted for maximum reserves) as determined by the Administrative Agent, plus the applicable margin. The applicable margin is adjusted quarterly based upon the Company's quarterly leverage ratio.

The Term Loan is repayable in four consecutive quarterly installments of \$1,375,000 each, that commenced March 31, 2017, followed by eight consecutive quarterly installments in the amount of \$2,062,500 each, that commenced March 31, 2018, followed by seven consecutive quarterly installments of \$2,750,000 each, commencing March 31, 2020 and a final payment of the outstanding principal amount of the Term Loan on the Maturity Date.

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Mandatory repayments of term loans shall be required from (subject to agreed exceptions) (i) 100% of the proceeds from asset sales by the Company and its subsidiaries, (ii) 100% of the net proceeds from issuances of debt and equity by the Company and its subsidiaries and (iii) 100% of the net proceeds from insurance recovery and condemnation events of the Company and its subsidiaries.

The senior secured credit facility contains a number of covenants that, among other things, place restrictions on matters customarily restricted in senior secured credit facilities, including restrictions on indebtedness (including guarantee obligations), liens, fundamental changes, sales or disposition of property or assets, investments (including loans, advances, guarantees and acquisitions), transactions with affiliates, dividends and other payments in respect of capital stock, optional payments and modifications of other material debt instruments, negative pledges and agreements restricting subsidiary distributions and changes in line of business. In addition, the Company is required to comply with a total leverage ratio and fixed charge coverage ratio.

The senior secured credit facility contains customary events of default, including cross-default to other material agreements, judgment default and change of control.

On February 10, 2017, as required by the 2016 Credit Agreement, the Company entered into an agreement to cap the interest rate at 4% on the LIBOR component of its borrowings under the term loan facility until December 31, 2019. This interest rate cap was not designated for hedging or speculative purposes. The expense related to this interest rate cap was not material.

As of December 31, 2018, the total principal outstanding under the term loan facility and revolving credit facility was \$95.1 million and \$4.0 million, respectively. The effective interest rate for the term loan facility and revolving credit facility as of December 31, 2018 was 5.5% and 5.3%, respectively.

On December 1, 2016, as part of the merger consideration for the acquisition of Alsbridge, we issued an aggregate of \$7.0 million in unsecured subordinated promissory notes (the "Alsbridge Notes"). The Alsbridge Notes accrued interest on the principal amount daily at a rate of 2.0%. At maturity, on September 4, 2018, we paid off the full \$7.0 million of principal and \$0.2 million of interest outstanding under the Alsbridge Notes.

We anticipate that our current cash and the ongoing cash flows from our operations will be adequate to meet our working capital and capital expenditure needs for at least the next twelve months. The anticipated cash needs of our business could change significantly if we pursue and complete additional business acquisitions, if our business plans change, if economic conditions change from those currently prevailing or from those now anticipated, or if other unexpected circumstances arise that may have a material effect on the cash flow or profitability of our business. If we require additional capital resources to grow our business, either internally or through acquisition, we may seek to sell additional equity securities or to secure debt financing. The sale of additional equity securities or certain forms of debt financing could result in additional dilution to our stockholders. We may not be able to obtain financing arrangements in amounts or on terms acceptable to us in the future.

We believe that cash flows generated from operations, existing cash and cash equivalents and borrowing capacity under our senior secured credit facility are sufficient to finance the requirements of our business during future periods.

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

We do not have any off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets or any obligation arising out of a material variable interest in an unconsolidated entity.

### **Employee Retirement Plans**

For the fiscal years ended December 31, 2018 and 2017, we contributed \$2.4 million and \$1.5 million, respectively, to the 401 (k) plan (the “Savings Plan”). These amounts were invested by the participants in a variety of investment options under an arrangement with a third party asset manager. All current and future financial risks associated with the gains and losses on investments are borne by Savings Plan participants.

### **Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the appropriate application of certain accounting policies, many of which require management to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results may differ from estimates. Such differences may be material to the consolidated financial statements.

We believe the application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found the application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Our accounting policies are more fully described in Note 2 “Summary of Significant Accounting Policies” in the “Notes to the Consolidated Financial Statements.” We have identified the following critical accounting estimates:

#### ***Revenue Recognition***

We recognize our revenues for the sale of services and products by applying the following five steps: (1) identify the contract with the customer; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s); and (5) recognize revenue when (or as) the company satisfies the performance obligations.

We principally derive revenues from fees for services generated on a project-by-project basis. Prior to the commencement of a project, we reach agreement with the client on rates for services based upon the scope of the project, staffing requirements and the level of client involvement. It is our policy to obtain written agreements from clients prior to performing services. In these agreements, the clients acknowledge that they will pay based upon the amount of time spent on the project or an agreed upon fee structure. In instances where substantive acceptance provisions are specified in customer contracts, revenues are deferred until all acceptance criteria have been met.

Revenues for time and materials contracts are recognized based on the number of hours worked by our advisors at an agreed upon rate per hour and are recognized in the period in which services are performed.

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Revenues for time and materials contracts are billed monthly, semimonthly or in accordance with the specific contractual terms of each project.

Revenues related to fixed fee or capped fee contracts are recognized into revenue as value is delivered to the customer, consistent with the transfer of control to the customer over time. Revenue for these contracts is recognized proportionally over the term of the contract using an input method based on the proportion of labor hours incurred as compared to the total estimated labor hours for the project, which we consider the best available indicator of the pattern and timing in which contract obligations are fulfilled and control transfers to the customer. This percentage is multiplied by the contracted dollar amount of the project to determine the amount of revenue to recognize in an accounting period. The contracted amount used in this calculation typically excludes the amount the client pays for reimbursable expenses. There are situations where the number of hours to complete projects may exceed our original estimate as a result of an increase in project scope or unforeseen events. On a regular basis, we review the hours incurred and estimated total labor hours to complete. The results of any revisions in these estimates are reflected in the period in which they become known.

The agreements entered into in connection with a project, whether on a time and materials basis or fixed fee or capped fee basis, typically allow our clients to terminate early due to breach or for convenience with 30 days' notice. In the event of termination, the client is contractually required to pay for all time, materials and expenses incurred by us through the effective date of the termination. For managed service implementation contracts, revenue is recognized over time as a percentage of hours incurred to date as compared to the total expected hours of the implementation, consistent with the transfer of control to the customer. In addition, from time to time, we enter into agreements with clients that limit our right to enter into business relationships with specific competitors of that client for a specific time period. These provisions typically prohibit us from performing a defined range of services that it might otherwise be willing to perform for potential clients. These provisions are generally limited to six to twelve months and usually apply only to specific employees or the specific project team.

We also derive revenues based on negotiating reductions in network costs of companies with the entity's related service providers and providing other services such as audits of network and communication expenses, and consultation for network architecture. These contracts can be fixed in fees or can be based on the level of savings achieved related to its communications costs. Additionally, these contracts can also have a fixed component and a contingent component that is based on the savings generated by the Company. For network contingency contracts with termination for convenience clauses, revenue is recognized over time due to the existence of provisions for payment for progress incurred to date plus a reasonable profit margin. The contract periods range from a few months to in excess of a year.

We also enter into arrangements for the sale of robotics software licenses and related delivery of consulting services at the same time or within close proximity to one another. Such software-related performance obligations include the sale of software licenses and other software-related services. For software and implementation contracts, revenue associated with the software performance obligation is recognized at the point at which the software is installed, while revenue on the implementation service performance obligation is recognized over the software implementation period as a percentage of hours incurred to date as compared to the total expected hours.

When we recognize revenues in advance of billing, those revenues are recorded as contract assets. When we receive cash in advance of completing services or earning revenues, those amounts are recorded as contract liabilities.

***Accounts Receivable, Contract Assets and Allowance for Doubtful Accounts***

Our trade receivables primarily consist of amounts due for services already performed via fixed fee or time and materials arrangements. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of clients to pay fees or for disputes that affect its ability to fully collect billed accounts receivable. The allowance for these risks is prepared by reviewing the status of all accounts and recording reserves on a specific identification method based on previous experiences and historical bad debts. However, our actual experience may vary significantly from these estimates. If the financial condition of our clients were to deteriorate, resulting in their inability or unwillingness to pay their invoices, we may need to record additional allowances or write-offs in future periods. To the extent the provision relates to a client's inability or unwillingness to make required payments, the provision is recorded as bad debt expense, which is classified within selling, general and administrative expense in the accompanying consolidated statement of comprehensive income.

The provision for unbilled services is recorded as a reduction to revenues to the extent the provision relates to fee adjustments and other discretionary pricing adjustments.

***Income Taxes***

We use the asset and liability method to account for income taxes, including recognition of deferred tax assets and liabilities for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax basis. We review our deferred tax assets for recovery. A valuation allowance is established when we believe that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in the valuation allowance from period to period are included in our tax provision in the period of change.

For uncertain tax positions, we use the prescribed model for assessing the financial recognition and measurement of all tax positions taken or expected to be taken in tax returns. This guidance provides clarification on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. Our provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related interest.

In December 2017, the Tax Cuts and Jobs Act (the "TCJ Act") legislation was enacted. The TCJ Act includes significant changes to the U.S. corporate tax system, including a U.S. federal corporate income tax rate reduction from 35% to 21% and other changes. Accounting Standards Codification 740, Income Taxes, requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation was enacted. However, with respect to the TCJ Act, given the significance of the change and the time of year in which it was enacted, guidance was provided that enabled companies to recognize the impacts on a provisional basis. As such, we have accounted for the tax effects as a result of the enactment of the TCJ Act as of December 31, 2017 on a provisional basis and have updated our provisional assessment of the tax effects of the TCJ Act during the year ended December 31, 2018.

***Goodwill***

Our goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually in accordance with accounting and disclosure requirements for goodwill and other indefinite-lived intangible

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assets. This test is performed by us during our fourth fiscal quarter or more frequently if we believe impairment indicators are present.

A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value of the reporting unit is less than its carrying amount. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than their carrying amounts, an impairment loss is recognized in an amount equal to the difference. Subsequent increases in value are not recognized in the financial statements.

The Company adopted Accounting Standards Update (“ASU”) 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" effective December 30, 2017 which has eliminated Step 2 from the goodwill impairment test. Under this update, if an impairment is identified, an entity should record the goodwill impairment as an amount resulting from the comparison of the fair value of a reporting unit with its carrying amount.

There was no impairment of goodwill during the years ended December 31, 2018 and 2017, nor were any indicators identified in 2017 or 2018 that would suggest that it is more likely than not that the Company’s reporting unit is impaired.

### ***Long-Lived Assets***

Long lived assets, excluding goodwill and indefinite lived intangibles, to be held and used by the Company are reviewed to determine whether any significant change in the long-lived asset’s physical condition, a change in industry conditions or a reduction in cash flows associated with the use of the long-lived asset. If these or other factors indicate the carrying amount of the asset may not be recoverable, the Company determines whether impairment has occurred through the use of an undiscounted cash flow analysis at the asset group level, which is the lowest level for which identifiable cash flows exist that are separately identifiable from other cash flows. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset group. The fair value of the asset group is measured using market prices or, in the absence of market prices, an estimate of discounted cash flows. Cash flows are generally discounted at an interest rate commensurate with our weighted average cost of capital. Assets are classified as held for sale when the Company has a plan for disposal of certain assets and those assets meet the held for sale criteria.

### ***Stock-Based Compensation***

We grant restricted stock units with a fair value that is determined based on the closing price of our common stock on the date of grant. Such grants generally vest ratably over a four-year period for employees and a three-year period for directors. Stock-based compensation expense is recognized ratably over the applicable service period.

We follow the provisions of accounting and disclosure requirements for share-based payments, including the measurement and recognition of all share-based compensation under the fair value method.

### ***Recent Accounting Pronouncements***

See Note 2 to our consolidated financial statements included elsewhere in this report.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, we are not required to provide the information required by this item.

**Item 8. Financial Statements and Supplementary Data**

Reference is made to our financial statements beginning on page F-1 of this report.

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

None

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018, as required by the Rule 13a-15(b) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2018.

**Management’s Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018, as required by Rule 13a-15(c) under the Exchange Act. In making this assessment, we used the criteria set forth in the framework in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2018.

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The effectiveness of the Company's internal control over financial reporting as of December 31, 2018, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Inherent Limitations on the Effectiveness of Controls**

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no controls can provide absolute assurance that misstatements due to error or fraud will not occur, and no evaluation of any such controls can provide absolute assurance that control issues and instances of fraud, if any, within our Company have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

- (a) Identification of Directors and Executive Officers.

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2019 Annual Meeting of Stockholders under the caption "Management."

- (b) Compliance with Section 16(a) of the Exchange Act.

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2019 Annual Meeting of Stockholders under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

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(c) Code of Ethics.

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2019 Annual Meeting of Stockholders under the caption “Corporate Governance.”

(d) Nominating Committee, Audit Committee, Audit Committee Financial Expert.

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2019 Annual Meeting of Stockholders under the caption “Corporate Governance.”

**Item 11. Executive Compensation**

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2019 Annual Meeting of Stockholders under the caption “Corporate Governance,” “Executive Compensation,” “Summary Compensation Table” and “Outstanding Equity Awards At 2018 Fiscal Year End.”

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

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2019 Annual Meeting of Stockholders under the caption “Security Ownership of Certain Beneficial Owners.”

**Item 13. Certain Relationships and Related Transactions and Director Independence**

The information required hereunder is incorporated by reference from the sections in our Proxy Statement filed in connection with our 2019 Annual Meeting of the Stockholders under the caption “Corporate Governance.”

**Item 14. Principal Accounting Fees and Services**

The information required hereunder is incorporated by reference from the sections in our Proxy Statement filed in connection with our 2019 Annual Meeting of the Stockholders under the caption “Proposal No. 2 Ratification of Engagement of Independent Registered Public Accounting Firm.”

**PART IV**

**Item 15. Exhibits and Financial Statement Schedule**

**(a)(1) Documents filed as a part of this report:**

Financial Statements of Information Services Group, Inc.:

<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-1
<a href="#">Consolidated Balance Sheets as of December 31, 2018 and 2017</a>	F-3
<a href="#">Consolidated Statement of Comprehensive Income for the years ended December 31, 2018 and 2017</a>	F-4
<a href="#">Consolidated Statement of Stockholders' Equity as of December 31, 2018 and 2017</a>	F-5
<a href="#">Consolidated Statement of Cash Flows for the years ended December 31, 2018 and 2017</a>	F-6
<a href="#">Notes to Consolidated Financial Statements</a>	F-7

**(a)(2) Financial Statement Schedule**

Schedule II—Valuation and Qualifying Accounts for the years ended December 31, 2018, and 2017 G-1

**(a)(3) Exhibits:**

We hereby file as part of this Annual Report on Form 10-K the Exhibits listed in the attached Exhibit Index.

**Item 16. FORM 10-K SUMMARY**

None

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of  
Information Services Group, Inc.

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Information Services Group, Inc. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of stockholders' equity and of cash flows for each of the two years in the period ended December 31, 2018, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

***Change in Accounting Principle***

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers in 2018.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists,

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and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

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

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

/s/ PricewaterhouseCoopers LLP

Stamford, Connecticut

March 15, 2019

We have served as the Company's auditor since 2008.

**INFORMATION SERVICES GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except par value)

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 18,636	\$ 28,420
Accounts receivable and contract assets, net of allowance of \$401 and \$503, respectively	75,934	70,824
Prepaid expenses and other current assets	3,620	4,467
Total current assets	98,190	103,711
Restricted cash	89	94
Furniture, fixtures and equipment, net	6,636	5,229
Goodwill	85,389	85,619
Intangible assets, net	20,622	25,684
Deferred tax assets	2,944	2,521
Other assets	861	1,902
Total assets	<u>\$ 214,731</u>	<u>\$ 224,760</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 8,453	\$ 7,192
Current maturities of long-term debt	8,250	15,499
Contract liabilities	6,187	8,898
Accrued expenses	17,759	21,486
Total current liabilities	40,649	53,075
Long-term debt, net of current maturities	89,212	98,838
Deferred tax liabilities	1,790	1,569
Other liabilities	4,493	7,741
Total liabilities	136,144	161,223
Commitments and contingencies (Note 11)		
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 100,000 shares authorized; 45,477 shares issued and 45,430 outstanding at December 31, 2018 and 44,490 shares issued and 43,560 outstanding at December 31, 2017	45	44
Additional paid-in capital	235,998	230,134
Treasury stock (47 and 930 common shares, respectively, at cost)	(203)	(3,161)
Accumulated other comprehensive loss	(7,155)	(5,666)
Accumulated deficit	(150,098)	(157,814)
Total stockholders' equity	78,587	63,537
Total liabilities and stockholders' equity	<u>\$ 214,731</u>	<u>\$ 224,760</u>

The accompanying notes are an integral part of these consolidated financial statements.

**INFORMATION SERVICES GROUP, INC.**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
(in thousands, except per share data)

	Years Ended December 31,	
	2018	2017
<b>Revenues</b>	\$ 275,769	\$ 269,554
<b>Operating expenses</b>		
Direct costs and expenses for advisors	159,921	156,630
Selling, general and administrative	95,400	91,046
Depreciation and amortization	7,771	12,721
Operating income	12,677	9,157
Interest income	116	107
Interest expense	(6,688)	(6,821)
Foreign currency transaction gain (loss)	7	(343)
Income before taxes	6,112	2,100
Income tax provision	435	4,198
Net income (loss)	5,677	(2,098)
Net income attributable to non-controlling interest	—	32
Net income (loss) attributable to ISG	\$ 5,677	\$ (2,130)
Weighted average shares outstanding:		
Basic	44,673	43,025
Diluted	46,067	43,025
Earnings (loss) per share attributable to ISG:		
Basic	\$ 0.13	\$ (0.05)
Diluted	\$ 0.12	\$ (0.05)
<b>Comprehensive income:</b>		
Net income (loss)	\$ 5,677	\$ (2,098)
Foreign currency translation, net of tax benefit (expense) of \$470 and \$(1,270), respectively.	(1,489)	2,134
Comprehensive income:	\$ 4,188	\$ 36
Comprehensive income attributable to non-controlling interest	—	32
Comprehensive income attributable to ISG	\$ 4,188	\$ 4

The accompanying notes are an integral part of these consolidated financial statements.

**INFORMATION SERVICES GROUP, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Common Stock		Additional Paid-in- Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
<b>Balance December 31, 2016</b>	44,203	44	228,692	(8,216)	(7,800)	(155,684)	57,036
Net income attributable to ISG	—	—	—	—	—	(2,130)	(2,130)
Other comprehensive income	—	—	—	—	2,134	—	2,134
Equity securities repurchased	—	—	—	(2,853)	—	—	(2,853)
Proceeds from issuance of ESPP	—	—	(136)	808	—	—	672
Issuance of treasury shares	—	—	(7,100)	7,100	—	—	—
Accretion of noncontrolling interest	—	—	30	—	—	—	30
Issuance of common stock for contingent earn-out	287	—	721	—	—	—	721
Purchase of non-controlling interest	—	—	488	—	—	—	488
Stock based compensation	—	—	7,439	—	—	—	7,439
<b>Balance December 31, 2017</b>	44,490	44	230,134	(3,161)	(5,666)	(157,814)	63,537
Net income attributable to ISG	—	—	—	—	—	5,677	5,677
Other comprehensive income	—	—	—	—	(1,489)	—	(1,489)
Impact of change in accounting policy	—	—	—	—	—	2,039	2,039
Equity securities repurchased	—	—	—	(3,063)	—	—	(3,063)
Proceeds from issuance of ESPP	—	—	(9)	833	—	—	824
Issuance of treasury shares	—	—	(5,188)	5,188	—	—	—
Issuance of common stock for contingent earn-out	290	—	1,200	—	—	—	1,200
Issuance of common stock for RSU vested	697	1	(1)	—	—	—	-
Stock based compensation	—	—	9,862	—	—	—	9,862
<b>Balance December 31, 2018</b>	45,477	\$ 45	\$ 235,998	\$ (203)	\$ (7,155)	\$ (150,098)	\$ 78,587

The accompanying notes are an integral part of these consolidated financial statements.

**INFORMATION SERVICES GROUP, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in thousands)

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 5,677	\$ (2,098)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	2,739	3,207
Amortization of intangible assets	5,032	9,514
Deferred tax (benefit) expense from stock issuances	(202)	333
Amortization of deferred financing costs	761	884
Loss on sublease	—	578
Stock-based compensation	9,862	7,439
Changes in fair value of contingent consideration	356	145
Changes in accounts receivable allowance	231	351
Deferred tax benefit	(241)	(1,008)
Loss on disposal of fixed assets	66	19
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable and contract assets	(4,488)	(6,028)
Prepaid expense and other assets	885	1,545
Accounts payable	879	(2,381)
Contract liabilities	(471)	(387)
Debt issuance costs	—	(38)
Accrued expenses	(1,958)	(631)
<b>Net cash provided by operating activities</b>	<b>19,128</b>	<b>11,444</b>
<b>Cash flows from investing activities</b>		
Acquisitions, net of cash acquired	—	(889)
Purchase of furniture, fixtures and equipment	(3,999)	(3,169)
<b>Net cash used in investing activities</b>	<b>(3,999)</b>	<b>(4,058)</b>
<b>Cash flows from financing activities</b>		
Principal payments on borrowings	(10,637)	(8,540)
Payment of the Alsbridge Notes	(7,000)	—
Proceeds from issuance of employee stock purchase plan shares	824	672
Payment of contingent consideration	(1,200)	(2,665)
Installment payment for acquisitions	—	(543)
Payments related to tax withholding for stock-based compensation	(2,927)	(2,210)
Equity securities repurchased	(3,063)	(2,853)
<b>Net cash used in financing activities</b>	<b>(24,003)</b>	<b>(16,139)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(915)</b>	<b>2,285</b>
<b>Net decrease in cash, cash equivalents, and restricted cash</b>	<b>(9,789)</b>	<b>(6,468)</b>
<b>Cash, cash equivalents, and restricted cash, beginning of period</b>	<b>28,514</b>	<b>34,982</b>
<b>Cash, cash equivalents, and restricted cash, end of period</b>	<b>\$ 18,725</b>	<b>\$ 28,514</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for:		
Interest	\$ 5,978	\$ 5,596
Taxes, net of refunds	\$ 2,622	\$ 2,440
Non-cash investing and financing activities:		
Issuance of treasury stock for vested restricted stock awards	\$ 5,188	\$ 7,100

The accompanying notes are an integral part of these consolidated financial statements.

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(tabular amounts in thousands, except per share data)**

**NOTE 1—DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS**

Information Services Group, Inc. (the “Company”, or “ISG”) was founded in 2006 with the strategic vision to become a high-growth, leading provider of information-based advisory services. The Company specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation and Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. These consolidated financial statements and footnotes are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, references to the Company include ISG and its consolidated subsidiaries.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the revenue recognition guidance for contracts in which controls is transferred to the customer over time affect the amounts of revenues, expenses, contract assets and contract liabilities. Numerous internal and external factors can affect estimates. Estimates are also used for but not limited to: allowance for doubtful accounts, useful lives of furniture, fixtures and equipment and definite lived intangible assets, depreciation expense, fair value assumptions in analyzing goodwill, income taxes and deferred tax asset valuation, and the valuation of stock-based compensation.

**Business Combinations**

We have acquired businesses critical to the Company’s long-term growth strategy. Results of operations for acquisitions are included in the accompanying consolidated statement of comprehensive income from the date of acquisition. Acquisitions are accounted for using the purchase method of accounting and the purchase price is allocated to the net assets acquired based upon their estimated fair values at the date of acquisition. The excess of the purchase price over the net assets was recorded as goodwill. Acquisition-related costs are expensed as incurred and recorded in selling, general and administrative expenses.

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

**Cash and Cash Equivalents**

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents, including certain money market accounts. The Company principally maintains its cash in money market and bank deposit accounts in the United States of America which typically exceed applicable insurance limits. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Restricted Cash**

Restricted cash consists of cash and cash equivalents which the Company has committed to fulfill certain obligations and are not available for general corporate purposes.

**Accounts Receivable, Contract Assets and Allowance for Doubtful Accounts**

Our trade receivables primarily consist of amounts due for services already performed via fixed fee or time and materials arrangements. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of clients to pay fees or for disputes that affect its ability to fully collect billed accounts receivable. The allowance for these risks is prepared by reviewing the status of all accounts and recording reserves on a specific identification method based on previous experiences and historical bad debts. However, our actual experience may vary significantly from these estimates. If the financial condition of our clients were to deteriorate, resulting in their inability or unwillingness to pay their invoices, we may need to record additional allowances or write-offs in future periods. To the extent the provision relates to a client's inability or unwillingness to make required payments, the provision is recorded as bad debt expense, which is classified within selling, general and administrative expense in the accompanying consolidated statement of comprehensive income.

The provision for unbilled services is recorded as a reduction to revenues to the extent the provision relates to fee adjustments and other discretionary pricing adjustments.

**Prepaid Expenses and Other Assets**

Prepaid expenses and other assets consist primarily of prepaid expenses for insurance, conferences and deposits for facilities, programs and promotion items.

**Furniture, Fixtures and Equipment, net**

Furniture, fixtures and equipment is recorded at cost. Depreciation is computed by applying the straight-line method over the estimated useful life of the assets, which ranges from three to five years. Leasehold improvements are depreciated over the lesser of the useful life of the underlying asset or the lease term, which generally ranges from three to five years. Expenditures for renewals and betterments are capitalized. Repairs and

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

maintenance are charged to expense as incurred. The cost and accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and any associated gain or loss thereon is reflected in the accompanying consolidated statement of comprehensive income.

**Internal-Use Software and Website Development Costs**

The Company capitalizes internal-use software and website development costs and records these amounts within furniture, fixtures and equipment. Accounting standards require that certain costs related to the development or purchase of internal-use software and systems as well as the costs incurred in the application development stage related to its website be capitalized and amortized over the estimated useful life of the software or system. They also require that costs related to the preliminary project stage, data conversion and post implementation/operation stage of an internal-use software development project be expensed as incurred.

During the years ended December 31, 2018 and 2017, the Company capitalized \$0.5 million and \$1.3 million, respectively, of costs associated with system and website development.

**Goodwill**

Our goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually in accordance with accounting and disclosure requirements for goodwill and other indefinite lived intangible assets. This test is performed by us during our fourth fiscal quarter or more frequently if we believe impairment indicators are present.

A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value of the reporting unit is less than its carrying amount. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than their carrying amounts, an impairment loss is recognized in an amount equal to the difference. Subsequent increases in value are not recognized in the financial statements.

The Company adopted Accounting Standards Update (“ASU”) 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" effective December 30, 2017 which has eliminated Step 2 from the goodwill impairment test. Under this update, if an impairment is identified, an entity should record the goodwill impairment as an amount resulting from the comparison of the fair value of a reporting unit with its carrying amount.

There was no impairment of goodwill during the years ended December 31, 2018 and 2017, nor were any indicators identified in 2017 or 2018 that would suggest that it is more likely than not that the Company’s reporting unit is impaired.

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

**Long-Lived Assets**

Long lived assets, excluding goodwill and indefinite lived intangibles, to be held and used by the Company are reviewed to determine whether any significant change in the long-lived asset's physical condition, a change in industry conditions or a reduction in cash flows associated with the use of the long-lived asset. If these or other factors indicate the carrying amount of the asset may not be recoverable, the Company determines whether impairment has occurred through the use of an undiscounted cash flow analysis at the asset group level, which is the lowest level for which identifiable cash flows exist that are separately identifiable from other cash flows. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset group. The fair value of the asset group is measured using market prices or, in the absence of market prices, an estimate of discounted cash flows. Cash flows are generally discounted at an interest rate commensurate with our weighted average cost of capital. Assets are classified as held for sale when the Company has a plan for disposal of certain assets and those assets meet the held for sale criteria.

**Debt Issuance Costs**

Costs directly incurred in obtaining long-term financing, typically bank and attorney fees, are deferred and are amortized over the life of the related loan using the effective interest method. Deferred issuance costs are classified as a direct deduction to the long-term debt in the accompanying consolidated balance sheet. Amortization of debt issuance costs is included in interest expense and totaled \$0.8 million and \$0.9 million for the years ended December 31, 2018 and 2017, respectively.

**Revenue Recognition**

We recognize our revenues for the sale of services and products by applying the following five steps: (1) identify the contract with the customer; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s); and (5) recognize revenue when (or as) the company satisfies the performance obligations.

We principally derive revenues from fees for services generated on a project by project basis. Prior to the commencement of a project, we reach agreement with the client on rates for services based upon the scope of the project, staffing requirements and the level of client involvement. It is our policy to obtain written agreements from clients prior to performing services. In these agreements, the clients acknowledge that they will pay based upon the amount of time spent on the project or an agreed upon fee structure. In instances where substantive acceptance provisions are specified in customer contracts, revenues are deferred until all acceptance criteria have been met.

Revenues for time and materials contracts are recognized based on the number of hours worked by our advisors at an agreed upon rate per hour and are recognized in the period in which services are performed. Revenues for time and materials contracts are billed monthly, semimonthly or in accordance with the specific contractual terms of each project.

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

Revenues related to fixed fee or capped fee contracts are recognized into revenue as value is delivered to the customer, consistent with the transfer of control to the customer over time. Revenue for these contracts is recognized proportionally over the term of the contract using an input method based on the proportion of labor hours incurred as compared to the total estimated labor hours for the project, which we consider the best available indicator of the pattern and timing in which contract obligations are fulfilled and control transfers to the customer. This percentage is multiplied by the contracted dollar amount of the project to determine the amount of revenue to recognize in an accounting period. The contracted amount used in this calculation typically excludes the amount the client pays for reimbursable expenses. There are situations where the number of hours to complete projects may exceed our original estimate as a result of an increase in project scope or unforeseen events. On a regular basis, we review the hours incurred and estimated total labor hours to complete. The results of any revisions in these estimates are reflected in the period in which they become known.

The agreements entered into in connection with a project, whether on a time and materials basis or fixed fee or capped fee basis, typically allow our clients to terminate early due to breach or for convenience with 30 days' notice. In the event of termination, the client is contractually required to pay for all time, materials and expenses incurred by us through the effective date of the termination. For managed service implementation contracts, revenue is recognized over time as a percentage of hours incurred to date as compared to the total expected hours of the implementation, consistent with the transfer of control to the customer. In addition, from time to time, we enter into agreements with clients that limit our right to enter into business relationships with specific competitors of that client for a specific time period. These provisions typically prohibit us from performing a defined range of services that it might otherwise be willing to perform for potential clients. These provisions are generally limited to six to twelve months and usually apply only to specific employees or the specific project team.

We also derive revenues based on negotiating reductions in network costs of companies with the entity's related service providers and providing other services such as audits of network and communication expenses, and consultation for network architecture. These contracts can be fixed in fees or can be based on the level of savings achieved related to its communications costs. Additionally, these contracts can also have a fixed component and a contingent component that is based on the savings generated by the Company. For network contingency contracts with termination for convenience clauses, revenue is recognized over time due to the existence of provisions for payment for progress incurred to date plus a reasonable profit margin. The contract periods range from a few months to in excess of a year.

We also enter into arrangements for the sale of robotics software licenses and related delivery of consulting services at the same time or within close proximity to one another. Such software-related performance obligations include the sale of software licenses and other software-related services. For software and implementation contracts, revenue associated with the software performance obligation is recognized at the point at which the software is installed, while revenue on the implementation service performance obligation is recognized over the software implementation period as a percentage of hours incurred to date as compared to the total expected hours.

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

When we recognize revenues in advance of billing, those revenues are recorded as contract assets. When we receive cash in advance of completing services or earning revenues, those amounts are recorded as contract liabilities.

**Reimbursable Expenditures**

Amounts billed to customers for reimbursable expenditures are included in revenues and the associated costs incurred by the Company are included in direct costs and expenses for advisors in the accompanying consolidated statement of comprehensive income. Non-reimbursable amounts are expensed as incurred. Reimbursable expenditures totaled \$9.8 million and \$9.8 million for the years ended December 31, 2018 and 2017, respectively.

**Direct Costs and Expenses for Advisors**

Direct costs and expenses for advisors include payroll expenses and advisory fees directly associated with the generation of revenues and other program expenses. Direct costs and expenses for advisors are expensed as incurred.

Direct costs and expenses for advisors also include expense accruals for discretionary bonus payments. Bonus accrual levels are adjusted throughout the year based on actual and projected individual and Company performance.

**Stock-Based Compensation**

We grant restricted stock units with a fair value that is determined based on the closing price of our common stock on the date of grant. Such grants generally vest ratably over a four-year period for employees and a three-year period for directors. Stock based compensation expense is recognized ratably over the applicable service period.

We follow the provisions of accounting and disclosure requirements for share based payments, including the measurement and recognition of all share-based compensation under the fair value method.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable. The Company places its cash investments with high quality financial institutions. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history and generally does not require collateral.

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

**Treasury Stock**

The Company makes treasury stock purchases in the open market pursuant to the share repurchase program, which was most recently approved by the Board of Directors on March 9, 2016.

Treasury stock is recorded on the consolidated balance sheet at cost as a reduction of stockholders' equity. Shares are released from Treasury at original cost on a first-in, first-out basis, with any gain on the sale reflected as an adjustment to additional paid-in capital. Losses are reflected as an adjustment to additional paid-in capital to the extent of gains previously recognized, otherwise as an adjustment to retained earnings.

**Foreign Currency Translation**

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the end of the reporting period. Revenue and expense items are translated at average exchange rates for the reporting period. Resulting translation adjustments are included in the accompanying statement of comprehensive income and accompanying statement of stockholders' equity as a component of *Accumulated Other Comprehensive Loss*.

The functional currency of the Company and its subsidiaries is the respective local currency. The Company has contracts denominated in foreign currencies and therefore, a portion of the Company's revenues are subject to foreign currency risks. Transactional currency gains and losses that arise from transactions denominated in currencies other than the functional currencies of our operations are recorded in *Foreign Currency Transaction Loss* in the accompanying consolidated statement of comprehensive income.

**Fair Value of Financial Instruments**

The carrying value of the Company's cash and cash equivalents, receivables, accounts payable, other current liabilities, and accrued interest approximate fair value.

Fair value measurements were applied with respect to our nonfinancial assets and liabilities measured on a nonrecurring basis, which would consist of measurements primarily to goodwill, intangible assets and other long-lived assets, and assets acquired and liabilities assumed in a business combination.

Fair value is the price that would be received upon a sale of an asset or paid upon a transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). Market participants can use market data or assumptions in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable. The use of unobservable inputs is intended to allow for fair value determinations in

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

situations where there is little, if any, market activity for the asset or liability at the measurement date. Under the fair-value hierarchy:

Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market;

Level 2 measurements include quoted market prices for identical assets or liabilities in an active market that have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets; and

Level 3 measurements include those that are unobservable and of a highly subjective measure.

During 2018, there were no transfers of our financial assets between Level 1, Level 2, or Level 3 measures. Our financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

The following tables summarize assets and liabilities measured at fair value on a recurring basis at the dates indicated:

	Basis of Fair Value Measurements			
	12/31/2018			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents	\$ 315	\$ -	\$ -	\$ 315
Total	\$ 315	\$ -	\$ -	\$ 315
<b>Liabilities:</b>				
Contingent consideration <sup>(1)</sup>	\$ -	\$ -	\$ 1,703	\$ 1,703
	\$ -	\$ -	\$ 1,703	\$ 1,703
<b>Basis of Fair Value Measurements</b>				
<b>12/31/2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Cash equivalents	\$ 303	\$ -	\$ -	\$ 303
Total	\$ 303	\$ -	\$ -	\$ 303
<b>Liabilities:</b>				
Contingent consideration <sup>(1)</sup>	\$ -	\$ -	\$ 3,698	\$ 3,698
	\$ -	\$ -	\$ 3,698	\$ 3,698

<sup>(1)</sup> The short-term portion is included in “accrued expenses.” The long-term portion is included in “Other liabilities.”

The fair value measurement of this contingent consideration is classified within Level 3 of the fair value hierarchy and reflects the Company’s own assumptions in measuring fair values using the income approach. In developing these estimates, the Company considered certain performance projections, historical results, and industry trends. This amount was estimated through a valuation model that incorporated probability-weighted assumptions related to the achievement of these milestones and the likelihood of the Company making payments. These cash outflow projections have then been discounted using a rate ranging from 14.5% to 28.5%.

**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)**

The following table represents the change in the contingent consideration liability during the years ended December 31, 2018 and 2017:

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Beginning Balance	\$ 3,698	\$ 6,073
Payments of contingent consideration	(2,401)	(3,386)
Change in value of contingent consideration	356	145
Accretion of contingent consideration	52	826
Unrealized (loss) gain related to currency translation	(2)	40
Ending Balance	<u>\$ 1,703</u>	<u>\$ 3,698</u>

The Company's financial instruments include outstanding borrowings of \$99.1 million at December 31, 2018 and \$116.7 million at December 31, 2017, which are carried at amortized cost. The fair value of debt is classified within Level 3 of the fair value hierarchy. The fair value of the Company's outstanding borrowings is approximately \$98.9 million and \$116.5 million at December 31, 2018 and 2017, respectively. The fair values of debt have been estimated using a discounted cash flow analysis based on the Company's incremental borrowing rate for similar borrowing arrangements. The incremental borrowing rate used to discount future cash flows ranged from 5.3% to 5.5%. The Company also considered recent transactions of peer group companies for similar instruments with comparable terms and maturities as well as an analysis of current market conditions.

**Income Taxes**

We use the asset and liability method to account for income taxes, including recognition of deferred tax assets and liabilities for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax basis. We review our deferred tax assets for recovery. A valuation allowance is established when we believe that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in the valuation allowance from period to period are included in our tax provision in the period of change.

For uncertain tax positions, we use the prescribed model for assessing the financial recognition and measurement of all tax positions taken or expected to be taken in tax returns. This guidance provides clarification on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. Our provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related interest.

In December 2017, the Tax Cuts and Jobs Act (the "TCJ Act") legislation was enacted. The TCJ Act includes significant changes to the U.S. corporate tax system, including a U.S. federal corporate income tax rate reduction from 35% to 21% and other changes. Accounting Standards Codification 740, Income Taxes, requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

legislation was enacted. However, with respect to the TCJ Act, given the significance of the change and the time of year in which it was enacted, guidance was provided that enabled companies to recognize the impacts on a provisional basis. As such, we have accounted for the tax effects as a result of the enactment of the TCJ Act as of December 31, 2017 on a provisional basis and have updated our provisional assessment of the tax effects of the TCJ Act during the year ended December 31, 2018.

**Recently Issued Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (“FASB”) issued guidance on accounting for leases which requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. The guidance requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases and will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The guidance requires the use of a modified retrospective approach. The Company has less than fifty leases for which a corresponding right to use asset and lease liability of approximately \$10.2 million will be recorded on the balance sheet as of January 1, 2019. The adoption of this guidance will not have a material impact on our results of operations and will have no impact on our cash flows.

In August 2016, the FASB issued new guidance intended to reduce diversity in practice in how certain cash receipts and payments are classified in the statement of cash flows, including debt prepayment or extinguishment costs, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, and distributions from certain equity method investees. The guidance became effective for interim and annual periods beginning after December 15, 2017, and we adopted the guidance as of January 1, 2018. The guidance requires application using a retrospective transition method. The adoption of this guidance by the Company did not have a material impact on our results of operations.

In August 2018, the FASB issued an update that modifies the disclosure requirements for fair value measurements by removing, modifying or adding disclosures. The guidance is effective for fiscal year beginning after December 15, 2019 and early adoption is permitted. Certain disclosures in the update are applied retrospectively, while others are applied prospectively. The Company is currently evaluating the potential impact of adopting this guidance on its financial statements.

In September 2018, the FASB issued new guidance which requires a customer in a cloud computing arrangement to determine which implementation costs to capitalize as assets or expense as incurred. Under the new guidance, capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. This update is effective for annual periods beginning after December 15, 2019, and interim periods within those periods, and early adoption is permitted. The Company is currently evaluating the potential impact of adopting this guidance on its financial statements.

In November 2018, the FASB issued guidance to clarify that certain transactions between parties to collaborative arrangements should be accounted for in accordance with FASB revenue guidance when the

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

counterparty is a customer. This guidance also prohibits the presentation of collaborative arrangements as revenues from contracts with customers if the counterparty is not a customer. This guidance, which is required to be applied retrospectively and is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted, is not expected to have an impact on the Company's consolidated financial statement.

**NOTE 3—REVENUE**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("ASC Topic 606"), "Revenue from Contracts with Customers". ASC Topic 606 supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition" ("ASC Topic 605") and requires the recognition of revenue upon transfer of control of promised services and products to clients in an amount that reflects the consideration we expect to receive in exchange for those services and products. We adopted ASC Topic 606 as of January 1, 2018 using the cumulative catch-up transition method. The most significant changes resulting from the adoption of ASC Topic 606 are as follows:

- For software and implementation contracts, revenue recognition on the software component is accelerated to the point at which the software is installed, while revenue on the implementation component is recognized over the software implementation period as a percentage of hours incurred to date as compared to the total expected hours.
- For network contingency contracts with termination for convenience clauses, revenue is recognized over time due to the existence of provisions for payment for progress incurred to date plus a reasonable profit margin.
- For managed service implementation contracts, revenue is recognized over time as a percentage of hours incurred to date as compared to the total expected hours of the implementation.

We recognized the cumulative effect of applying the new revenue standard as an adjustment to the opening balance of retained earnings at the beginning of 2018. The comparative information has not been adjusted for the effect of ASC Topic 606 and continues to be reported under the accounting standards in effect for the periods presented. Upon the adoption of ASC Topic 606 on January 1, 2018, we recorded a net increase to opening retained earnings of \$2.0 million. The cumulative effect of the changes made to our Condensed Consolidated Balance Sheet as of January 1, 2018 for the adoption of ASC Topic 606 was as follows:

INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

	As of January 1, 2018		
	As Previously Reported Under ASC 605	Adjustments	As Adjusted for ASC 606
<b>Assets</b>			
Accounts receivables and contract assets, net of allowance of \$503	\$ 70,824	\$ 1,468	\$ 72,292
Prepaid expenses and other current assets	\$ 4,467	\$ (1,071)	\$ 3,396
Deferred tax assets	\$ 2,521	\$ (549)	\$ 1,972
<b>Liabilities</b>			
Contract liabilities	\$ 8,898	\$ (2,418)	\$ 6,480
Accrued expenses	\$ 21,486	\$ 132	\$ 21,618
Deferred tax liabilities	\$ 1,569	\$ 95	\$ 1,664
<b>Stockholders' equity</b>			
Accumulated deficit	\$(157,814)	\$ 2,039	\$(155,775)

The majority of our revenue is derived from contracts that can span from a few months to several years. We enter into contracts that can include various combinations of services and products, which, depending on contract type, are sometimes capable of being distinct. If services are determined to be distinct, they are accounted for as separate performance obligations. A performance obligation is a promise in a contract to transfer a distinct good or service to the client and is the unit of account in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For contracts with multiple performance obligations, including our managed service implementation and software and implementation contract types, the Company allocates the transaction price to each performance obligation using our best estimate of the standalone selling price, or SSP, of each distinct good or service in the contract.

As part of our adoption of ASC Topic 606, we used practical expedients permitted by the standard when applicable. These practical expedients included:

- applying the new guidance only to contracts that are not completed as of January 1, 2018;
- expensing the incremental costs to obtain a contract as incurred when the expected amortization period is one year or less; and
- presenting all revenue net of any related sales tax.

Our contracts may include promises to transfer multiple services and products to a client. Determining whether services and products are considered distinct performance obligations that should be accounted for separately versus together may require judgment.

**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)**

Estimates were required to determine the SSP for each distinct performance obligation identified within our managed service implementation contracts and software and implementation contracts. Further details of our approach to determining the SSP for each contract type is described below.

- For our software and implementation contracts, we had to determine the SSP for both the software license and implementation service performance obligations. For the software license performance obligation, we utilized the adjusted market assessment approach and determined that our listed price of the software licenses generally approximated the SSP. For the implementation service performance obligation, we utilized the residual approach, which resulted in the difference between the total contract value and the software license price in the arrangement being allocated to the implementation service.
- For our managed service implementation contracts, we had to determine the SSP for both the managed services and implementation performance obligations. For each performance obligation, we estimated the SSP using the expected cost plus a reasonable profit margin approach, under which we forecasted our expected costs of satisfying a performance obligation and then added an appropriate margin for the distinct service.

*Adjustments to Financial Statements from the Adoption of Accounting Pronouncements*

The following table presents the effect of the adoption of ASC Topic 606 on our condensed consolidated balance sheet as of December 31, 2018.

	<b>December 31, 2018</b>		
	<b>As</b>		
	<b>Reported</b>		
	<b>Under</b>		
	<b>ASC 606</b>	<b>Adjustments</b>	<b>ASC 605</b>
<b>Assets</b>			
Accounts receivable and contract assets, net of allowance of \$401	\$ 75,934	\$ (3,187)	\$ 72,747
Prepaid expenses and other current assets	\$ 3,620	\$ 1,557	\$ 5,177
Deferred tax assets	\$ 2,944	\$ 549	\$ 3,493
<b>Liabilities</b>			
Contract liabilities	\$ 6,187	\$ 5,647	\$ 11,834
Accrued expenses	\$ 17,759	\$ (147)	\$ 17,612
Deferred tax liabilities	\$ 1,790	\$ (1,162)	\$ 628
<b>Stockholders' equity</b>			
Accumulated deficit	\$(150,098)	\$ (5,419)	\$(155,517)

INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

The following table presents the effect of the adoption of ASC Topic 606 on our condensed consolidated statement of comprehensive income for the year ended December 31, 2018.

	Year Ended December 31, 2018		
	As Reported Under ASC 606	Adjustments	ASC 605
<b>Revenues</b>	\$ 275,769	\$ (4,949)	\$ 270,820
<b>Operating expenses</b>			
Direct costs and expenses for advisors	159,921	(502)	159,419
Selling, general and administrative	95,400	—	95,400
Depreciation and amortization	7,771	—	7,771
<b>Operating income</b>	12,677	(4,447)	8,230
Interest income	116	—	116
Interest expense	(6,688)	—	(6,688)
Foreign currency transaction gain	7	—	7
<b>Income before taxes</b>	6,112	(4,447)	1,665
Income tax provision (benefit)	435	(1,067)	(632)
<b>Net income</b>	\$ 5,677	\$ (3,380)	\$ 2,297

As of December 31, 2018, the Company had \$76.6 million of remaining performance obligations, the majority of which are expected to be satisfied within the next year.

*Contract Balances*

The timing of revenue recognition, billings, and cash collections results in billed accounts receivables, contract assets, and customer advances and deposits (contract liabilities). Our clients are billed based on the type of arrangement. A portion of our services is billed monthly based on hourly or daily rates. There are also client engagements in which we bill a fixed amount for our services. This may be one single amount covering the whole engagement or several amounts for various phases, functions, or milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, we sometimes receive advances or deposits, particularly on our software and implementation contracts, before revenue is recognized, resulting in contract liabilities. These assets and liabilities are reported on the consolidated balance sheet at the end of each reporting period. See the table below for a breakdown of contract assets and contract liabilities.

	January 1, 2018	
	December 31, 2018	(as adjusted)
Contract assets	\$ 22,878	\$ 18,838
Contract liabilities	\$ 6,187	\$ 6,480

## INFORMATION SERVICES GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

Revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at January 1, 2018 was \$6.2 million and represented primarily revenue from our software and implementation contracts and managed services contracts.

*Disaggregation of Revenue*

The following table presents our revenue disaggregated by geographic area for the year ended December 31, 2018.

Geographic area	Year Ended	
	December 31,	
	2018	
Americas	\$	159,108
Europe		95,130
Asia Pacific		21,531
	\$	<u>275,769</u>

**NOTE 4— NET INCOME (LOSS) PER COMMON SHARE**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would share in the net income of the Company.

The following tables set forth the computation of basic and diluted earnings (loss) per share:

	Years Ended December 31,	
	2018	2017
<b>Basic:</b>		
Net income (loss) attributable to ISG	\$ 5,677	\$ (2,130)
Weighted average common shares	44,673	43,025
Earnings (loss) per share attributable to ISG	<u>\$ 0.13</u>	<u>\$ (0.05)</u>
<b>Diluted:</b>		
Net income (loss) attributable to ISG	\$ 5,677	\$ (2,130)
Basic weighted average common shares	44,673	43,025
Potential common shares	1,394	—
Diluted weighted average common shares	46,067	43,025
Diluted earnings (loss) per share attributable to ISG	<u>\$ 0.12</u>	<u>\$ (0.05)</u>

## INFORMATION SERVICES GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

## NOTE 5—ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable and contract assets, net of valuation allowance, consisted of the following:

	December 31,	
	2018	2017
Accounts receivable	\$ 52,935	\$ 53,405
Contract assets	22,878	17,271
Receivables from related parties	121	148
	<u>\$ 75,934</u>	<u>\$ 70,824</u>

The Company has \$1.3 million of accounts receivable outstanding with a U.S. state government that is greater than one year past due as of December 31, 2018. The Company is currently pursuing these past due receivables and expects that payment will be made within the next year. The company has an enforceable right to payment and satisfied all performance requirements.

## NOTE 6—FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment consisted of the following:

	Estimated Useful Lives	December 31,	
		2018	2017
Computer hardware, software and other office equipment	2 to 5 years	\$ 5,873	\$ 6,250
Furniture, fixtures and leasehold improvements	2 to 5 years	4,921	2,715
Internal-use software and development costs	3 to 5 years	7,506	6,969
Accumulated depreciation		(11,664)	(10,705)
		<u>\$ 6,636</u>	<u>\$ 5,229</u>

Depreciation expense was \$2.7 million and \$3.2 million for the years ended December 31, 2018 and 2017, respectively.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 7—INTANGIBLE ASSETS

The carrying amount of intangible assets, net of accumulated amortization and impairment charges, as of December 31, 2018 and 2017 consisted of the following:

	2018			
	Gross Carrying Amount	Accumulated Amortization	Currency impact	Net Book Value
Amortizable intangibles:				
Customer relationships	\$ 73,723	\$ (60,256)	\$ (112)	\$ 13,355
Noncompete agreements	5,952	(5,812)	1	141
Software	1,500	(1,500)	—	—
Backlog	5,002	(4,981)	(21)	—
Databases	13,218	(5,908)	(184)	7,126
Trademark and trade names	1,250	(1,250)	—	—
Intangibles	<u>\$ 100,645</u>	<u>\$ (79,707)</u>	<u>\$ (316)</u>	<u>\$ 20,622</u>
	2017			
	Gross Carrying Amount	Accumulated Amortization	Currency impact	Net Book Value
Amortizable intangibles:				
Customer relationships	\$ 73,723	\$ (55,844)	\$ (105)	\$ 17,774
Noncompete agreements	5,952	(5,754)	1	199
Software	1,583	(1,520)	(63)	—
Backlog	5,002	(4,981)	(21)	—
Databases	13,135	(5,475)	(98)	7,562
Trademark and trade names	1,250	(1,101)	—	149
Intangibles	<u>\$ 100,645</u>	<u>\$ (74,675)</u>	<u>\$ (286)</u>	<u>\$ 25,684</u>

**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)**

Amortization expense was \$5.0 million and \$9.5 million for the years ended December 31, 2018 and 2017, respectively. The estimated future amortization expense subsequent to December 31, 2018, is as follows:

2019	\$	4,022
2020		3,417
2021		2,190
2022		1,731
2023		1,480
Thereafter		7,782
	\$	<u>20,622</u>

**NOTE 8—GOODWILL**

The changes in the carrying amount of goodwill for the year ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Balance as of January 1		
Goodwill	\$ 85,786	\$ 86,429
Foreign currency impact	(167)	(489)
Net balance as of January 1	85,619	85,940
Adjustment	—	(643)
Foreign currency impact	(230)	322
	(230)	(321)
Balance as of December 31		
Goodwill	85,786	86,429
Adjustment	—	(643)
Foreign currency impact	(397)	(167)
Net balance as of December 31	<u>\$ 85,389</u>	<u>\$ 85,619</u>

## INFORMATION SERVICES GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

## NOTE 9—ACCRUED EXPENSES

The components of accrued liabilities at December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	2017
Accrued payroll and vacation	\$ 3,697	\$ 7,741
Accrued corporate and payroll related taxes	4,839	4,657
Contingent consideration—current	1,703	2,365
Other	7,520	6,723
	<u>\$ 17,759</u>	<u>\$ 21,486</u>

## NOTE 10—FINANCING ARRANGEMENTS AND LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
	2018	2017
Senior secured credit facility	\$ 99,113	\$ 109,500
Note payable	—	7,038
Compass convertible notes	—	211
Debt discount	—	(74)
Debt issuance costs	(1,651)	(2,338)
	<u>97,462</u>	<u>114,337</u>
Less current installments on long term debt	<u>8,250</u>	<u>15,499</u>
Long-term debt	<u>\$ 89,212</u>	<u>\$ 98,838</u>

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

Aggregate annual maturities of debt obligations by calendar year, are as follows:

	<b>Debt</b>
2019	\$ 8,250
2020	11,000
2021	79,863
	<u>\$ 99,113</u>

On December 1, 2016, the Company amended and restated its senior secured credit facility to include a \$110.0 million term facility and a \$30.0 million revolving facility (the “2016 Credit Agreement”). The material terms under the 2016 Credit Agreement are as follows:

Each of the term loan facility and revolving credit facility has a maturity date of December 1, 2021 (the “Maturity Date”).

The credit facility is secured by all of the equity interests owned by the Company, and its direct and indirect domestic subsidiaries and, subject to agreed exceptions, the Company’s direct and indirect “first-tier” foreign subsidiaries and a perfected first priority security interest in all of the Company’s and its direct and indirect domestic subsidiaries’ tangible and intangible assets.

The Company’s direct and indirect existing and future wholly-owned domestic subsidiaries serve as guarantors to the Company’s obligations under the senior secured facility.

At the Company’s option, the credit facility bears interest at a rate per annum equal to either (i) the “Base Rate” (which is the highest of (a) the rate publicly announced from time to time by the administrative agent as its “prime rate”, (b) the Federal Funds Rate plus 0.5% per annum and (c) the Eurodollar Rate, plus 1.0%), plus the applicable margin (as defined below) or (ii) Eurodollar Rate (adjusted for maximum reserves) as determined by the Administrative Agent, plus the applicable margin. The applicable margin is adjusted quarterly based upon the Company’s quarterly leverage ratio.

The Term Loan is repayable in four consecutive quarterly installments of \$1,375,000 each, that commenced March 31, 2017, followed by eight consecutive quarterly installments in the amount of \$2,062,500 each, that commenced March 31, 2018, followed by seven consecutive quarterly installments of \$2,750,000 each, commencing March 31, 2020 and a final payment of the outstanding principal amount of the Term Loan on the Maturity Date.

Mandatory repayments of term loans shall be required from (subject to agreed exceptions) (i) 100% of the proceeds from asset sales by the Company and its subsidiaries, (ii) 100% of the net proceeds from issuances of debt and equity by the Company and its subsidiaries and (iii) 100% of the net proceeds from insurance recovery and condemnation events of the Company and its subsidiaries.

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

The senior secured credit facility contains a number of covenants that, among other things, place restrictions on matters customarily restricted in senior secured credit facilities, including restrictions on indebtedness (including guarantee obligations), liens, fundamental changes, sales or disposition of property or assets, investments (including loans, advances, guarantees and acquisitions), transactions with affiliates, dividends and other payments in respect of capital stock, optional payments and modifications of other material debt instruments, negative pledges and agreements restricting subsidiary distributions and changes in line of business. In addition, the Company is required to comply with a total leverage ratio and fixed charge coverage ratio.

- The senior secured credit facility contains customary events of default, including cross-default to other material agreements, judgment default and change of control.

On February 10, 2017, as required by the 2016 Credit Agreement, the Company entered into an agreement to cap the interest rate at 4% on the LIBOR component of its borrowings under the term loan facility until December 31, 2019. This interest rate cap was not designated for hedging or speculative purposes. The expense related to this interest rate cap was not material.

As of December 31, 2018, the total principal outstanding under the term loan facility and revolving credit facility was \$95.1 million and \$4.0 million, respectively. The effective interest rate for the term loan facility and revolving credit facility as of December 31, 2018 was 5.5% and 5.3%, respectively.

**Alsbridge Notes**

On December 1, 2016, as part of the merger consideration for the acquisition of Alsbridge, we issued an aggregate of \$7.0 million in unsecured subordinated promissory notes (the "Alsbridge Notes"). The Alsbridge Notes accrued interest on the principal amount daily at a rate of 2.0%. At maturity, on September 4, 2018, we paid off the full \$7.0 million of principal and \$0.2 million of interest outstanding under the Alsbridge Notes.

**NOTE 11—COMMITMENTS AND CONTINGENCIES**

The Company is involved in certain legal proceedings arising in the ordinary course of business. Management, after review and consultation with legal counsel, believes the ultimate success of parties of the legal proceedings is remote and the ultimate aggregate liability, if any, resulting from such proceedings will not be material to the financial position of the Company.

**Employee Retirement Plans**

For the fiscal years ended December 31, 2018 and 2017, we contributed \$2.4 million and \$1.5 million, respectively, to the 401(k) plan.

**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)****Leases**

The Company leases its office space and office equipment under long-term operating lease agreements which expire at various dates through August 2026. Under the operating leases, the Company pays certain operating expenses relating to the office equipment, leased property and monthly base rent.

Aggregate future minimum payments under noncancelable leases with initial or remaining terms of one year or more consist of the following at December 31, 2018:

	<b>Operating Leases</b>
2019	\$ 3,034
2020	2,654
2021	1,808
2022	1,218
2023	925
Thereafter	1,795
Total minimum lease payments	<u>\$ 11,434</u>

The Company's rental expense for operating leases was \$3.3 million and \$3.2 million, in 2018 and 2017, respectively.

**Saugatuck Contingent Consideration**

During the year ended December 31, 2018, the Company reversed the remaining \$0.3 million contingent consideration liability related to the acquisition of Saugatuck as the related earn-out payment is no longer expected. The Company paid \$0.3 million in April 2018 related to 2017 performance, of which 50% was paid with shares of ISG common stock.

**Experton Contingent Consideration**

As of December 31, 2018, the Company has recorded a liability of \$0.3 million representing the estimated fair value of contingent consideration related to the acquisition of Experton which is classified as current and included in accrued expenses on the consolidated balance sheet. The Company paid \$0.5 million in April 2018 related to 2017 performance, of which 50% was paid with shares of ISG common stock.

**TracePoint Contingent Consideration**

As of December 31, 2018, the Company has recorded a liability of \$1.4 million representing the estimated fair value of contingent consideration related to the acquisition of TracePoint which is classified as current and included in accrued expenses on the consolidated balance sheet. The Company paid \$1.6 million in April 2018 related to 2017 performance, of which 50% was paid with shares of ISG common stock.

## INFORMATION SERVICES GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

## NOTE 12—RELATED PARTY TRANSACTIONS

From time to time, the Company may have receivables and payables with employees and shareholders. The Company had outstanding receivables from related parties, including shareholders, totaling \$0.1 million as of December 31, 2018 and 2017, respectively, and no outstanding payables. These transactions related to personal withholding taxes paid on behalf of expatriate employees.

## NOTE 13—INCOME TAXES

The components of income before income taxes for the years ended December 31, 2018 and 2017 consists of the following:

	Years Ended December 31,	
	2018	2017
Domestic	\$ (6,998)	\$ (6,981)
Foreign	13,110	9,081
Total income before income taxes	<u>\$ 6,112</u>	<u>\$ 2,100</u>

The components of the 2018 and 2017 income tax provision are as follows:

	Years Ended December 31,	
	2018	2017
Current:		
Federal	\$ (3,378)	\$ 1,259
State	575	608
Foreign	3,681	3,006
Total current provision	<u>878</u>	<u>4,873</u>
Deferred:		
Federal	(268)	(268)
State	(237)	(297)
Foreign	62	(110)
Total deferred benefit	<u>(443)</u>	<u>(675)</u>
Total	<u>\$ 435</u>	<u>\$ 4,198</u>

## INFORMATION SERVICES GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

The differences between the effective tax rates reflected in the total provision for income taxes and the U.S. federal statutory rate of 21% for the year ended December 31, 2018 and 35% for the year ended December 31, 2017 were as follows:

	Years Ended December 31,	
	2018	2017
Tax provision computed at 21% in 2018 and 35% in 2017	\$ 1,284	\$ 735
Nondeductible expenses	372	445
State income taxes, net of federal benefit	239	94
Tax impact of foreign operations	1,941	602
Valuation allowances release	(2,238)	(344)
Net increase (decrease) of uncertain tax positions <sup>(1)</sup>	(2,818)	389
Tax law change impact on deferred taxes	—	1,471
Tax law change impact on transition tax	1,642	601
Other	13	205
Income tax provision	\$ 435	\$ 4,198
Effective income tax rates	7.1 %	199.9 %

- (1) During the years ended December 31, 2018 and 2017, the Company reversed an unrealized tax benefit liability of \$0.9 million and \$0.5 million, respectively, established at the time of the acquisition of Alsbridge. An associated tax indemnity receivable was also reversed and recorded in selling, general and administrative expense.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted. The company completed its evaluation of the impact of the new law in the fourth quarter of 2018 and recognized an additional deferred tax liability and tax expense of \$1.6 million associated with repatriation of unremitted foreign earnings as required under the new tax law ("transition tax"). The company recorded this amount consistent with its indefinite reinvestment assertion.

On January 15, 2019, the IRS finalized regulations that govern the transition tax. We are in the process of analyzing these regulations. We do not expect any material impact to our financial statements as a consequence of the final regulations.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities were as follows:

	December 31,	
	2018	2017
<b>Noncurrent deferred tax asset</b>		
Compensation related expenses	\$ 2,441	\$ 2,138
Foreign currency translation	2,491	2,020
U.S. foreign tax credit carryovers	811	1,478
Foreign net operating loss carryovers	5,482	6,208
Accruals and reserves	814	686
Other	442	475
Valuation allowance for deferred tax assets	(4,209)	(6,543)
<b>Total noncurrent deferred tax asset</b>	<u>8,272</u>	<u>6,462</u>
<b>Noncurrent deferred tax liability</b>		
Depreciable assets	(486)	(277)
Prepays	(426)	(481)
Intangible assets	(1,436)	(2,040)
Investment in foreign subsidiaries	(2,975)	(1,143)
Foreign earnings distribution taxes	(1,439)	(1,119)
Foreign intangibles and reserves	(356)	(450)
<b>Total noncurrent deferred tax liability</b>	<u>(7,118)</u>	<u>(5,510)</u>
<b>Net noncurrent deferred tax asset</b>	<u>1,154</u>	<u>952</u>
<b>Net deferred tax asset</b>	<u>\$ 1,154</u>	<u>\$ 952</u>

A valuation allowance was established at December 31, 2018 and 2017 due to estimates of future utilization of net operating loss carryovers in the U.S. and certain foreign jurisdictions, derived primarily from acquisitions and recorded through purchase accounting. The valuation allowance at December 31, 2018 and 2017 also includes a full valuation for the Company's foreign tax credit carryovers and foreign taxes on its controlled foreign corporation.

**Uncertain tax positions**

Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be

**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)**

derecognized in the first subsequent financial reporting period in which that threshold is no longer met. It is the Company's policy to accrue for interest and penalties related to its uncertain tax positions within income tax expense.

A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period is as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 4,050	\$ 3,033
Additions as a result of tax positions taken during the current period	145	774
Reductions as a result of tax positions taken during the current period	(1,295)	—
Additions as a result of tax positions taken during a prior period	—	630
Reductions as a result of lapse of statute	(1,425)	(387)
Balance, end of year	<u>\$ 1,475</u>	<u>\$ 4,050</u>

We do not expect our unrecognized tax benefits to significantly change in the next twelve months.

The Company has recognized through income tax expense approximately \$0.8 million of interest and penalties related to uncertain tax positions. The amount of unrecognized tax benefit, if recognized, that would impact the effective tax rate is \$1.5 million. With few exceptions, the Company is no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2011.

**NOTE 14—STOCK-BASED COMPENSATION PLANS**

The Amended and Restated 2007 Equity and Incentive Award Plan ("Incentive Plan") and Amended and Restated 2007 Employee Stock Purchase Plan ("ESPP") were approved by the Company's stockholders at our 2014 annual meeting with a subsequent amendment to the Incentive Plan approved by the Company's stockholders at our 2017 annual meeting as discussed below. Subject to the terms of the Incentive Plan, the Incentive Plan authorizes the grant of awards, which awards may be made in the form of (i) nonqualified stock options; (ii) stock options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code (stock options described in clause (i) and (ii), "options"); (iii) stock appreciation rights ("SARs"); (iv) restricted stock and/or restricted stock units; (v) other stock based awards; (vi) performance-based awards, which are equity awards or incentive awards intended to qualify for full tax deductibility by the company under Code Section 162 (m); and (vii) incentive awards, a cash-denominated award earnable by achievement of performance goals. The issuance of shares or the payment of cash upon the exercise of an award or in consideration of the cancellation or termination of an award shall reduce the total number of shares available under the Incentive Plan, as applicable. The provisions of each award will vary based on the type of award granted and will be specified by the Compensation Committee of the Board of Directors. Those awards which are based on a specific contractual term will be granted with a term not to exceed ten years. The SARs granted under the

INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

Incentive Plan are granted with an exercise price equal to the fair market value of the Common Shares at the time the SARs are granted.

At the 2017 Annual Meeting, our stockholders approved an amendment to the Incentive Plan to increase the number of shares of common stock available for issuance under the Incentive Plan by 5,300,000 shares (the “Incentive Plan Amendment”). As of December 31, 2018, there were 3,628,021 and 440,304 shares available for grant under the amended and restated Incentive Plan and ESPP, respectively.

The Company recognized \$9.9 million and \$7.4 million in employee stock-based compensation expense during the years ended December 31, 2018 and 2017, respectively. This expense was recorded in selling, general and administrative in the consolidated statement of comprehensive income.

**Restricted Share Awards/Units**

The Incentive Plan provides for the granting of restricted share awards (“RSA”) or restricted share units (“RSU”), the vesting of which is subject to conditions and limitations established at the time of the grant. Upon the grant of an RSA, the participant has the rights of a shareholder, including but not limited to the right to vote such shares and the right to receive any dividends paid on such shares. Recipients of RSU awards will not have the rights of a shareholder of the Company until such date as the Common Shares are issued or transferred to the recipient. If the employee retires (at the normal retirement age stated in the applicable retirement plan or applicable law, if there is a mandatory retirement age), the restricted shares continue to vest on the same schedule as if the employee remained employed with the Company. Upon a termination of employment due to employee’s death or permanent disability, the restricted shares become 100% vested. Dividends accrue and will be paid if and when the restricted shares vest.

The Company also granted RSUs to specific employees which have the following characteristics:

*Performance-Based RSU Vesting (EBITDA):* Provided the employee continues to be employed through specific date set forth in the award, the RSUs will vest on such date if specific financial performance is met, otherwise the RSUs will be forfeited.

*Time-Based RSU Vesting:* So long as the employee continues to be employed through the fourth anniversary of the grant date, the RSUs will become 100% vested on such date.

If an employee’s employment is terminated (i) at any time during the vesting period due to the employee’s death, disability or retirement prior to the applicable vesting date or (ii) without cause by the Company after 50% of the relevant period has elapsed, then the RSUs will vest pro rata based on the period of time worked relative to such period. However, no shares will be distributed until the applicable pro rata vesting date (and, in the case of the Performance-Based RSUs, only if and to the extent that the performance target is achieved). In all other terminations occurring prior to the applicable vesting date, the RSUs will expire. Pursuant to the terms of the Incentive Plan, in the event of a change in control, the Compensation Committee of the Board of Directors may accelerate vesting of the outstanding awards of RSUs then held by participants. All RSUs will

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

be payable in shares of the Company’s common stock immediately upon vesting. No dividend equivalents will be paid with respect to any RSUs. As part of the Incentive Plan Amendment, if approved by our stockholders, dividends/dividend equivalents may be paid or credited on other stock-based awards (such as restricted stock units), but those dividends/dividend equivalents must be subject to the same vesting (or more stringent vesting) than the vesting applicable to the underlying awards.

The fair value of RSAs and RSUs is determined based on the closing price of the Company’s shares on the grant date. The total fair value is amortized to expense on a straight-line basis over the vesting period. There have been no activities for RSAs since December 31, 2011 and none are currently outstanding.

A summary of the status of the Company’s RSUs issued under its Incentive Plan as of December 31, 2018 and changes during the years then ended, is presented below:

	RSU	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2016	3,707	\$ 3.91
Granted	2,778	\$ 3.60
Vested	(1,781)	\$ 3.90
Forfeited	(548)	\$ 3.83
Non-vested at December 31, 2017	4,156	\$ 3.72
Granted	2,967	\$ 4.14
Vested	(2,104)	\$ 3.68
Forfeited	(262)	\$ 4.13
Non-vested at December 31, 2018	<u>4,757</u>	\$ 3.98

The total fair value of RSUs vested during the years ended December 31, 2018 and 2017 was \$7.7 million and \$6.9 million, respectively. As of December 31, 2018, there was \$10.0 million of unrecognized compensation cost related to RSUs, which is expected to be recognized over a weighted-average period of 2.0 years.

**Employee Stock Purchase Plan**

The Company uses the Black-Scholes option pricing model to estimate the fair value of shares expected to be issued under the Company’s employee stock purchase plan. The ESPP provides that a total of 1.2 million shares of Common Stock are reserved for issuance under the plan. The ESPP, which is intended to qualify as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code, is implemented utilizing three-month offerings with purchases occurring at three-month intervals. The ESPP administration is overseen by the Company’s Compensation Committee. Employees are eligible to participate if they are employed by the Company for at least 20 hours per week and more than five months in a calendar year. The ESPP permits eligible

**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)**

employees to purchase Common Stock through payroll deductions, ranging from one to ten percent of their eligible earnings subject to IRS regulated cap of \$25,000. The price of Common Stock purchased under the ESPP is 90% of the fair market value of the Common Stock on the applicable purchase date. Employees may end their participation in an offering at any time during the offering period, and participation ends automatically upon termination of employment. The Compensation Committee may at any time amend or terminate the ESPP, except that no such amendment or termination may adversely affect shares previously granted under the ESPP. The Company may issue new shares for the ESPP using treasury shares or newly issued shares.

For the year ended December 31, 2018, the Company issued 212,436 shares for the ESPP. There were 440,304 shares available for purchase at December 31, 2018 under the ESPP.

**NOTE 15—SEGMENT AND GEOGRAPHICAL INFORMATION**

The Company operates in one segment, fact-based sourcing advisory services. The Company operates principally in the Americas, Europe, and Asia Pacific. The Company's foreign operations are subject to local government regulations and to the economic and political uncertainties of those areas.

Geographical information for the segment is as follows:

	Years Ended December 31,	
	2018	2017
<b>Revenues</b>		
Americas <sup>(1)</sup>	\$ 159,108	\$ 161,845
Europe <sup>(2)</sup>	95,130	82,910
Asia Pacific <sup>(3)</sup>	21,531	24,799
	<u>\$ 275,769</u>	<u>\$ 269,554</u>
<b>Fixed assets</b>		
Americas	\$ 5,319	\$ 3,495
Europe	1,162	1,390
Asia Pacific	155	344
	<u>\$ 6,636</u>	<u>\$ 5,229</u>

<sup>(1)</sup> Substantially all relates to operations in the United States.

<sup>(2)</sup> Includes revenues from operations in Germany of \$47.2 million and \$40.0 million in 2018 and 2017, respectively. Includes revenues from operations in the United Kingdom of \$18.6 million and \$14.8 million in 2018 and 2017, respectively.

<sup>(3)</sup> Includes revenues from operations in Australia of \$17.8 million and \$18.6 million in 2018 and 2017, respectively.

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

The segregation of revenues by geographic region is based upon the location of the legal entity performing the services. The Company does not measure or monitor gross profit or operating income by geography or any other measure or metric, other than consolidated, for the purposes of making operating decisions or allocating resources.

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
2.1	<u>Purchase Agreement, dated as of April 24, 2007, as amended, by and between Registrant and MCP-TPI Holdings, LLC (previously filed as Annex A to the Registrant's Definitive Proxy Statement filed with the SEC on October 17, 2007 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
2.2	<u>Agreement for the Sale and Purchase of the Entire Issued Share Capital of CCGH Limited, dated as of January 4, 2011, between Registrant and the persons named therein (previously filed as Exhibit 2.1 to the Registrant's Form 8-K filed with the SEC on January 4, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
2.3	<u>Asset Purchase Agreement, dated as of February 10, 2011, among Registrant (for specific section only), and Salvaggio &amp; Teal Ltd. (d/b/a Salvaggio, Teal &amp; Associates), Salvaggio &amp; Teal II, LLC, Mitt Salvaggio, Kirk Teal, Nathan Frey, International Consulting Acquisition Corp., (previously filed as Exhibit 2.1 to the Registrant's Form 8-K filed with the SEC on February 11, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
2.4	<u>Agreement and Plan of Merger, dated as of December 1, 2016, by and among Alsbridge Holdings, Inc., ISG Information Services Group Americas, Inc., Gala Acquisition Sub, Inc., and LLR Equity Partners III, L.P., as representative of the equity holders (previously filed as Exhibit 2.1 to the Registrant's Form 8-K filed with the SEC on December 2, 2016 (Commission File No. 001-33287), and incorporated herein by reference).</u>
3.1	<u>Amended and Restated Certificate of Incorporation of the Company (previously filed as Exhibit 3.1 to Amendment No. 5 to the Registrant's Registration Statement on Form S-1 filed with the SEC on January 29, 2007 (Commission File Number: 333-136536), and incorporated herein by reference).</u>
3.2	<u>Amended and Restated By-Laws, dated as of May 13, 2013 (previously filed as Exhibit 3.1 to the Registrant's Form 8-K filed with the SEC on May 15, 2013 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
3.3	<u>Amended to the Amended and Restated By-Laws, dated as of November 8, 2017 (previously filed as Exhibit 3.1 to the Registrant's Form 8 K filed with the SEC on November 13, 2017 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
4.1	<u>Specimen Common Stock Certificate (previously filed as Exhibit 4.2 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 filed with the SEC on December 22, 2006 (Commission File Number: 333-136536), and incorporated herein by reference).</u>

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<b>Exhibit Number</b>	<b>Description</b>
10.1	<a href="#"><u>Registration Rights Agreement between the Registrant and the existing Stockholders dated as of February 6, 2007 (previously filed as Exhibit 10.9 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 filed with the SEC on December 22, 2006 (Commission File Number: 333-136536), and incorporated herein by reference).</u></a>
10.2#	<a href="#"><u>Form of Indemnification Agreement for Directors and Officers (previously filed as Exhibit 10.1 to the Registrant’s Form 8-K filed with the SEC on December 2, 2016 (Commission File No. 001-33287), and incorporated herein by reference).</u></a>
10.3#	<a href="#"><u>Amended and Restated 2007 Employee Stock Purchase Plan (previously filed as Annex B to the Registrant’s Definitive Proxy Statement filed with the SEC on March 21, 2014 (Commission File Number: 001-33287), and incorporated herein by reference).</u></a>
10.4#	<a href="#"><u>Amended and Restated 2007 Equity and Incentive Award Plan (previously filed as Appendix A to the Registrant’s Definitive Proxy Statement filed with the SEC on March 17, 2017 (Commission File Number: 001-33287), and incorporated herein by reference).</u></a>
10.5#	<a href="#"><u>Form of Restricted Stock Unit Agreement (Performance and Time Based) (previously filed as Exhibit 10.1 to the Registrant’s Form 10-Q filed with the SEC on August 7, 2013 (Commission File Number: 001-33287), and incorporated herein by reference).</u></a>
10.6	<a href="#"><u>Amended and Restated Credit Agreement, dated as of December 1, 2016, among Information Services Group, Inc., various lenders and Bank of America, N.A., as Administrative Agent (the “Credit Agreement”) (previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on December 2, 2016 (Commission File Number: 001-33287), and incorporated herein by reference).</u></a>
10.7	<a href="#"><u>First Amendment to the Amended and Restated Credit Agreement dated December 8, 2017 (previously filed as Exhibit 10.7 to the Registrant’s Form 10-K filed with the SEC on March 15, 2018 (Commission File Number: 001-33287), and incorporated herein by reference).</u></a>
10.8#	<a href="#"><u>Employment Letter dated as of September 24, 2009, between the Company and David E. Berger (previously filed as Exhibit 10.1 to the Registrant’s Form 8-K filed with the SEC on September 29, 2009 (Commission File Number: 001-33287), and incorporated herein by reference).</u></a>
10.9#	<a href="#"><u>Form of Restricted Stock Unit Award Agreement (Time-Based), (previously filed as Exhibit 10.2 to the Registrant’s Form 8-K filed with the SEC on September 29, 2009 (Commission File Number: 001-33287), and incorporated herein by reference).</u></a>
10.10#	<a href="#"><u>Form of Restricted Covenant Agreement, (previously filed as Exhibit 10.3 to the Registrant’s Form 8-K filed with the SEC on September 29, 2009 (Commission File Number: 001-33287), and incorporated herein by reference).</u></a>

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<b>Exhibit Number</b>	<b>Description</b>
10.11#	<u>Severance Agreement dated as of October 5, 2009, between the Company and David E. Berger (previously filed as Exhibit 10.4 to the Registrant's Form 8-K filed with the SEC on September 29, 2009 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
10.12#	<u>Change in Control Agreement dated as of January 7, 2011, between the Company and Michael P. Connors (previously filed as Exhibit 10.2 to the Registrant's Form 8-K filed with the SEC on January 7, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
10.13#	<u>Form of Change in Control Agreement for officers (previously filed as Exhibit 10.15 to the Registrant's Form 10-K filed with the SEC on March 15, 2012 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
10.14#	<u>Employment Agreement for Michael P. Connors, dated December 16, 2011 (previously filed as Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on December 21, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
10.15#	<u>Amendment No. 1 to Employment Agreement for Michael P. Connors previously filed as Exhibit 10.21 to the Registrant's Form 10-K filed with the SEC on March 7, 2014 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
10.16	<u>Securities Purchase Agreement, dated as of December 1, 2016, by and between Information Services Group, Inc. and Chevillon &amp; Associés SCA (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 2, 2016 (File No. 001-33287), and incorporated herein by reference).</u>
10.17#	<u>Amendment No. 2 to Employment Agreement for Michael P. Connors (previously filed as Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on December 16, 2016 (Commission File Number: 001 33287), and incorporated herein by reference).</u>
10.18#	<u>Employment Letter for Thomas Kucinski, dated May 15, 2017 (previously filed as Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on May 15, 2017 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
11.0*	<u>Computation of Earnings Per Share (included in Consolidated Statement of Comprehensive Income to the Consolidated Financial Statements included in Part II—Item 8 herein).</u>
14.0	<u>Code of Ethics and Business Conduct for Directors, Officers and Employees (previously filed as Exhibit 14.1 to the Registrant's Form 8-K filed with the SEC on August 7, 2012 (Commission File Number: 001-33287), and incorporated herein by reference).</u>
21.1	<u>Subsidiaries of the Company (previously filed as Exhibit 21.1 to the Registrant's Form 10-K filed with the SEC on March 15, 2017 (Commission File Number: 001 33287), and incorporated herein by reference).</u>

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<b>Exhibit Number</b>	<b>Description</b>
23.1*	<a href="#">Consent of Independent Registered Public Accounting Firm.</a>
24.1*	<a href="#">Power of Attorney.</a>
31.1*	<a href="#">Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a).</a>
31.2*	<a href="#">Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a).</a>
32.1*	<a href="#">Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350.</a>
32.2*	<a href="#">Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350.</a>
101*	The following financial statements from ISG's Annual Report on Form 10-K for the year ended December 31, 2018, filed on March 15, 2019, formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheet, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.

\* Filed herewith.

# Indicates Item 15(a)(3) exhibit (management contract or compensation plan or arrangement).

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**INFORMATION SERVICES GROUP, INC.**  
**SCHEDULE II— VALUATION AND QUALIFYING ACCOUNTS**  
**(in thousands)**

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charges to Costs and Expenses</u>	<u>Additions/ (Deductions)</u>	<u>Balance at End of Period</u>
<b>Year ended December 31, 2018</b>				
Allowance for doubtful accounts	\$ 503	231	(333)	\$ 401
Allowance for tax valuation	\$ 6,543	(2,850)	516	\$ 4,209
<b>Year ended December 31, 2017</b>				
Allowance for doubtful accounts	\$ 494	351	(342)	\$ 503
Allowance for tax valuation	\$ 6,802	572	(831)	\$ 6,543

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## Section 2: EX-23.1 (EX-23.1)

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-218061, 333-149950, 333-168848 and 333-196193) of Information Services Group, Inc. of our report dated March 15, 2019 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Stamford, CT  
March 15, 2019

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## Section 3: EX-24.1 (EX-24.1)

**Exhibit 24.1**

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael P. Connors as true and lawful attorney-in-fact and agent, with full power (including the full power of substitution and re-substitution) to sign for him and in his name, place and stead, in the capacity or capacities set forth below, (1) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 to be filed by Information Services Group, Inc. (the "Company") with the Securities and Exchange Commission (the "Commission") pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, and (2) any amendments to the foregoing Annual Report, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

**Signature**

**Title**

**Date**

\_\_\_\_\_  
/s/ Neil G. Budnick  
Neil G. Budnick

Director

March 12, 2019

<u>/s/ Gerald S. Hobbs</u> Gerald S. Hobbs	Director	March 12, 2019
<u>/s/ Kalpana Raina</u> Kalpana Raina	Director	March 12, 2019
<u>/s/ Donald C. Waite III</u> Donald C. Waite III	Director	March 12, 2019
<u>/s/ Christine Putur</u> Christine Putur	Director	March 12, 2019

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## Section 4: EX-31.1 (EX-31.1)

**Exhibit 31.1**

**CERTIFICATE PURSUANT TO  
RULES 13a-14(a) and 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael P. Connors, certify that:

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

March 15, 2019

/s/ Michael P. Connors  
Michael P. Connors  
*Chairman and Chief Executive Officer*  
*(Principal Executive Officer)*

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## Section 5: EX-31.2 (EX-31.2)

Exhibit 31.2

**CERTIFICATE PURSUANT TO  
RULES 13a-14(a) and 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David E. Berger, certify that:

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

March 15, 2019

/s/ David E. Berger  
David E. Berger  
*Executive Vice President, Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)*

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## Section 6: EX-32.1 (EX-32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO

**18 USC. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report on Form 10-K of Information Services Group, Inc. (the "Company") for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael P. Connors, Chairman and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 15, 2019

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*/s/ Michael P. Connors*  
Michael P. Connors  
*Chairman and Chief Executive Officer*  
*(Principal Executive Officer)*

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## **Section 7: EX-32.2 (EX-32.2)**

**Exhibit 32.2**

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

In connection with the annual report on Form 10-K of Information Services Group, Inc. (the "Company") for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David E. Berger, Executive Vice President, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (3) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (4) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 15, 2019

\_\_\_\_\_  
*/s/ David E. Berger*  
David E. Berger  
*Executive Vice President, Chief Financial Officer*  
*(Principal Financial Officer and*  
*Principal Accounting Officer)*

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