

---

## Section 1: 8-K/A (8-K/A)

---

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 8-K/A

(Amendment No. 1)

### CURRENT REPORT

Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) **December 1, 2016 (December 1, 2016)**

## Information Services Group, Inc.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation)

**001-33287**  
(Commission File Number)

**20-5261587**  
(I.R.S. Employer  
Identification No.)

**Two Stamford Plaza**  
**281 Tresser Boulevard**  
**Stamford, CT 06901**  
(Address of principal executive offices)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under Exchange Act (17 CFR 240.13e-4(c))
- 
- 

### Explanatory Note

On December 2, 2016, Information Services Group, Inc. ("ISG" or the "Company"), filed a Current Report on Form 8-K (the "Original Filing") announcing that, on December 1, 2016, a wholly-owned subsidiary of ISG had executed an Agreement and Plan of Merger, by and among Alsbridge Holdings, Inc., a Delaware corporation ("Alsbridge"), ISG Information Services Group Americas, Inc., a Texas corporation ("Parent"), Gala Acquisition Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Parent ("Acquisition Sub"), and LLR Equity Partners III, L.P., solely in its capacity as representative of the equity holders of Alsbridge, pursuant to which Acquisition Sub merged with and into Alsbridge with Alsbridge becoming an indirect wholly-owned subsidiary of ISG. This Amendment No. 1 on Form 8-K/A amends and supplements the Original Filing and is being filed to provide the historical financial information and the pro forma financial information required pursuant to Items 9.01(a) and 9.01(b) of Form 8-K, respectively. In accordance with the requirements of Items 9.01(a)(4) and 9.01(b)(2) of Form 8-K, this Amendment No. 1 on Form 8-K/A is being filed within 71 calendar days of the date that the Original Filing was required to be filed. No other changes have been made to

the Original Filing, and this Amendment No. 1 does not amend or otherwise update any other information in the Original Filing. Defined terms not otherwise defined herein shall have the meaning ascribed to such terms in the Original Filing.

## ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

### (a) Financial statements of the businesses acquired.

- (i) The Report of Independent Auditors, issued November 28, 2016 by BKD, LLP, and audited consolidated balance sheets of Alsbridge and its subsidiaries as of December 31, 2015, December 31, 2014 and December 31, 2013 and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows of Alsbridge for the years then ended, are filed as Exhibit 99.2 hereto and are hereby incorporated by reference into this Item 9.01(a).
- (ii) The unaudited consolidated balance sheet of Alsbridge and its subsidiaries as of September 30, 2016, the related consolidated statements of operations and comprehensive income and cash flows for the nine month periods ended September 30, 2016 and 2015, and the statement of changes in shareholders' equity for the nine month period ended September 30, 2016 are filed as Exhibit 99.3 hereto and are hereby incorporated by reference into this Item 9.01(a).

### (b) Pro Forma Financial Information.

The unaudited *pro forma* condensed combined balance sheet for ISG as of September 30, 2016 and unaudited *pro forma* condensed combined statements of operations for the nine month periods ended September 30, 2016 and the year ended December 31, 2015 are filed as Exhibit 99.4 hereto and are hereby incorporated by reference into this Item 9.01(b).

### (d) Exhibits.

- 2.1 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 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)
- 4.1 Form of Unsecured Subordinated Promissory Note (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)
- 10.1 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 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)
- 10.2 Securities Purchase Agreement, dated as of December 1, 2016, by and between Information Services Group, Inc. and Chevrillon & Associés SCA (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)
- 23.1\* Consent of Independent Auditors, BKD, LLP
- 99.1 Press Release, dated December 1, 2016 (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)

2

- 
- 99.2\* The Report of Independent Auditors, issued November 28, 2016 by BKD, LLP, and audited consolidated balance sheets of Alsbridge and its subsidiaries as of December 31, 2015, December 31, 2014 and December 31, 2013 and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows of Alsbridge for the years then ended
  - 99.3\* The unaudited consolidated balance sheet of Alsbridge and its subsidiaries as of September 30, 2016, the related consolidated statements of operations and comprehensive income and cash flows for the nine month periods ended September 30, 2016 and 2015, and the statement of changes in shareholders' equity for the nine month period ended September 30, 2016
  - 99.4\* The unaudited *pro forma* condensed combined balance sheet for ISG as of September 30, 2016 and unaudited *pro forma* condensed combined statements of operations for the nine month period ended September 30, 2016 and the year ended December 31, 2015

---

\* Filed herewith.

3

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 8-K/A to be

signed on its behalf by the undersigned hereunto duly authorized.

Dated: February 16, 2017

INFORMATION SERVICES GROUP, INC.

By: /s/ Michael P. Connors  
Michael P. Connors  
Chairman and Chief Executive Officer

4

---

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
2.1	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 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)
4.1	Form of Unsecured Subordinated Promissory Note (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)
10.1	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 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)
10.2	Securities Purchase Agreement, dated as of December 1, 2016, by and between Information Services Group, Inc. and Chevrillon & Associés SCA (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)
23.1*	Consent of Independent Auditors, BKD, LLP
99.1	Press Release, dated December 1, 2016 (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on December 2, 2016) (File No. 001-33287)
99.2*	The Report of Independent Auditors, issued November 28, 2016 by BKD, LLP and audited consolidated balance sheets of Alsbridge and its subsidiaries as of December 31, 2015, December 31, 2014 and December 31, 2013 and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows of Alsbridge for the years then ended
99.3*	The unaudited consolidated balance sheet of Alsbridge and its subsidiaries as of September 30, 2016, the related consolidated statements of operations and comprehensive income and cash flows for the nine month periods ended September 30, 2016 and 2015, and the statement of changes in shareholders' equity for the nine month period ended September 30, 2016
99.4*	The unaudited <i>pro forma</i> condensed combined balance sheet for ISG as of September 30, 2016 and unaudited <i>pro forma</i> condensed combined statements of operations for the nine month period ended September 30, 2016 and the year ended December 31, 2015

---

\* Filed herewith.

5

---

[\(Back To Top\)](#)

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

Exhibit 23.1

### CONSENT OF INDEPENDENT AUDITOR

We hereby consent to the incorporation by reference in Registration Statements on Form S-8 (Nos. 333-149950, 333-168848 and 333-196193) of Information Services Group, Inc. of our report dated November 28, 2016, relating to our audit of the consolidated financial statements of Alsbridge Holdings, Inc. and its subsidiaries, included in this Current Report on Form 8-K/A of Information Services Group, Inc.

/s/ BKD, LLP

[\(Back To Top\)](#)

## Section 3: EX-99.2 (EX-99.2)

EXHIBIT 99.2

### Alsbridge Holdings, Inc. and Subsidiaries

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2015, 2014 and 2013



### Alsbridge Holdings, Inc. and Subsidiaries December 31, 2015, 2014 and 2013

#### Contents

<b>Independent Auditor's Report</b>	<b>1</b>
<b>Consolidated Financial Statements</b>	
Balance Sheets	3
Statements of Operations and Comprehensive Income (Loss)	5
Statements of Changes in Shareholders' Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	9



14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961  
972.702.8262 // fax 972.702.0673 // [bkd.com](http://bkd.com)

#### Independent Auditor's Report

Board of Directors  
Alsbridge Holdings, Inc.  
Dallas, Texas

We have audited the accompanying consolidated financial statements of Alsbridge Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alsbridge Holdings, Inc. and its subsidiaries as of December 31, 2015, 2014, and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Dallas, Texas  
November 28, 2016

## Alsbridge Holdings, Inc. and Subsidiaries Consolidated Balance Sheets December 31, 2015, 2014 and 2013

### Assets

	2015	2014	2013
<b>Current Assets</b>			
Cash and cash equivalents	\$ 2,647,976	\$ 3,470,725	\$ 3,876,985
Accounts receivable	11,270,412	10,358,410	10,036,921
Trade, net	238,518	79,840	7,969,743
Other	10,122,820	7,897,071	1,957,718
Unbilled revenue	—	—	88,361
Income tax receivable	1,185,842	674,611	642,656
Prepaid expenses	1,884,087	3,293,293	2,761,840
Deferred tax asset	27,349,655	25,773,950	27,334,224
Total current assets			
<b>Property and Equipment, Net</b>	3,157,215	1,049,845	212,089
<b>Other Assets</b>			
Goodwill	39,208,790	39,116,164	39,116,164
Intangible assets, net	2,210,503	3,033,363	3,997,263
Deferred tax asset	—	244,222	1,279,617
Deferred financing costs	53,682	69,599	24,000
Other assets	251,955	190,426	41,518

Total assets	\$ 72,231,800	\$ 69,477,569	\$ 72,004,875
--------------	---------------	---------------	---------------

See Notes to Consolidated Financial Statements

3

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Consolidated Balance Sheets (Continued)**  
**December 31, 2015, 2014 and 2013**

**Liabilities and Shareholders' Equity**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Current Liabilities</b>			
Notes payable, current portion	\$ 3,230,043	\$ 3,136,156	\$ 3,000,000
Accounts payable	639,065	199,350	505,607
Accrued expenses	7,908,331	10,583,000	9,177,553
Unearned revenue	2,506,430	4,150,754	3,116,770
Capital lease obligations, current portion	349,446	110,755	40,883
Earnout payable, current portion	—	—	1,686,526
Income taxes payable	877,205	1,083,141	234,964
Total current liabilities	15,510,520	19,263,156	17,762,303
<b>Line of Credit</b>	2,000,000	1,050,000	3,680,780
<b>Notes Payable, Less Current Portion</b>	7,577,439	10,976,546	9,750,000
<b>Shareholder Note Payable</b>	—	—	5,000,000
<b>Capital Lease Obligations, Less Current Portion</b>	300,651	84,860	33,012
<b>Deferred Tax Liability</b>	311,553	—	—
<b>Deferred Rent</b>	558,207	—	—
<b>Other Long-term Liabilities</b>	5,163	16,772	153,104
Total liabilities	26,263,533	31,391,334	36,379,199
<b>Shareholders' Equity</b>			
Common stock - \$0.001 par value, 1,215,000 shares authorized, 111,587 shares issued and outstanding	112	112	112
Preferred stock - \$0.001 par value, 965,000 shares authorized, 724,853, 697,596, 797,057 Series A shares issued and outstanding; liquidation preference of \$36,039,691 at December 31, 2015, and 500 Series B shares issued and outstanding; liquidation preference of \$500,000 at December 31, 2015	36,596,557	35,184,624	39,629,689
Additional paid-in capital	4,990,954	4,920,421	111,474
Retained earnings (accumulated deficit)	4,667,858	(1,893,267)	(4,013,886)
Accumulated other comprehensive loss	(287,214)	(125,655)	(101,713)
Total shareholders' equity	45,968,267	38,086,235	35,625,676
Total liabilities and shareholders' equity	\$ 72,231,800	\$ 69,477,569	\$ 72,004,875

See Notes to Consolidated Financial Statements

4

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**Years Ended December 31, 2015, 2014 and 2013**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Revenues</b>			
Consulting revenue	\$ 63,839,658	\$ 48,160,455	\$ 33,493,766
Other fees	2,781,302	4,324,614	2,318,672
Reimbursed expenses	3,246,906	2,636,736	1,702,524
Total revenues	69,867,866	55,121,805	37,514,962



agreement	—	—	—	—	—	—	—	—	—	36,331	36,331
<b>Balance, December 31, 2014</b>	<b>111,587</b>	<b>112</b>	<b>697,596</b>	<b>34,684,624</b>	<b>500</b>	<b>500,000</b>	<b>4,920,421</b>	<b>(1,893,267)</b>	<b>(125,655)</b>	<b>38,086,235</b>	
Issuance of preferred stock for cash	—	—	27,257	1,411,933	—	—	—	—	—	1,411,933	
Net income	—	—	—	—	—	—	—	6,561,125	—	6,561,125	
Stock based compensation	—	—	—	—	—	—	70,533	—	—	70,533	
Foreign currency translation loss	—	—	—	—	—	—	—	—	(173,168)	(173,168)	
Change in fair value of interest rate swap agreement	—	—	—	—	—	—	—	—	11,609	11,609	
<b>Balance, December 31, 2015</b>	<b>111,587</b>	<b>\$ 112</b>	<b>724,853</b>	<b>\$36,096,557</b>	<b>500</b>	<b>\$ 500,000</b>	<b>\$4,990,954</b>	<b>\$ 4,667,858</b>	<b>(287,214)</b>	<b>\$45,968,267</b>	

See Notes to Consolidated Financial Statements

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2015, 2014 and 2013**

	2015	2014	2013
<b>Operating Activities</b>			
Net income (loss)	\$ 6,561,125	\$ 2,120,619	\$ (4,013,886)
Items not requiring cash			
Depreciation and amortization	1,296,046	1,107,082	2,539,779
Stock based compensation	70,533	—	—
Amortization of deferred financing costs	15,917	12,486	6,000
Deferred income tax expense	1,964,981	503,942	(1,813,670)
Changes net of acquisition			
Accounts receivable	161,067	(339,461)	2,553,628
Unbilled revenue	(2,145,521)	(5,939,353)	1,442,981
Prepaid expenses	(486,524)	(31,955)	(338,162)
Accounts payable	320,589	(696,257)	(832,326)
Accrued expenses	(3,037,929)	2,271,379	(1,995,285)
Other assets	101,326	(148,908)	24,434
Unearned revenue	(1,644,324)	1,320,324	2,079,269
Deferred rent	163,497	—	—
Income taxes payable/receivable	(402,333)	936,538	1,566,094
Net cash provided by operating activities	<u>2,938,450</u>	<u>1,116,436</u>	<u>1,218,856</u>
<b>Investing Activities</b>			
Issuance of preferred stock for cash	—	2,000,000	173,488
Cash payment in connection with settlement transaction	—	(2,000,000)	—
Cash received in connection with settlement transaction	—	1,000,000	—
Issuance of preferred stock for cash	1,411,933	1,440,285	—
Repurchase of common stock	—	—	(41,358)
Proceeds from issuance of common stock	—	—	36,511
Payment for purchase of Source, net of cash acquired	(935,206)	—	—
Purchases of property and equipment	(1,486,160)	(836,819)	(110,596)
Net cash (used in) provided by investing activities	<u>(1,009,433)</u>	<u>1,603,466</u>	<u>58,045</u>
<b>Financing Activities</b>			
Payments on capital lease obligations	(223,378)	(53,200)	(45,393)
Earnout amount paid for purchase of business	—	(1,686,526)	(1,621,999)
Proceeds from line of credit	14,500,000	5,800,000	6,000,000
Payments on line of credit	(13,550,000)	(4,000,000)	(2,319,220)
Payments on notes payable	(3,582,250)	(3,068,078)	(2,250,000)
Payments of financing fees	—	(58,085)	(30,000)



Borrowings under notes payable	277,030	—	—
Borrowings under shareholder note payable	—	—	1,000,000
Net cash (used in) provided by financing activities	(2,578,598)	(3,065,889)	733,388
<b>Effects of Exchange Rate Changes on Cash</b>	(173,168)	(60,273)	(48,609)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(822,749)	(406,260)	1,961,680
<b>Cash and Cash Equivalents, Beginning of Year</b>	3,470,725	3,876,985	1,915,305
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,647,976</u>	<u>\$ 3,470,725</u>	<u>\$ 3,876,985</u>

See Notes to Consolidated Financial Statements

7

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2015, 2014 and 2013**

	2015	2014	2013
<b>Supplemental Disclosure of Cash Flow Information</b>			
Interest paid	\$ 813,983	\$ 1,056,901	\$ 1,243,534
Income taxes paid (net of refunds)	2,617,984	347,950	(1,336,687)

**Noncash financing and investing activities**

Property and equipment acquired through capital leases	677,860	174,920	42,002
Conversion of shareholder notes and accrued interest to equity	—	5,965,808	—
Landlord incentive received and capitalized into property and equipment	394,710	—	—
Receivable and other net assets exchanged in connection with settlement transactions	8,000,000	—	—

The Company purchased all of the equity interests of Source for \$1,595,942. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 2,274,725
Cash paid for the equity interests	<u>1,595,942</u>
Liability assumed	<u>\$ 678,783</u>

See Notes to Consolidated Financial Statements

8

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Alsbridge Holdings, Inc. (Alsbridge) and its wholly owned subsidiaries (collectively, the Company) provide consulting services aimed to assist customers to outsource various functions in their organization, such as IT, human resources and technology call centers. The Company also offers other solutions such as benchmarking, insourcing, program management, robotic process automation, network cost optimization and transformation services and shared services related to the IT function to improve efficiency within customers' businesses.

During 2012, the Company completed a reorganization among, Alsbridge Holdings, Inc., Alsbridge, Inc., Alsbridge Merger Sub, Inc. (newly formed), LLR Equity Partners III, L.P. and LLR Equity Partners Parallel III, L.P., which resulted in the purchase of Alsbridge, Inc. by Alsbridge Holdings, Inc. Effective at the time of the reorganization, all the prior issued and outstanding shares of common stock and preferred stock of Alsbridge, Inc. were cancelled and cash payments were made to the prior stockholders and option holders as consideration. Subsequent to the reorganization, Alsbridge Holdings, Inc. became the parent of Alsbridge, Inc. Simultaneous with the merger, the Company was authorized to issue new shares of common stock, whereby LLR Equity Partners III, L.P. and LLR Equity Partners Parallel III, L.P. (collectively, LLR) through its ownership of Alsbridge Holdings, Inc., acquired all 100 shares of newly authorized common

stock of Alsbridge, Inc. In connection with this transaction LLR Equity Partners III, L.P., LLR Equity Partners Parallel III, L.P., and certain other persons purchased 504,926 shares of Alsbridge Holdings, Inc. Series A Preferred Stock and 75,074 shares of Alsbridge Holdings, Inc. common stock (of these shares, 4,926 shares of Alsbridge Holdings, Inc. Series A Preferred Stock and all 75,074 shares of common stock are restricted shares subject to Restricted Stock Agreements), and John Benjamin Trowbridge contributed 10,000,000 shares of the Company's prior common stock and 3,001,221 shares of the Company's existing Series A Preferred Stock to Alsbridge Holdings, Inc. in exchange for 288,642 shares of Alsbridge Holdings, Inc. Series A Preferred Stock and 41,358 existing shares of common stock. LLR also provided the Company a credit facility under which up to a maximum of \$10,000,000 may be borrowed (see *Note 11*). The Company accounted for the purchase of Alsbridge, Inc. under the acquisition method of accounting whereby the purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair value at the date of the acquisition.

On April 30, 2014, the Company reached a settlement with Alsbridge, Inc.'s former shareholders with respect to their disputes relating to the Company's Agreement and Plan of Merger, dated December 31, 2012, and in furtherance thereof, entered into settlement agreements and mutual release of claims with the Company's former shareholders. In connection with the settlement transaction, one of the sellers contributed back to the Company Series A Preferred Stock with an estimated fair value of approximately \$14,300,000 and issued \$500,000 of Series B Preferred Stock to the seller. Additionally, one of the sellers contributed \$1,000,000 in cash, and Alsbridge paid \$2,000,000 in cash to one of the sellers. In connection with the settlement, all amounts due under the purchase agreement, totaling approximately \$7,800,000, were settled in full. The Company also reaffirmed its intention to pay \$550,000 accrued bonuses in quarterly amounts through December 2015.

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

On April 30, 2014, in connection with the settlement discussed above, the Company transferred 100% of the membership interests in its subsidiary, Outsourcing Center, LLC, to one of the former shareholders. The revenues and operations of this entity were not material to the Company.

The Company accounted for the net impact of this settlement transaction as a redemption of preferred stock.

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of Alsbridge Holdings, Inc. and its wholly owned subsidiaries, Alsbridge, Inc., Telwares, Inc., Vercuity Solutions, LLC, Thompson Advisory Group, LLC (TAG), Outsourcing Leadership Corp., Alsbridge Ltd (formerly ProBenchmark Ltd), Alsbridge Advisory Private Ltd, ProBenchmark Outsourcing Solutions Private Limited, Alsbridge GmbH, Alsbridge Canada, Inc. and Accomplished Sourcing Limited. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates and Assumptions***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and such estimates could be material.

***Cash and Cash Equivalents***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015, 2014 and 2013, cash equivalents consisted primarily of money market accounts.

At December 31, 2015, the Company's U.S cash accounts exceeded federally insured limits by approximately \$1,725,000 and the Company's foreign cash accounts exceeded insured limits by approximately \$623,000.

***Accounts Receivable and Unbilled Revenue***

Accounts receivable, representing amounts due from customers, are generally unsecured and are stated at the amount the Company expects to collect. Interest is generally not charged on overdue receivables. Unbilled revenue represents amounts that have been earned, but have not yet been billed because of contractual terms. The Company estimates an allowance for doubtful accounts based on the credit-worthiness of its customers as well as general economic considerations. Consequently, an adverse change in these factors could affect the Company's estimate of its bad debts and additional allowances may be required. At December 31, 2015, 2014 and 2013, the allowance for doubtful accounts totaled approximately \$3,500, \$23,000 and \$158,000, respectively.

**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

***Property and Equipment***

Property and equipment acquisitions are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets. Assets acquired under capital leases are amortized on a straight-line basis over the shorter of the lease term or useful life of the asset. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the remaining term of the related lease. Estimated useful lives are as follows:

Computer hardware and software	3 – 5 years
Office equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	5 – 8 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

***Internal Use Software***

The Company capitalizes certain costs associated with software purchased or developed for internal use. The majority of costs incurred are third-party contractor development costs. Internal costs capitalized are limited to the direct time and costs directly associated with the related software. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. The Company also expenses costs related to upgrades and enhancements, as it is impractical to separate these costs from normal maintenance activities.

***Derivatives***

Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation. Management has determined to account for its hedging instruments as cash flow hedges and accordingly the unrealized gain or loss at period ends is recorded within comprehensive income or loss.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

***Goodwill***

The excess aggregate purchase price, including assumed liabilities, over the fair value of the net tangible and specifically identifiable intangible assets acquired in a business combination is recorded as goodwill.

Goodwill and indefinite-lived intangibles are evaluated annually for impairment or more frequently if 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 or indefinite-lived intangible asset 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 the goodwill or indefinite-lived intangible is tested further for impairment. If the implied fair value of goodwill or the fair value of the indefinite-lived intangible 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.

There was no impairment of goodwill during the years ended December 31, 2015, 2014 and 2013.

***Intangible Assets***

Intangible assets with finite lives are being amortized using either the straight-line or an accelerated basis over the useful life of the asset. Such assets are periodically evaluated as to the recoverability of their carrying values.

The estimated useful lives for each intangible asset classification are as follows:

Noncompete agreements	2 – 3 years
Client list	5 years
Trade names and trademarks	5 – 15 years
Software database	5 years
Service marks	6 years
Online literacy content	5 years

### ***Long-lived Asset Impairment***

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2015, 2014 and 2013.

12

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

### ***Income Taxes***

The Company accounts for income taxes in accordance with income tax accounting guidance Accounting Standards Codification 740, *Income Taxes*. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

### ***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt using the effective interest method. During the years ended December 31, 2015, 2014, and 2013, amortization expense for deferred financing costs was \$16,000, \$12,500, and \$6,000 respectively.

13

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

### ***Deferred Rent***

Certain of the Company's operating leases for its offices contain free rent periods and contain predetermined fixed increases of the minimum rental rate during the initial lease term. For these leases, the Company recognizes rental expense on a straight-line basis over the minimum lease term and records the difference between the amounts charged to expense and the rent paid as deferred rent. In addition, during 2015 the Company received approximately \$394,000 of allowances for leasehold improvements for its U.S. corporate office location. These improvements were recorded as deferred rent and property and equipment. This portion of deferred rent is amortized using the straight line method as an offset to rent expense over the term of the related leases.

### ***Revenue Recognition***

The Company recognizes revenue when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collectability is reasonably assured.

Revenue resulting from time and materials based consulting contracts is recorded as the labor and material costs are incurred. Revenue

resulting from fixed fee consulting contracts is recognized as services are provided, based on estimates of revenue earned to total contract revenue. The estimate of revenue earned to total contract revenue is determined primarily based on labor hours incurred to date as compared to total labor hours expected to be incurred. All known and anticipated losses on contracts are recognized in full when such losses become known. Changes in revenues resulting from changes in estimated hours to complete a contract are recorded in the period when the change in hours become known.

The Company earns a significant portion of its revenue 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 component that is based on the savings generated by the Company. For these contracts, the Company records the fixed fees using the milestone method of accounting such that revenues are recorded over the period of the delivery of the services. Revenues that are determined based on a percentage of the ultimate level of savings are considered earned and recorded as revenues when the work has been completed, and the savings and resulting revenues can be determined. The Company does not defer any costs incurred related to services which revenues are determined based on the ultimate savings. The contract periods range from a few months to in excess of a year. These revenues are included within consulting revenue in the accompanying consolidated statements of operations.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

When the Company recognizes revenues in advance of billing, those revenues are recorded as unbilled revenues. When the Company receives cash in advance of completing services or earning revenues, those amounts are recorded as unearned revenues.

Other fee revenues include those earned on subscription agreements, which give customers access to the Company's benchmarking data. Such revenue is recognized ratably over the subscription period and included in other fees in the accompanying consolidated statements of income.

The Company enters 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 multiple-element arrangements include the sale of software licenses, PCS, and other software related services whereby software license delivery is followed by the subsequent or contemporaneous delivery of the other elements. The Company applies ASC 985-605, Software- Revenue Recognition to account for these arrangements. The PCS services are minimal and accordingly are not accounted for as a separate unit of accounting. Since VSOE of the license sale revenue and other consulting service for the multiple element arrangements is not determinable and because licenses of the customer are one year in length with no other substantive PCS services, the Company records revenue for these arrangements in a straight line manner over the period that the consulting services are delivered. Arrangements that involve only consulting services where the licenses were purchased from another vendor are recognized similar to time and material or fixed price consulting services described above.

The Company records reimbursed expenses as revenues and records the related costs within cost of revenues.

The Company enters into arrangements that at times provide for multiple elements/deliverables. Because each deliverable has standalone value, each deliverable is treated as a separate element of account for determining appropriate revenue recognition timing. Revenue on each unit of account is recognized when that unit of account is delivered to the customer. For these arrangements, management estimates the revenues to be allocated to each separate deliverable based on the relative costs (typically based on the hours and rate per hour) to complete each deliverable. Separate deliverables are recorded as revenue when all applicable revenue recognition criteria have been met.

***Share-based Compensation***

The Company grants Alsbridge Holdings, Inc. common stock options to certain of its employees.

The Company applies the fair value recognition provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, *Share-Based Payment*, which requires the Company to recognize compensation costs for all share-based payments based on their grant date fair value. Share-based compensation is recognized on a straight-line basis over the requisite service period of the award, generally four to five years.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

The fair value of certain share-based awards is estimated using the Black-Scholes model. Significant judgment is required in the determination of inputs into the Black-Scholes model. Inherent in this model are various assumptions: estimated fair value, expected stock-price volatility, forfeiture rate, expected option life, risk-free interest rate and dividend yield. While the risk-free interest rate and dividend yield are less subjective assumptions, typically based on factual data, the fair value of common stock, the expected stock-price volatility,

forfeiture rate and option life assumptions require a greater level of judgment.

Historically, the Company has not and does not anticipate distributing dividends to common stockholders and accordingly the Company uses a 0% dividend yield assumption for all Black- Scholes option pricing calculations. The Company uses comparable public entity stock-price volatilities in establishing an estimate for the volatility of its common stock price.

With regard to the weighted-average option life assumption, the Company uses the simplified method which is based on the vesting period and legal term of the option. The amount of stock- based compensation expense is net of an estimated forfeiture rate, which is also based on historical employee turnover information.

### ***Foreign Currency Translation***

The assets and liabilities of the Company's United Kingdom, Canada, Germany and India subsidiaries are denominated in their respective local currency. Their functional currencies are translated into U.S. dollars using rates of exchange at each balance sheet date. Revenue and expenses are translated at weighted-average rates of exchange in effect during the period earned. The cumulative effect resulting from such translation is recorded as accumulated other comprehensive income (loss).

### ***Comprehensive Income (Loss)***

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes foreign currency translation adjustments and the change in fair value of the interest rate swap agreement.

### **Note 2: Share-based Compensation**

In June 2013, the Company's board of directors approved the adoption of a stock option plan (Plan) which authorized the grant of options and issuance of shares to eligible employees to purchase Alsbridge Holdings, Inc. common stock. The option plan is administered by the board of directors, who determine the number of shares for which options will be granted, the effective date of the grant, the option price and the vesting schedule. The contractual term of the options is 10 years. The exercise price for the options is generally established at an amount that approximates the fair value of the Alsbridge, Holdings Inc. common stock. The options generally vest over a five-year term.

16

---

**Alsbridge Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2015, 2014 and 2013**

The options granted in 2013 had minimal value as of their issuance date. Accordingly, no compensation expense was recognized related to stock options during the year ended December 31, 2013. During 2015 and 2014, options granted to employees were estimated to have a fair value of \$244,000 and \$160,000, respectively. The value was determined using the Black- Scholes valuation model with the following weighted-average assumptions for 2015 and 2014: no dividend payments expected; expected option lives of 7.5 and 6.5 years, volatility of 49.6% and 63.5%; and a risk-free interest rate of 1.86% and 2.11%, respectively. Compensation expense recorded for the years ended December 31, 2015 and 2014, for these options was \$70,533 and \$0, respectively.

The remaining stock based compensation expense to be recorded as of December 31, 2015, is approximately \$265,000 and that cost is expected to be recognized over a remaining weighted average vesting period of approximately 3 years.

The Board may terminate the Plan without shareholder approval or ratification at any time. Unless terminated sooner, the Plan will terminate in December 2016. The Board may also amend the Plan, provided that no amendment will be effective without approval of the Company's shareholders if shareholder approval is required to satisfy any applicable statutory or regulatory requirements.

If an award expires or terminates unexercised or is forfeited to the Company, or shares covered by an award are used to fully or partially pay the exercise price of an option granted under the Plan or shares are retained by the Company to satisfy tax withholding obligations in connection with an option exercise or the vesting of another award, those shares will become available for further awards under the Plan.

At December 31, 2015, there are 261,698 options outstanding under the Plan and 80,387 options available for future grants.

17

---

**Alsbridge Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2015, 2014 and 2013**

A summary of option activity under the Plan, which includes options issued with the sale of preferred stock and standalone options issued to employees, as of and for the years ended December 31, 2013, 2014, and 2015, is presented below:

Number	Weighted- Average
--------	----------------------

	<u>of Options Outstanding</u>	<u>Exercise Price</u>
<b>Balance, January 1, 2013</b>	—	\$ —
Granted	74,800	1.00
Forfeited/cancelled	<u>(10,000)</u>	1.00
<b>Balance, December 31, 2013</b>	64,800	1.00
Granted	121,346	1.00
Forfeited/cancelled	<u>(17,806)</u>	1.00
<b>Balance, December 31, 2014</b>	168,340	1.00
Granted	106,788	2.08
Forfeited/cancelled	<u>(13,430)</u>	1.32
<b>Balance, December 31, 2015</b>	<u>261,698</u>	1.42
<b>Exercisable, December 31, 2015</b>	<u>116,505</u>	1.42

The following table summarizes information about stock options outstanding under the Plan at December 31, 2015:

	<u>Options Outstanding</u>			<u>Options Exercisable</u>		
	<u>Exercise Prices</u>	<u>Number</u>	<u>Weighted- Average Remaining Contractual Life (Years)</u>	<u>Exercise Prices</u>	<u>Number</u>	<u>Weighted- Average Remaining Contractual Life (Years)</u>
\$ 1.00	160,840	6.15	\$ 1.00	101,766	4.98	
2.08	100,858	9.49	2.08	14,739	9.46	
	<u>261,698</u>			<u>116,505</u>		

18

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

The estimated weighted-average grant date fair value of each share granted under options during the years ended December 31, 2015, 2014 and 2013, was \$3.51, \$3.50, and \$0, respectively.

Options outstanding at December 31, 2015, had a weighted-average remaining contractual life of 7.44 years.

**Note 3: Business Acquisition**

On April 14, 2015, the Company entered into an agreement with Accomplished Sourcing Limited (Source) to acquire all outstanding equity interests for approximately \$1,600,000. Source is a UK based consulting and advisory company. Source provides advisory services similar to those offered by the Company. Approximately \$300,000 of the cash used to purchase the business was used from available cash within the business that was acquired. The purchase agreement provides for an additional earn out that could be earned by the sellers based on exceeding a threshold Consolidated EBITDA, as defined in the purchase agreement, of approximately \$1.2 million. The earn-out period was from April 1, 2015 through March 31, 2016. Management concluded at the purchase date that it was unlikely that any earn out amount would be earned. No amounts were earned under the earn-out provisions.

The Company incurred approximately \$253,000 of third-party acquisition-related costs. The expenses are included in operating expenses in the Company's consolidated statement of income for the year ended December 31, 2015.

Goodwill of \$92,626 arising from the acquisition consists largely of the establishment of an advisory talent presence in the European region. All of this amount is expected to be deductible for income tax reporting purposes.

19

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

The following table summarizes the consideration paid for Source and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

<b>Fair Value of Consideration Transferred</b>	
Cash	\$ 1,595,942
<b>Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed</b>	
<b>Assets Acquired</b>	
Cash	660,736
Prepaid expenses and other current assets	21,826
Accounts receivable	1,231,747
Unbilled accounts receivable	80,228
Property and equipment	22,919
Receivables from related parties	162,855
Deposits	1,788
	<u>2,182,099</u>
<b>Liabilities Assumed</b>	
Accounts payable	101,958
Accrued expenses	214,031
Income and sales tax payable	362,794
	<u>678,783</u>
Total identifiable net assets	1,503,316
<b>Goodwill</b>	<u>\$ 92,626</u>

The fair value of the assets acquired includes receivables with a fair value of \$1,231,747, all of which was received in 2015.

**Note 4: Related Party Transactions**

During 2012, LLR provided the Company a credit facility, originally maturing in 2017, under the terms of which up to a maximum of \$10,000,000 could be borrowed. Effective April 30, 2014, the outstanding principal, along with accrued interest totaling \$5,965,807, was converted to equity and recorded as a contribution to capital.

The Company was a party to a settlement agreement with a shareholder, as described in *Note 1*.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

**Note 5: Property and Equipment**

Property and equipment consists of the following at December 31, 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 833,586	\$ 57,840	\$ 57,721
Office equipment	1,184,480	725,536	331,525
Furniture and fixtures	540,533	68,793	69,927
Software	1,433,758	340,724	95,502
Construction in progress	168,585	360,630	—
	<u>4,160,942</u>	<u>1,553,523</u>	<u>554,675</u>
Less accumulated depreciation and amortization of property and equipment	(1,003,727)	(503,678)	(342,586)
	<u>\$ 3,157,215</u>	<u>\$ 1,049,845</u>	<u>\$ 212,089</u>

Depreciation and amortization expense of property and equipment totaled \$473,186, \$173,982, and \$110,046 during the years ended December 31, 2015, 2014 and 2013, respectively.

**Capital Lease Obligations**

The Company leases computer equipment under noncancellable capital leases expiring through March 2018. The following is a schedule of future minimum lease payments (excluding interest) under capital lease obligations at December 31, 2015:

2016	\$ 349,446
2017	256,810
2018	43,841
Minimum lease payments	<u>\$ 650,097</u>



**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

**Note 6: Intangible Assets and Goodwill**

The carrying basis and accumulated amortization of recognized intangible assets were as follows:

	2015		
	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks and trade names	\$ 2,072,000	\$ (616,954)	\$ 1,455,046
Client list	2,400,000	(2,100,000)	300,000
Noncompete agreements	408,000	(408,000)	—
Software database	734,000	(456,707)	277,293
Service marks	371,000	(192,836)	178,164
	<u>\$ 5,985,000</u>	<u>\$ (3,774,497)</u>	<u>\$ 2,210,503</u>
	2014		
	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks and trade names	\$ 2,072,000	\$ (424,087)	\$ 1,647,913
Client list	2,400,000	(1,800,000)	600,000
Noncompete agreements	408,000	(287,107)	120,893
Software database	734,000	(309,907)	424,093
Service marks	371,000	(130,536)	240,464
	<u>\$ 5,985,000</u>	<u>\$ (2,951,637)</u>	<u>\$ 3,033,363</u>
	2013		
	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks and trade names	\$ 1,872,000	\$ (223,454)	\$ 1,648,546
Client list	2,400,000	(1,200,000)	1,200,000
Noncompete agreements	408,000	(151,107)	256,893
Online literacy content	43,000	(24,367)	18,633
Software database	734,000	(163,107)	570,893
Service marks	371,000	(68,702)	302,298
	<u>\$ 5,828,000</u>	<u>\$ (1,830,737)</u>	<u>\$ 3,997,263</u>

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

The changes in the amounts of goodwill for the years ended December 31, 2015, 2014 and 2013 were:

	2015	2014	2013
Goodwill	\$ 39,116,164	\$ 39,116,164	\$ 39,116,164
Goodwill addition during year	92,626	—	—
	<u>\$ 39,208,790</u>	<u>\$ 39,116,164</u>	<u>\$ 39,116,164</u>

During 2015, the gross amount of goodwill increased by \$92,626 related to the acquisition of Source as described in *Note 3*. Amortization expense of intangible assets totaled approximately \$823,000, \$964,000 and \$2,430,000, respectively, for the years ended December 31, 2015, 2014 and 2013.

**Future Amortization of Intangible Assets**

Estimated future amortization expense of intangible assets for the years ending after December 31, 2015, is as follows:

2016	\$ 552,234
------	------------

2017	453,439
2018	254,831
2019	126,667
2020	126,667
Thereafter	696,665
Total	<u>\$ 2,210,503</u>

The weighted-average remaining amortizable life of intangible assets at December 31, 2015, is approximately 7.6 years.

**Note 7: Accrued Expenses**

Accrued expenses consist of the following at December 31, 2015, 2014, and 2013:

	2015	2014	2013
Accrued bonuses	\$ 3,225,719	\$ 6,416,982	\$ 4,952,543
Accrued payroll costs	3,449,119	3,012,453	2,458,911
Accrued commissions	588,050	208,937	713,359
Other accrued expenses	645,443	944,628	1,052,740
	<u>\$ 7,908,331</u>	<u>\$ 10,583,000</u>	<u>\$ 9,177,553</u>

23

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

**Note 8: Income Taxes**

The Company's provision for income taxes for the years ended December 31, 2015, 2014 and 2013, is as follows:

	2015	2014	2013
Current income tax expense	\$ 2,371,698	\$ 1,317,494	\$ 289,554
Deferred income tax expense	1,964,981	503,942	(1,813,670)
Income tax expense	<u>\$ 4,336,679</u>	<u>\$ 1,821,436</u>	<u>\$ (1,524,116)</u>

The Company's income tax expense for the years ended December 31, 2015, 2014 and 2013, differed from the statutory federal rate of 34% as follows:

	2015	2014	2013
Statutory rate applied to income (loss) before income taxes	\$ 3,705,253	\$ 1,340,299	\$ (1,882,921)
Amounts not deductible for income tax purposes	126,857	148,143	366,991
State and foreign income taxes	451,431	187,902	(120,765)
Other	(167,789)	(68,883)	112,579
Valuation allowance	220,927	213,975	—
Income tax expense	<u>\$ 4,336,679</u>	<u>\$ 1,821,436</u>	<u>\$ (1,524,116)</u>

Significant components of the Company's deferred tax assets and liabilities at December 31, 2015, 2014 and 2013, are as follows:

	2015	2014	2013
Transaction costs	\$ 114,772	\$ 124,519	\$ 134,266
Federal net operating loss	—	149,498	1,120,688
State net operating loss	—	—	53,189
Foreign net operating loss and tax credits	434,902	222,049	47,742
Property and equipment	(595,500)	(122,276)	(32,236)
Intangible assets	82,473	66,714	(72,504)
Accrued bonus and commissions	912,487	1,657,339	1,457,443
Revenue earned under completed contract method for income tax reporting purposes	1,158,800	1,781,091	1,483,193
Prepaid expenses	(238,100)	(180,443)	(178,796)
Other	137,602	52,999	28,472
Net deferred tax asset	2,007,436	3,751,490	4,041,457
Less valuation allowance	(434,902)	(213,975)	—
Net deferred tax asset	<u>\$ 1,572,534</u>	<u>\$ 3,537,515</u>	<u>\$ 4,041,457</u>

24

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

At December 31, 2015, the Company has no federal net operating loss carry forward. Additionally, the Company has foreign net operating losses most of which pertain to Germany and the United Kingdom. Those net operating losses have a valuation allowance of \$434,902 recorded against them since the probability of generating taxable income in those respective jurisdictions to use these net operating losses cannot be determined at this point. These operating losses, which total approximately \$1,700,000, can be carried forward indefinitely. The valuation allowance during the years ended December 31, 2015, 2014 and 2013, changed by \$220,927, \$213,975 and \$0, respectively.

**Note 9: Operating Lease Arrangements**

The Company leases equipment and its office space under noncancellable operating leases expiring through 2022. The following is a schedule of future minimum lease payments at December 31, 2015:

<u>Year Ended December 31,</u>	
2016	\$ 358,949
2017	399,509
2018	388,064
2019	371,685
2020	374,152
Thereafter	667,718
Total minimum lease payments	<u>\$ 2,560,077</u>

Rent expense for the years ended December 31, 2015, 2014, and 2013, totaled \$594,482, \$369,399, and \$300,654, respectively.

**Note 10: Employee Retirement Savings Plan**

The Company sponsors a retirement savings plan for all of its employees who meet certain age and service requirements, as defined. Participants may make voluntary contributions to the Plan and the Company may make a matching contribution up to the first 6% of the participants' salary deferral. Company contributions made to the Plan during the years ended December 31, 2015, 2014, and 2013 totaled \$572,816, \$441,022 and \$382,946 respectively.

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

**Note 11: Line of Credit**

In November 2012, the Company entered into a credit facility with a bank that includes both a revolving credit and term notes (see *Note 12*) to provide funds for acquisition purposes and working capital. The Company amended this credit facility on June 9, 2014, and again on December 15, 2015. The amended facility currently expires on June 30, 2019. The credit facility allows the Company to borrow a maximum of \$8,000,000 under the revolving credit and \$15,680,780 with the term notes during the duration of the agreement. Borrowings under the revolving credit bear interest, at the Company's election, at a rate per annum equal to: (a) the base rate plus the applicable margin or (b) LIBOR plus the applicable margin. Base rate is the higher of (i) the prime rate and (ii) the sum of the federal funds rate plus 0.5%. The applicable margin for the base rate advances is 1.75%, and the applicable margin for LIBOR rate advances is 4.5%.

The outstanding balance of this line of credit was \$2,000,000, \$1,050,000, and \$3,680,780, respectively, at December 31, 2015, 2014, and 2013. This line of credit is collateralized by substantially all the assets of the Company and is subject to various financial and other covenants. The interest rate at December 31, 2015, was 5.25%. The revolving credit facility matures in May 2017, and is due at that time and therefore, the line of credit is classified as a noncurrent liability in the accompanying consolidated balance sheets.

**Note 12: Notes Payable Including Subordinated Shareholder Note Payable**

On November 19, 2012, the Company entered into a term loan with a bank to provide funds for acquisitions and working capital. The term note was payable with quarterly principal payments totaling \$750,000 plus interest. On June 9, 2014, the Company amended the term loan to provide for \$15,680,780 for acquisitions and working capital and is payable with quarterly payments totaling \$784,039 plus interest. Borrowings under the term note bear interest, at the Company's election, at a rate per annum equal to (a) the base rate plus the applicable margin or (b) LIBOR plus the applicable margin. Base rate is the higher of (i) the prime rate and (ii) the sum of the federal funds rate plus 0.5%. The applicable margin for the base rate borrowing is 2.0%, and the applicable margin for LIBOR rate borrowing is 5.0%. The term note matures in June 2019. The outstanding principal balance associated with this term note totaled \$10,551,059, \$14,112,702, and \$12,750,000 at December 31, 2015, 2014, and 2013, respectively, and the interest rate applicable at December 31, 2015, was 5.19%. The term loan is cross collateralized with the line of credit by substantially all the assets of the Company and is subject to various financial and other covenants.

Effective March 2013, the Company entered into an interest rate swap arrangement in conjunction with outstanding bank debt. This swap effectively converted \$15,000,000 of the Company's variable rate debt to a fixed rate of 6.02%. As permitted by ASC 815, the Company has designated this swap as a cash flow hedge. The objective of this hedge is to manage the variability of cash flows in the interest payments related to a portion of the variable rate debt. The fair value of this swap agreement at December 31, 2015, 2014, and 2013, is a liability of \$5,163, \$16,772, and \$53,104, respectively. See additional discussion in *Note 13*.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

On December 31, 2012, the Company completed the reorganization among Alsbridge, Inc., Alsbridge Holdings, Inc., Alsbridge Merger Sub, Inc., LLR Equity Partners III, L.P. and LLR Equity Partners Parallel III, L.P. (see *Note 1*) LLR provided the Company a credit facility of which up to maximum of \$10,000,000 could be borrowed. As discussed in *Note 2*, \$4,000,000 and \$1,000,000 of the principal amount on this note was loaned to the Company at December 31, 2012 and July 2, 2013. Interest on outstanding principal amount on this note accrued at a rate per annum equal to 20% and was scheduled to mature in December 2017. The outstanding principal balance associated with this term note totaled \$5,000,000 on December 31, 2013. Effective April 30, 2014, the outstanding principal along with accrued interest totaling \$5,965,807 was converted to equity.

During the year ended December 31, 2015, the Company also financed the purchase of automobiles under long-term notes payable. Total amounts due under these notes payable were \$256,423 at December 31, 2015. Future principal maturities for notes payable are as follows at December 31, 2015:

Year Ending December 31,	
2016	\$ 3,230,043
2017	3,230,043
2018	3,204,805
2019	1,142,590
	<u>\$ 10,807,481</u>

**Note 13: Interest Rate Swap Agreement**

During 2013, as a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into an interest rate swap agreement for a portion of its floating rate debt.

The agreement provides for the Company to receive interest from the counterparty at a rate of three-month LIBOR plus 5% and to pay interest to the counterparty at a fixed rate of 6.02 % on a notional amount of \$10,551,059, \$14,112,702, and \$12,750,000, at December 31, 2015, 2014, and 2013, respectively. Under the agreement, the Company pays or receives the net interest quarterly, with settlements included in interest expense. The original notional amount of the swap agreement was \$15,000,000, which declines as payments are made on the related debt. The swap agreement terminates June 2019, in conjunction with the maturity of the related underlying debt.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

Management has designated the interest rate swap agreement as a cash flow hedging instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The table below presents certain information regarding the Company's interest rate swap agreement designated as a cash flow hedge. The Company did not have any derivative instruments at December 31, 2015, 2014, and 2013, that were not designated as hedging instruments.

	2015	2014	2013
Fair value of interest rate swap agreement included with accrued expenses in the accompanying balance sheets	\$ 5,162	\$ 16,772	\$ 53,104

**Note 14: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of

unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

***Recurring Measurements***

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015, 2014 and 2013:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2015</b>				
Interest rate swap	\$ (5,162)	\$ —	\$ (5,162)	\$ —
<b>December 31, 2014</b>				
Interest rate swap	\$ (16,772)	\$ —	\$ (16,772)	\$ —
<b>December 31, 2013</b>				
Interest rate swap	\$ (53,104)	\$ —	\$ (53,104)	\$ —

***Interest Rate Swap Agreement***

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

**Note 15: Common and Preferred Stock**

***Common Stock***

Alsbridge, Holdings, Inc. is authorized to issue 1,215,000 shares of common stock, par value \$0.001 per share. Each shareholder of common stock is entitled to one vote for each share and vote together as a single class with the holders of all other shares.

***Series A Preferred Stock***

Alsbridge Holdings, Inc. is also authorized to issue 957,395 Series A preferred shares, par value \$0.001 per share. The Series A preferred stock carries a dividend yield of 10%, cumulative, payable if and when declared by the board of directors, and provides for optional conversions to common stock at the then-fair market value and automatic conversions upon a qualified initial public offering, as defined. No declaration of preferred dividends was made through December 31, 2015.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

- **Voting Rights** — Each holder of shares of preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which such shares of preferred stock could be converted immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent and will have voting rights and powers equal to the voting rights and powers of the common stock, and will be entitled to notice of any stockholders' meeting in accordance with the bylaws of the Company.

- **Liquidation Rights** — Upon any liquidation, dissolution or winding-up of the Company, each holder of Series A Preferred Stock shall be entitled to be paid with respect to each share of Series A Preferred Stock held by such holder, after payment or provision for payment of debts and other liabilities of the Company as well as after the liquidation preference of Series B Preferred Stock an amount equal to the series A stated value (\$49.72 per share as adjusted) plus accrued unpaid dividends. After the payment of the full liquidation preference of the all series preferred stock, the assets of the Company legally available for distribution, if any, shall be distributed ratably to the holders of the common stock and Series A preferred stock on an as-if-converted-to-common stock one-for-one basis immediately prior to the liquidation event.
- **Conversion Rights** — The preferred stock is automatically converted into common stock at the then-applicable conversion rate upon a change by merger, consolidation or other recapitalization. The shareholders have no right to convert any shares unless these events occur. The issuance date conversion prices of Series A preferred stock have been \$1.00 and \$2.08 per share. The number of shares of common stock to which a holder of preferred stock shall be entitled upon conversion of shares of a series of preferred stock shall be the product obtained by multiplying the rate in effect for such series of preferred stock by the number of shares of such series of preferred stock being converted.

### *Series B Preferred Stock*

Alsbridge Holdings, Inc. is also authorized to issue 500 series B preferred shares, par value \$0.001 per share. During 2014, the Company issued 500 Series B Preferred Stock — Senior Stock shares. The Series B Preferred Stock carries a dividend yield of 5%, cumulative, payable if and when declared by the board of directors, and provides for optional conversions to common stock at the then-fair market value and automatic conversions upon a qualified initial public offering, as defined. No declaration of preferred dividends was made through December 31, 2015.

- **Voting Rights** — Except as otherwise expressly provided, or required by applicable law, holders of shares of Series B Preferred Stock shall not be entitled to vote with respect to any matters, except with respect to certain matters generally involving Series B Preferred Stock.
- **Liquidation Rights** — Upon any liquidation, dissolution or winding-up of the Company, each holder of Series B Preferred Stock-Senior Stock shall be entitled to be paid with respect to each share of Series B Preferred Stock held by such holder, after payment or provision for payment of debts and other liabilities of the Company and before any amounts are paid to Series A Preferred Stockholders or common stockholders to an amount equal to \$1,000 per share.

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015, 2014 and 2013**

- **Conversion Rights** — The Preferred Stock is automatically converted into common stock upon the consummation of a Qualified Public Offering, as defined. Each holder of a share of Series B Preferred Stock shall upon conversion be entitled to receive the number of shares of common stock equal to the Series B stated value (\$1 per share) divided by the qualified public offering price.

### **Note 16: Significant Estimates and Concentrations**

#### *General Litigation*

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Company.

#### *Significant Customers*

No individual customer accounted for more than 10% of revenues for the years ended December 31, 2015, 2014, and 2013. One customer comprised 10%, 12%, and 12% of total accounts receivable at December 31, 2015, 2014, and 2013, respectively.

#### *Foreign Operations*

Net assets in the Company's foreign operations totaled approximately \$2,360,000, \$273,000, and \$550,000 at December 31, 2015, 2014 and 2013, respectively. Revenues for these operations totaled approximately \$8,300,000, \$1,785,000, and \$860,000, for the years ended December 31, 2015, 2014 and 2013, respectively. A substantial portion of the net assets are located in the United Kingdom. Foreign revenues are earned primarily in the United Kingdom with a smaller portion of the revenues being earned in Germany and Canada.

### **Note 17: Subsequent Events**

Subsequent events have been evaluated through November 28, 2016, which is the date the consolidated financial statements were available to be issued.

[\(Back To Top\)](#)

## Section 4: EX-99.3 (EX-99.3)

Exhibit 99.3

### Alsbridge Holdings, Inc. and Subsidiaries

Consolidated Financial Statements

September 30, 2016



See Notes to Consolidated Financial Statements

2

### Alsbridge Holdings, Inc. and Subsidiaries September 30, 2016

#### Contents

<b>Independent Auditor's Review Report</b>	<b>1</b>
<b>Consolidated Financial Statements</b>	
Balance Sheets (Unaudited)	2
Statements of Operations and Comprehensive Income (Unaudited)	4
Statement of Changes in Shareholders' Equity (Unaudited)	5
Statements of Cash Flows (Unaudited)	6
Notes to Financial Statements	8

#### Independent Auditor's Review Report

Board of Directors  
Alsbridge Holdings, Inc.  
Dallas, Texas

We have reviewed the consolidated financial statements of Alsbridge Holdings, Inc. and its subsidiaries, which comprise the balance sheet as of September 30, 2016, the related consolidated statements of operations and comprehensive income and cash flows for the nine-month periods ended September 30, 2016 and 2015, and the statement of changes in shareholders' equity for the nine months ended September 30, 2016.

#### *Management's Responsibility*

Management is responsible for the preparation and fair presentation of the financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with the applicable financial reporting framework.

#### *Auditor's Responsibility*

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in

accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

**Conclusion**

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in *Note 2* to the consolidated financial statements, the 2016 consolidated financial statements have been restated to correct misstatements. Our conclusion is not modified with respect to this matter.

**Report on Condensed Balance Sheet as of December 31, 2015**

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 28, 2016. In our opinion, the accompanying condensed consolidated balance sheet of Alsbridge Holdings, Inc and its subsidiaries as of December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

/s/ BKD, LLP

Dallas, Texas

November 28, 2016, except for *Note 2*, as to which the date is February 16, 2017.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(Unaudited)

**Assets**

	<u>September 30,</u> <u>2016</u> (Restated)	<u>December 31,</u> <u>2015</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,742,180	\$ 2,647,976
Accounts receivable		
Trade, net	8,658,636	11,270,412
Other	328,012	238,518
Unbilled revenue	9,730,870	10,122,820
Prepaid expenses	1,436,734	1,185,842
Deferred tax asset	1,353,736	1,884,087
Income tax receivable	53,147	—
<b>Total current assets</b>	<u>24,303,315</u>	<u>27,349,655</u>
<b>Property and Equipment, Net</b>	2,922,175	3,157,215
<b>Other Assets</b>		
Goodwill	39,199,399	39,208,790
Intangible assets, net	1,796,445	2,210,503
Deferred financing costs	41,744	53,682
Other assets	244,619	251,955
<b>Total assets</b>	<u>\$ 68,507,697</u>	<u>\$ 72,231,800</u>

See Notes to Consolidated Financial Statements

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Consolidated Balance Sheets (Continued)**  
(Unaudited)

**Liabilities and Shareholders' Equity**



	September 30, 2016 (Restated)	December 31, 2015
<b>Current Liabilities</b>		
Line of credit	\$ 4,500,000	\$ —
Notes payable, current portion	3,173,469	3,230,043
Accounts payable	253,620	639,065
Accrued expenses	5,691,188	7,908,331
Unearned revenue	2,303,784	2,506,430
Capital lease obligations, current portion	290,334	349,446
Income taxes payable	—	877,205
Total current liabilities	16,212,395	15,510,520
<b>Line of Credit</b>	—	2,000,000
<b>Notes Payable, Less Current Portion</b>	5,106,834	7,577,439
<b>Capital Lease Obligations, Less Current Portion</b>	121,386	300,651
<b>Deferred Tax Liability</b>	446,436	311,553
<b>Deferred Rent</b>	561,906	558,207
<b>Other Long-term Liabilities</b>	3,197	5,163
Total liabilities	22,452,154	26,263,533
<b>Shareholders' Equity</b>		
Common stock - \$0.001 par value, 1,215,000 shares authorized, 111,587 shares issued and outstanding	112	112
Preferred stock - \$0.001 par value, 965,000 shares authorized, 722,633 and 724,853 Series A Shares issued and outstanding; liquidation preference of \$35,929,313 at September 30, 2016, and 500 Series B Shares issued and outstanding; liquidation preference of \$500,000 at September 30, 2015	36,481,557	36,596,557
Additional paid-in capital	5,095,377	4,990,954
Retained earnings	5,015,605	4,667,858
Accumulated other comprehensive loss	(537,108)	(287,214)
Total shareholders' equity	46,055,543	45,968,267
Total liabilities and shareholders' equity	\$ 68,507,697	\$ 72,231,800

See Notes to Consolidated Financial Statements

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Operations and Comprehensive Income**  
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
	(Restated)	
<b>Revenues</b>		
Consulting revenue	\$ 41,392,889	\$ 45,555,524
Other fees	2,580,410	1,962,295
Reimbursed expenses	2,131,002	2,427,366
Total revenues	46,104,301	49,945,185
<b>Cost of Revenues</b>	14,721,476	18,556,171
<b>Gross Profit</b>	31,382,825	31,389,014
<b>Operating Expenses</b>		
Selling, general and administrative	28,941,572	24,582,192
<b>Operating Income</b>	2,441,253	6,806,822
<b>Other Expense</b>		
Interest expense	(638,347)	(663,818)
<b>Income Before Income Taxes</b>	1,802,906	6,143,004

<b>Provision for Income Taxes</b>	(1,455,159)	(2,286,084)
<b>Net Income</b>	<u>347,747</u>	<u>3,856,920</u>
<b>Other Comprehensive Loss</b>		
Foreign currency translation loss	(251,586)	(114,825)
Change in fair value of interest rate swap agreement	1,692	(18,478)
	<u>(249,894)</u>	<u>(133,303)</u>
<b>Comprehensive Income</b>	<u>\$ 97,853</u>	<u>\$ 3,723,617</u>

See Notes to Consolidated Financial Statements

4

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Statement of Changes in Shareholders' Equity**  
(Unaudited)  
**Nine Months Ended September 30, 2016**

	<u>Common Stock</u>		<u>Preferred Series A Stock</u>		<u>Preferred Series B Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Earnings</u>	<u>Other</u>	<u>Total</u>
									<u>Loss</u>	
<b>Balance, December 31, 2015</b>										
<b>(As reported)</b>	111,587	\$ 112	724,853	\$ 36,096,557	500	\$ 500,000	\$4,990,954	\$4,667,858	(287,214)	\$45,968,267
Net income (Restated)	—	—	—	—	—	—	—	347,747	—	347,747
Stock based compensation	—	—	—	—	—	—	104,423	—	—	104,423
Purchase of preferred stock for cash	—	—	(2,220)	(115,000)	—	—	—	—	—	(115,000)
Foreign currency translation loss	—	—	—	—	—	—	—	—	(251,586)	(251,586)
Change in fair value of interest rate swap agreement	—	—	—	—	—	—	—	—	1,692	1,692
<b>Balance, September 30, 2016 (Restated)</b>	<u>111,587</u>	<u>\$ 112</u>	<u>722,633</u>	<u>\$ 35,981,557</u>	<u>500</u>	<u>\$ 500,000</u>	<u>\$5,095,377</u>	<u>\$5,015,605</u>	<u>(537,108)</u>	<u>\$46,055,543</u>

See Notes to Consolidated Financial Statements

5

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	<u>Nine Months Ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
	<u>(Restated)</u>	
<b>Operating Activities</b>		
Net income	\$ 347,747	\$ 3,856,920
Items not requiring cash		
Depreciation and amortization	1,085,909	916,601
Stock based compensation	104,423	58,156
Amortization of deferred financing costs	11,938	11,938
Deferred income tax expense	633,216	1,572,914
Changes net of acquisition		
Accounts receivable	2,552,763	3,588,583
Unbilled revenue	391,951	(4,122,422)
Prepaid expenses	(250,892)	(487,642)
Accounts payable	(385,445)	370,007

Accrued expenses	(2,215,881)	(1,600,133)
Other assets	7,336	176,752
Unearned revenue	(202,646)	200,141
Deferred rent	3,699	158,100
Income taxes payable/receivable	(930,080)	(1,715,029)
Net cash provided by operating activities	1,153,764	2,984,886
<b>Investing Activities</b>		
Issuance of preferred stock for cash	—	1,411,935
Payment for purchase of Source, net of cash acquired	—	(935,206)
Purchases of property and equipment	(436,766)	(909,951)
Net cash used in investing activities	(436,766)	(433,222)
<b>Financing Activities</b>		
Payments on capital lease obligations	(238,375)	(132,600)
Proceeds from line of credit	12,500,000	7,000,000
Purchase of preferred stock	(115,000)	—
Payments on line of credit	(10,000,000)	(8,050,000)
Payments on notes payable	(2,517,833)	(2,777,604)
Net cash used in financing activities	(371,208)	(3,960,204)
Effects of Exchange Rate Changes on Cash	(251,586)	(114,825)
Net Increase (Decrease) in Cash and Cash Equivalents	94,204	(1,523,365)
Cash and Cash Equivalents, Beginning of Period	2,647,976	3,470,725
Cash and Cash Equivalents, End of Period	\$ 2,742,180	\$ 1,947,360

See Notes to Consolidated Financial Statements

6

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows (Continued)**  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	\$ 635,545	\$ 679,909
Income taxes paid (net of refunds)	1,660,268	2,422,798
<b>Noncash financing and investing activities</b>		
Property and equipment acquired through capital leases	114,640	666,984
Landlord incentive received and capitalized into property and equipment	—	394,710
The Company purchased all of the equity interests of Source for \$1,595,942. In conjunction with the acquisition, liabilities were assumed as follows:		
Fair value of assets acquired		\$ 2,274,725
Cash paid for the equity interests		1,595,942
Liability assumed		\$ 678,783

See Notes to Consolidated Financial Statements

7

***Nature of Operations***

Alsbridge Holdings, Inc. (Alsbridge) and its wholly owned subsidiaries (collectively, the Company) provide consulting services aimed to assist customers to outsource various functions in their organization, such as IT, human resources and technology call centers. The Company also offers other solutions such as benchmarking, insourcing, program management, robotic process automation, network cost optimization and transformation services and shared services related to the IT function to improve efficiency within customers' businesses.

During 2012, the Company completed a reorganization among Alsbridge Holdings, Inc., Alsbridge, Inc., Alsbridge Merger Sub, Inc. (newly formed), LLR Equity Partners III, L.P. and LLR Equity Partners Parallel III, L.P., which resulted in the purchase of Alsbridge, Inc. by Alsbridge Holdings, Inc. Effective at the time of the reorganization, all the prior issued and outstanding shares of common stock and preferred stock of Alsbridge, Inc. were cancelled and cash payments were made to the prior stockholders and option holders as consideration. Subsequent to the reorganization, Alsbridge Holdings, Inc. became the parent of Alsbridge, Inc. Simultaneous with the merger, the Company was authorized to issue new shares of common stock, whereby LLR Equity Partners III, L.P. and LLR Equity Partners Parallel III, L.P. (collectively, LLR) through its ownership of Alsbridge Holdings, Inc., acquired all 100 shares of newly authorized common stock of Alsbridge, Inc. In connection with this transaction LLR Equity Partners III, L.P., LLR Equity Partners Parallel III, L.P., and certain other persons purchased 504,926 shares of Alsbridge Holdings, Inc. Series A Preferred Stock and 75,074 shares of Alsbridge Holdings, Inc. common stock (of these shares, 4,926 shares of Alsbridge Holdings, Inc. Series A Preferred Stock and all 75,074 shares of common stock are restricted shares subject to Restricted Stock Agreements), and John Benjamin Trowbridge contributed 10,000,000 shares of the Company's existing common stock and 3,001,221 shares of the Company's prior Series A Preferred Stock to Alsbridge Holdings, Inc. in exchange for 288,642 shares of Alsbridge Holdings, Inc. prior Series A Preferred Stock and 41,358 existing shares of common stock. LLR also provided the Company a credit facility under which up to a maximum of \$10,000,000 may be borrowed (see *Note 11*). The Company accounted for the purchase of Alsbridge, Inc. under the acquisition method of accounting whereby the purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair value at the date of the acquisition.

On April 30, 2014, the Company reached a settlement with Alsbridge, Inc.'s former shareholders with respect to their disputes relating to the Company's Agreement and Plan of Merger, dated December 31, 2012, and in furtherance thereof, entered into settlement agreements and mutual release of claims with the Company's former shareholders. In connection with the settlement transaction, one of the sellers contributed back to the Company Series A Preferred Stock with an estimated fair value of approximately \$14,300,000 and issued \$500,000 of Series B Preferred Stock to the seller. Additionally one of the sellers contributed \$1,000,000 in cash, and Alsbridge paid \$2,000,000 in cash to one of the sellers. In connection with the settlement, all amounts due under the purchase agreement, totaling approximately \$7,800,000, were settled in full. The Company also reaffirmed its intention to pay \$550,000 accrued bonuses in quarterly amounts through December 2015.

---

**Alsbridge Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
September 30, 2016**

On April 30, 2014, in connection with the settlement discussed above, the Company transferred 100% of the membership interests in its subsidiary, Outsourcing Center, LLC, to one of the former shareholders. The revenues and operations of this entity were not material to the Company.

The Company accounted for the net impact of this settlement transaction as a redemption of preferred stock.

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of Alsbridge Holdings, Inc. and its wholly owned subsidiaries, Alsbridge, Inc., Telwares, Inc., Vercuity Solutions, LLC, Thompson Advisory Group, LLC (TAG), Outsourcing Leadership Corp., Alsbridge Ltd (formerly ProBenchmark Ltd), Alsbridge Advisory Private Ltd, ProBenchmark Outsourcing Solutions Private Limited, Alsbridge GmbH, Alsbridge Canada, Inc., Accomplished Sourcing Limited, and Alsbridge ANZ PTY Ltd. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates and Assumptions***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and such estimates could be material.

***Cash and Cash Equivalents***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2016 and December 31, 2015, cash equivalents consisted primarily of money market accounts.

At September 30, 2016, the Company's U.S cash accounts exceeded federally insured limits by approximately \$2,144,000, and the

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

***Accounts Receivable and Unbilled Revenue***

Accounts receivable, representing amounts due from customers, are generally unsecured and are stated at the amount the Company expects to collect. Interest is generally not charged on overdue receivables. Unbilled revenue represents amounts that have been earned, but have not yet been billed because of contractual terms. The Company estimates an allowance for doubtful accounts based on the credit-worthiness of its customers as well as general economic considerations. Consequently, an adverse change in these factors could affect the Company's estimate of its bad debts and additional allowances may be required. At September 30, 2016 and 2015, there was no allowance for doubtful accounts. The Company has approximately \$900,000 of unbilled receivables from one customer for which a lawsuit has been filed in order to enforce collection of this amount. Management believes that this receivable will be collected and accordingly no allowance for doubtful accounts has been recorded for this amount.

***Property and Equipment***

Property and equipment acquisitions are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets. Assets acquired under capital leases are amortized on a straight-line basis over the shorter of the lease term or useful life of the asset. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the remaining term of the related lease. Estimated useful lives are as follows:

Computer hardware and software	3 – 5 years
Office equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	5 – 8 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

***Internal Use Software***

The Company capitalizes certain costs associated with software purchased or developed for internal use. The majority of costs incurred are third-party contractor development costs. Internal costs capitalized are limited to the direct time and costs directly associated with the related software. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. The Company also expenses costs related to upgrades and enhancements, as it is impractical to separate these costs from normal maintenance activities.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

***Derivatives***

Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation. Management has determined to account for its hedging instruments as cash flow hedges and accordingly the unrealized gain or loss at period ends is recorded within comprehensive income or loss.

***Goodwill***

The excess aggregate purchase price, including assumed liabilities, over the fair value of the net tangible and specifically identifiable intangible assets acquired in a business combination is recorded as goodwill.

Goodwill and indefinite-lived intangibles are evaluated annually for impairment or more frequently if 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 or indefinite-lived intangible asset 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 the goodwill or indefinite-lived intangible is tested further for impairment. If the implied fair value of goodwill or the fair value of the indefinite-lived intangible 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.

There was no impairment of goodwill during the nine months ended September 30, 2016 and 2015.

### ***Intangible Assets***

Intangible assets with finite lives are being amortized using either the straight-line or an accelerated basis over the useful life of the asset. Such assets are periodically evaluated as to the recoverability of their carrying values.

The estimated useful lives for each intangible asset classification are as follows:

Noncompete agreements	2 - 3 years
Client list	5 years
Trade names and trademarks	5 – 15 years
Software database	5 years
Service marks	6 years
Online literacy content	5 years

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

### ***Long-lived Asset Impairment***

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

No asset impairment was recognized during the nine months ended September 30, 2016 or 2015.

### ***Income Taxes***

The Company accounts for income taxes in accordance with income tax accounting guidance Accounting Standards Codification 740, *Income Taxes*. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

### ***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt using the effective interest method.

12

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

During the nine months ended September 30, 2016 and 2015, amortization expense for deferred financing costs was \$11,938 for each period.

13

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

***Deferred Rent***

Certain of the Company's operating leases for its offices contain free rent periods and contains predetermined fixed increases of the minimum rental rate during the initial lease term. For these leases, the Company recognizes rental expense on a straight-line basis over the minimum lease term and records the difference between the amounts charged to expense and the rent paid as deferred rent. In addition, during 2015 the Company received approximately \$394,000 of allowances for leasehold improvements for its U.S. corporate office location. These improvements were recorded as deferred rent and property and equipment. This portion of deferred rent is amortized using the straight line method as an offset to rent expense over the term of the related leases.

***Revenue Recognition***

The Company recognizes revenue when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collectability is reasonably assured.

Revenue resulting from time and materials based consulting contracts is recorded as the labor and material costs are incurred. Revenue resulting from fixed fee consulting contracts is recognized as services are provided, based on estimates of revenue earned to total contract revenue. The estimate of revenue earned to total contract revenue is determined primarily based on labor hours incurred to date as compared to total labor hours expected to be incurred. All known and anticipated losses on contracts are recognized in full when such losses become known. Changes in revenues resulting from changes in estimated hours to complete a contract are recorded in the period when the change in hours become known.

The Company earns a significant portion of its revenue 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 component that is based on the savings generated by the Company. For these contracts, the Company records the fixed fees using the milestone method of accounting such that revenues are recorded over the period of the delivery of the services. Revenues that are determined based on a percentage of the ultimate level of savings are considered earned and recorded as revenues when the work has been completed, and the savings and resulting revenues can be determined. The Company does not defer any costs incurred related to services which revenues are determined based on the ultimate savings. The contract periods range from a few months to in excess of a year. These revenues are included within consulting revenue in the accompanying consolidated statements of operations.

14

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

When the Company recognizes revenues in advance of billing, those revenues are recorded as unbilled revenues. When the Company receives cash in advance of completing services or earning revenues, those amounts are recorded as unearned revenues.

Other fee revenues include those earned under subscription agreements, which give customers access to the Company's benchmarking data. Such revenue is recognized ratably over the subscription period and included in other fees in the accompanying consolidated statements of income.

The Company enters 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 multiple-element arrangements include the sale of software licenses, PCS, and other software related services whereby software license delivery is followed by the subsequent or contemporaneous delivery of

the other elements. The Company applies ASC 985-605, *Software Revenue Recognition*, to account for these arrangements. The PCS services are minimal and accordingly are not accounted for as a separate unit of accounting. Since VSOE of the license sale revenue and other consulting service for the multiple element arrangements is not determinable and because licenses of the customer are one year in length with no other substantive PCS services, the Company records revenue for these arrangements in a straight line manner over the period that the consulting services are delivered. Arrangements that involve only consulting services, where the licenses were purchased from another vendor, are recognized similar to time and material or fixed price consulting services described above.

The Company records reimbursed expenses as revenues and records the related costs within cost of revenues.

The Company enters into arrangements that, at times, provide for multiple elements/deliverables. Because each deliverable has standalone value, each deliverable is treated as a separate element of account for determining appropriate revenue recognition timing. Revenue on each unit of account is recognized when that unit of account is delivered to the customer. For these arrangements, management estimates the revenues to be allocated to each separate deliverable based on the relative costs (typically based on the hours and rate per hour) to complete each deliverable. Separate deliverables are recorded as revenue when all applicable revenue recognition criteria have been met.

### ***Share-based Compensation***

The Company grants Alsbridge Holdings, Inc. common stock options to certain of its employees.

The Company applies the fair value recognition provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, *Share-Based Payment*, which requires the Company to recognize compensation costs for all share-based payments based on their grant date fair value. Share-based compensation is recognized on a straight-line basis over the requisite service period of the award, generally four to five years.

## **Alsbridge Holdings, Inc. and Subsidiaries Notes to Consolidated Financial Statements September 30, 2016**

The fair value of certain share-based awards is estimated using the Black-Scholes model. Significant judgment is required in the determination of inputs into the Black-Scholes model. Inherent in this model are various assumptions: estimated fair value, expected stock-price volatility, forfeiture rate, expected option life, risk-free interest rate and dividend yield. While the risk-free interest rate and dividend yield are less subjective assumptions, typically based on factual data, the fair value of common stock, the expected stock-price volatility, forfeiture rate and option life assumptions require a greater level of judgment.

Historically, the Company has not and does not anticipate distributing dividends to common stockholders and accordingly, the Company uses a 0% dividend yield assumption for all Black-Scholes option pricing calculations. The Company uses comparable public entity stock-price volatilities in establishing an estimate for the volatility of its common stock price.

With regard to the weighted-average option life assumption, the Company uses the simplified method which is based on the vesting period and legal term of the option. The amount of stock-based compensation expense is net of an estimated forfeiture rate, which is also based on historical employee turnover information.

### ***Foreign Currency Translation***

The assets and liabilities of the Company's United Kingdom, Canada, Germany and India subsidiaries are denominated in their respective local currency. Their functional currencies are translated into U.S. dollars using rates of exchange at each balance sheet date. Revenue and expenses are translated at weighted-average rates of exchange in effect during the period earned. The cumulative effect resulting from such translation is recorded as accumulated other comprehensive income (loss).

### ***Comprehensive Income (Loss)***

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes foreign currency translation adjustments and the change in fair value of the interest rate swap agreement.

### **Note 2: Restatement**

The financial statements as of and for the nine months ended September 30, 2016, have been restated for various accounts. The restatement corrects, revenue reported and related unbilled accounts receivable. The income tax impacts for these adjustments and other amounts have also been recorded.



The following tables illustrate the corrections as associated with certain line items in the financial statements:

<b>Consolidated Balance Sheet</b>			
<b>As of September 30, 2016</b>			
	<b>As Reported</b>	<b>Revenue and related unbilled Adjustment</b>	<b>As Restated</b>
Unbilled revenue	11,092,469	(1,361,599)	9,730,870
Income tax receivable	—	53,147	53,147
Total current assets	25,611,767	(1,308,452)	24,303,315
Total assets	69,816,149	(1,308,452)	68,507,697
Income taxes payable	450,645	(450,645)	—
Total current liabilities	16,663,040	(450,645)	16,212,395
Total liabilities	22,902,799	(450,645)	22,452,154
Retained earnings	5,873,412	(857,807)	5,015,605

<b>Consolidated Statement of Operations and Comprehensive Income</b>			
<b>Nine Months Ended September 30, 2016</b>			
	<b>As Reported</b>	<b>Revenue and related unbilled Adjustment</b>	<b>As Restated</b>
Consulting revenue	\$ 42,754,488	\$ (1,361,599)	\$ 41,392,889
Total revenues	47,465,900	(1,361,599)	46,104,301
Gross profit	32,744,424	(1,361,599)	31,382,825
Operating income	3,802,852	(1,361,599)	2,441,253
Provision for income taxes	(1,958,951)	503,792	(1,455,159)
Net income	1,205,554	(857,807)	347,747
Comprehensive income	955,660	(857,807)	97,853

<b>Consolidated Statement of Cash Flows</b>			
<b>Nine Months Ended September 30, 2016</b>			
	<b>As Reported</b>	<b>Revenue and related unbilled Adjustment</b>	<b>As Restated</b>
Net income	\$ 1,205,554	\$ (857,807)	\$ 347,747
Unbilled revenue	(969,648)	1,361,599	391,951
Income taxes payable/receivable	(426,560)	(503,520)	(930,080)
Net cash provided by operating activities	1,153,492	272	1,153,764
Net increase (decrease) in cash and cash equivalents	93,932	272	94,204

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

**Note 3: Business Acquisition**

On April 14, 2015, the Company entered into an agreement with Accomplished Sourcing Limited (Source) to acquire all outstanding equity interests for approximately \$1,600,000. Source is a UK based consulting and advisory company. Source provides advisory services similar to those offered by the Company. Approximately \$300,000 of the cash used to purchase the business was used from available cash within the business that was acquired. The purchase agreement provides for an additional earn out that could be earned by the sellers based on exceeding a threshold Consolidated EBITDA as defined in the purchase agreement of approximately \$1.2 million. The earnout period was from April 1, 2015 through March 31, 2016. Management concluded at the purchase date that it was unlikely that any earn out amount would be earned. No amounts were earned under the earnout provisions.

The Company incurred approximately \$253,000 of third-party acquisition-related costs. The expenses are included in operating expenses.

Goodwill of \$92,626 arising from the acquisition consists largely of the establishment of an advisory talent presence in the European region. All of this amount is expected to be deductible for income tax reporting purposes.

The following table summarizes the consideration paid for Source and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

<b>Fair Value of Consideration Transferred</b>	
Cash	\$ 1,595,942
<b>Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed</b>	
<b>Assets Acquired</b>	
Cash	660,736
Prepaid expenses and other current assets	21,826
Accounts receivable	1,231,747
Unbilled accounts receivable	80,228
Property and equipment	22,919
Receivables from related parties	162,855
Deposits	1,788
	<u>2,182,099</u>
<b>Liabilities Assumed</b>	
Accounts payable	101,958
Accrued expenses	214,031
Income and sales tax payable	362,794
	<u>678,783</u>
Total identifiable net assets	<u>1,503,316</u>
<b>Goodwill</b>	<u><u>\$ 92,626</u></u>

The fair value of the assets acquired includes receivables with a fair value of \$1,231,747.

**Note 4: Share-based Compensation**

In June 2013, the Company's board of directors approved the adoption of a stock option plan (Plan) which authorized the grant of options and issuance of shares to eligible employees to purchase Alsbridge Holdings, Inc. common stock. The option plan is administered by the board of directors, who determine the number of shares for which options will be granted, the effective date of the grant, the option price and the vesting schedule. The contractual term of the options is 10 years. The exercise price for the options is generally established at an amount that approximates the fair value of the Alsbridge Holdings Inc. common stock. The options generally vest over a five-year term.

During the nine months ended September 30, 2016 and 2015, options granted to employees were estimated to have a fair value of approximately \$184,000 and \$244,000, respectively. The value was determined using the Black-Scholes valuation model with the following weighted-average assumptions for the nine months ended September 30, 2016, and 2015: no dividend payments expected; expected option lives of 7.5 years for both periods, volatility of 49.60% for both periods and a risk-free interest rate of 1.86% for both periods. Compensation expense recorded for the nine

**Alsbridge Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
September 30, 2016**

months ended September 30, 2016 and 2015, for these options was \$104,424 and \$58,160, respectively.

The remaining stock based compensation expense to be recorded as of September 30, 2016, is approximately \$344,000 and that cost is expected to be recognized over a remaining weighted average vesting period of approximately 3 years.

The Board may terminate the Plan without shareholder approval or ratification at any time. Unless terminated sooner, the Plan will terminate in December 2016. The Board may also amend the Plan, provided that no amendment will be effective without approval of the Company's shareholders if shareholder approval is required to satisfy any applicable statutory or regulatory requirements.

If an award expires or terminates unexercised or is forfeited to the Company, or shares covered by an award are used to fully or partially pay the exercise price of an option granted under the Plan or shares are retained by the Company to satisfy tax withholding obligations in connection with an option exercise or the vesting of another award, those shares will become available for further awards under the Plan.

At September 30, 2016, there are 308,610 options outstanding under the Plan and 27,887 options available for future grants.

**Alsbridge Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
September 30, 2016**

A summary of option activity under the Plan which includes options issued with the sale of preferred stock and standalone options issued

to employees as of December 31, 2015 and the nine months ending September 30, 2016, is presented below:

	<u>Number of Options Outstanding</u>	<u>Weighted- Average Exercise Price</u>
<b>Balance, December 31, 2015</b>	261,698	1.42
Granted	52,500	2.08
Forfeited/cancelled	<u>(5,588)</u>	2.08
<b>Balance, September 30, 2016</b>	<u>308,610</u>	1.52
<b>Exercisable, September 30, 2016</b>	<u>125,773</u>	1.52

The following table summarizes information about stock options outstanding under the Plan at September 30, 2016:

<u>Exercise Price</u>	<u>Options Outstanding</u>		<u>Options Exercisable</u>	
	<u>Number Outstanding</u>	<u>Weighted- Average Remaining Contractual Life (Years)</u>	<u>Number Exercisable</u>	<u>Weighted- Average Remaining Contractual Life (Years)</u>
\$ 1.00	160,639	5.40	106,679	4.39
2.08	<u>147,971</u>	9.03	<u>19,094</u>	8.71
	<u>308,610</u>		<u>125,773</u>	

The estimated weighted-average grant date fair value of each share granted under options during the nine months ended September 30, 2016 and 2015, was \$3.51, for both periods.

Options outstanding at September 30, 2016, had a weighted-average remaining contractual life of 7.14 years.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

**Note 5: Property and Equipment**

Property and equipment consists of the following at:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Leasehold improvements	\$ 909,275	\$ 833,586
Office equipment	1,085,003	1,184,480
Furniture and fixtures	548,774	540,533
Software	1,976,133	1,433,758
Construction in progress	<u>—</u>	<u>168,585</u>
	4,519,185	4,160,942
Less accumulated depreciation and amortization of property and equipment	<u>(1,597,010)</u>	<u>(1,003,727)</u>
	<u>\$ 2,922,175</u>	<u>\$ 3,157,215</u>

Depreciation and amortization expense of property and equipment totaled \$662,460 and \$290,775 during the periods ended September 30, 2016 and 2015, respectively.

**Capital Lease Obligations**

The Company leases computer equipment under noncancellable capital leases expiring through September 2018. The following is a schedule of future minimum lease payments (excluding interest) under capital lease obligations at September 30, 2016:

2017	\$ 302,937
2018	<u>108,783</u>

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

**Note 6: Intangible Assets and Goodwill**

The carrying basis and accumulated amortization of recognized intangible assets were as follows:

	<b>September 30, 2016</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Trademarks and trade names	\$ 2,084,200	\$ (773,804)	\$ 1,310,396
Client list	2,393,428	(2,206,828)	186,600
Noncompete agreements	408,000	(408,000)	—
Software database	734,000	(566,807)	167,193
Service marks	371,000	(238,744)	132,256
	<u>\$ 5,990,628</u>	<u>\$ (4,194,183)</u>	<u>\$ 1,796,445</u>
	<b>December 31, 2015</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Trademarks and trade names	\$ 2,072,000	\$ (616,955)	\$ 1,455,045
Client list	2,400,000	(2,100,000)	300,000
Noncompete agreements	408,000	(408,000)	—
Software database	734,000	(456,707)	277,293
Service marks	371,000	(192,835)	178,165
	<u>\$ 5,985,000</u>	<u>\$ (3,774,497)</u>	<u>\$ 2,210,503</u>

Amortization expense of intangibles totaled \$414,058 and \$628,125, for the nine months ended September 30, 2016 and 2015, respectively.

The changes in the amounts of goodwill for the nine months ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Goodwill	\$ 39,208,790	\$ 39,208,790
Goodwill adjustment during period	(9,391)	—
	<u>\$ 39,199,399</u>	<u>\$ 39,208,790</u>

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

**Future Amortization of Intangible Assets**

Estimated future amortization expense of intangible assets for the periods ending after September 30, 2016, is as follows:

2017	\$ 496,000
2018	293,689
2019	151,756
2020	126,667
2021	126,667

Thereafter	601,666
Total	<u>\$ 1,796,445</u>

The weighted-average remaining amortizable life of intangible assets at September 30, 2016, is approximately 7.5 years.

**Note 7: Accrued Expenses**

Accrued expenses consist of the following at:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Accrued bonuses	\$ 1,212,543	\$ 3,225,719
Accrued payroll costs	3,062,837	3,449,119
Accrued commissions	404,707	588,051
Other accrued expenses	1,011,101	645,442
	<u>\$ 5,691,188</u>	<u>\$ 7,908,331</u>

24

**Alsbridge Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
September 30, 2016**

**Note 8: Income Taxes**

The Company's provision for income taxes for the nine months ended September 30, 2016 and 2015, is as follows:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
	<b>(Restated)</b>	
Current income tax expense	\$ 821,943	\$ 713,170
Deferred income tax expense	633,216	1,572,914
Income tax expense	<u>\$ 1,455,159</u>	<u>\$ 2,286,084</u>

25

**Alsbridge Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
September 30, 2016**

The Company's income tax expense for the nine months ended September 30, 2016 and 2015, differed from the statutory federal rate of 34% as follows:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Statutory rate applied to income before income taxes	\$ 612,988	\$ 2,088,621
Amounts not deductible for income tax purposes	188,225	108,879
State and foreign income taxes	151,648	137,577
Other	118,319	(159,142)
Valuation allowance	383,979	110,149
Income tax expense	<u>\$ 1,455,159</u>	<u>\$ 2,286,084</u>

Significant components of the Company's deferred tax assets and liabilities at September 30, 2016 and December 31, 2015, are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Transaction costs	\$ 107,462	\$ 114,772
Foreign net operating loss and tax credits	818,881	434,902
Property and equipment	(677,800)	(595,500)
Intangible assets	23,044	82,473
Accrued bonus and commissions	271,767	912,487

Revenue earned under completed contract method for income tax reporting purposes	1,169,200	1,158,800
Prepaid expenses	(278,300)	(238,100)
Other	291,927	137,602
Net deferred tax asset	1,726,181	2,007,436
Less valuation allowance	(818,881)	(434,902)
Net deferred tax asset	<u>\$ 907,300</u>	<u>\$ 1,572,534</u>

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

At September 30, 2016, the Company has no federal net operating loss carry forward. Additionally the Company has foreign net operating losses most of which pertain to Germany, Canada, and the United Kingdom. Those net operating losses have a valuation allowance of \$818,881 recorded against them since the probability of generating taxable income in those respective jurisdictions to use these net operating losses cannot be determined at this point. These operating losses, which total approximately \$3,300,000 at September 30, 2016, can be carried forward indefinitely. The valuation allowance during the periods ended September 30, 2016 and December 31, 2015, changed by \$383,979 and \$110,149, respectively.

**Note 9: Operating Lease Arrangements**

The Company leases equipment and its office space under noncancellable operating leases expiring through 2022. The following is a schedule of future minimum lease payments at September 30, 2016:

**Period Ended September 30,**

2017	\$ 602,383
2018	609,125
2019	423,612
2020	371,685
2021	381,552
Thereafter	381,552
Total minimum lease payments	<u>\$ 2,769,909</u>

Rent expense for the period ended September 30, 2016 and 2015, totaled \$444,154 and \$439,255, respectively.

**Note 10: Employee Retirement Savings Plan**

The Company sponsors a retirement savings plan for all of its employees who meet certain age and service requirements, as defined. Participants may make voluntary contributions to the Plan and the Company may make a matching contribution up to the first 6% of the participants' salary deferral. Company contributions made to the Plan during the periods ended September 31, 2016 and 2015, totaled \$361,200 and \$447,998, respectively.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

**Note 11: Line of Credit**

In November 2012, the Company entered into a credit facility with a bank that includes both a revolving credit and term notes (see *Note 13*) to provide funds for acquisition purposes and working capital. The Company amended this credit facility on June 9, 2014, and again on December 15, 2015. The amended facility currently expires on June 30, 2019. The credit facility allows the Company to borrow a maximum of \$8,000,000 under the revolving credit and \$15,680,780 with the term notes during the duration of the agreement. Borrowings under the revolving credit bear interest, at the Company's election, at a rate per annum equal to: (a) the base rate plus the applicable margin or (b) LIBOR plus the applicable margin. Base rate is the higher of (i) the prime rate and (ii) the sum of the federal funds rate plus 0.5%. The applicable margin for the base rate advances is 1.75%, and the applicable margin for LIBOR rate advances is 4.5%.

The outstanding balance of this line of credit was \$4,500,000 and \$2,000,000, respectively, at September 30, 2016 and December 31, 2015. This line of credit is collateralized by substantially all the assets of the Company and is subject to various financial and other covenants.

The interest rate at September 30, 2016, was 5.25%. The revolving credit facility matures in May 2017, and is due at that time and therefore at December 31, 2015, the line of credit is classified as a noncurrent liability in the accompanying consolidated balance sheet.

**Note 12: Notes Payable Including Subordinated Shareholder Note Payable**

On November 19, 2012, the Company entered into a term loan with a bank to provide funds for acquisitions and working capital. The term note was payable with quarterly principal payments totaling \$750,000 plus interest. On June 9, 2014, the Company amended the term loan to provide for \$15,680,780 for acquisitions and working capital and is payable with quarterly payments totaling \$784,039 plus interest. Borrowings under the term note bear interest, at the Company’s election, at a rate per annum equal to (a) the base rate plus the applicable margin or (b) LIBOR plus the applicable margin. Base rate is the higher of (i) the prime rate and (ii) the sum of the federal funds rate plus 0.5%. The applicable margin for the base rate borrowing is 2.0%, and the applicable margin for LIBOR rate borrowing is 5.0%. The term note matures in June 2019. The outstanding principal balance associated with this term note totaled \$8,198,942 and \$10,551,059 at September 30, 2016 and December 31, 2015, respectively, and the interest rate applicable at September 30, 2016, was 5.19%. The term loan is cross collateralized with the line of credit by substantially all the assets of the Company and is subject to various financial and other covenants.

Effective March 2013, the Company entered into an interest rate swap arrangement in conjunction with outstanding bank debt. This swap effectively converted \$15,000,000 of the Company’s variable rate debt to a fixed rate of 6.02%. As permitted by ASC 815, the Company has designated this swap as a cash flow hedge. The objective of this hedge is to manage the variability of cash flows in the interest payments related to a portion of the variable rate debt. The fair value of this swap agreement at September 30, 2016 and December 31, 2015, is a liability of \$3,469 and \$5,163, respectively. See additional discussion in *Note 14*.

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

On December 31, 2012, the Company completed the reorganization among the Company, Alsbridge Holdings, Inc., Alsbridge Merger Sub, Inc., LLR Equity Partners III, L.P. and LLR Equity Partners Parallel III, L.P. (see *Note 1*). LLR provided the Company a credit facility of which up to maximum of \$10,000,000 could be borrowed. As discussed in *Note 3*, \$4,000,000 and \$1,000,000 of the principal amount on this note was loaned to the Company at December 31, 2012 and July 2, 2013. Interest on outstanding principal amount on this note accrued at a rate per annum equal to 20% and was scheduled to mature in December 2017. The outstanding principal balance associated with this term note totaled \$5,000,000 on December 31, 2013. Effective April 30, 2014, the outstanding principal along with accrued interest totaling \$5,965,807 was converted to equity.

During the nine months ended September 30, 2016, the Company also financed the purchase of automobiles under long-term notes payable. Total amounts due under these notes payable were \$81,361 at September 30, 2016.

Future principal maturities for notes payable are as follows:

<u>Period Ending September 30,</u>	
2017	\$ 3,136,156
2018	3,175,483
2019	<u>1,968,664</u>
	<u>\$ 8,280,303</u>

**Note 13: Interest Rate Swap Agreement**

During 2013, as a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into an interest rate swap agreement for a portion of its floating rate debt.

The agreement provides for the Company to receive interest from the counterparty at a rate of three-month LIBOR plus 5% and to pay interest to the counterparty at a fixed rate of 6.02 % on a notional amount of \$8,198,942 and \$10,551,059, at September 30, 2016 and December 31, 2015, respectively. Under the agreement, the Company pays or receives the net interest quarterly, with settlements included in interest expense. The original notional amount of the swap agreement was \$15,000,000, which declines as payments are made on the related debt. The swap agreement terminates June 2019, in conjunction with the maturity of the related underlying debt.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

The table below presents certain information regarding the Company's interest rate swap agreement designated as a cash flow hedge. The Company did not have any derivative instruments at September 30, 2016 and December 31, 2015, that were not designated as hedging instruments.

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Fair value of interest rate swap agreement included with other long term liabilities on the accompanying balance sheets	\$ 3,197	\$ 5,162

**Note 14: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

**Recurring Measurements**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2016 and December 31, 2015:

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

	Fair Value Measurements Using			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2016</b>				
Interest rate swap	\$ (3,197)	\$ —	\$ (3,197)	\$ —
<b>December 31, 2015</b>				
Interest rate swap	\$ (5,162)	\$ —	\$ (5,162)	\$ —

**Interest Rate Swap Agreement**

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

**Note 15: Common Stock and Preferred Stock**

**Common Stock**

Alsbridge, Holdings, Inc. is authorized to issue 1,215,000 shares of common stock, par value \$0.001 per share. Each shareholder of common stock is entitled to one vote for each share and vote together as a single class with the holders of all other shares.

**Series A Preferred Stock**

Alsbridge Holdings, Inc. is also authorized to issue 957,395 Series A preferred shares, par value \$0.001 per share. The Series A preferred



stock carries a dividend yield of 10%, cumulative if and when declared by the board of directors, and provides for optional conversions to common stock at the then fair market value and automatic conversions upon a qualified initial public offering, as defined. No declaration of preferred dividends were made through September, 30, 2016.

- **Voting Rights** — Each holder of shares of preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which such shares of preferred stock could be converted immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent and will have voting rights and powers equal to the voting rights and powers of the common stock, and will be entitled to notice of any stockholders' meeting in accordance with the bylaws of the Company.
- **Liquidation Rights** — Upon any liquidation, dissolution or winding-up of the Company, each holder of Series A Preferred Stock shall be entitled to be paid with respect to each share of

31

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

Series A Preferred Stock held by such holder, after payment or provision for payment of debts and other liabilities of the Company as well as after the liquidation preference of Series B Preferred Stock an amount equal to the series A stated value (\$49.72 per share as adjusted) plus accrued unpaid dividends. After the payment of the full liquidation preference of the all series preferred stock, the assets of the Company legally available for distribution, if any, shall be distributed ratably to the holders of the common stock and Series A preferred stock on an as-if-converted-to-common stock one-for-one basis immediately prior to the liquidation event.

32

---

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

- **Conversion Rights** — The preferred stock is automatically converted into common stock at the then-applicable conversion rate upon a change by merger, consolidation or other recapitalization. The shareholders have no right to convert any shares unless these events occur. The issuance date conversion prices of Series A preferred stock have been \$1.00 and \$2.08 per share. The number of shares of common stock to which a holder of preferred stock shall be entitled upon conversion of shares of a series of preferred stock shall be the product obtained by multiplying the rate in effect for such series of preferred stock by the number of shares of such series of preferred stock being converted.

***Series B Preferred Stock***

Alsbridge Holdings, Inc. is also authorized to issue 500 series B preferred shares, par value \$0.001 per share. During 2014, the Company issued Series B Preferred Stock — Senior Stock shares. The Series B preferred stock carries a dividend yield of 5%, cumulative payable if and when declared by the board of directors, and provides for optional conversions to common stock at the then-fair market value and automatic conversions upon a qualified initial public offering, as defined. No declaration of preferred dividends were made through September 30, 2016.

- **Voting Rights** — Except as otherwise expressly provided, or required by applicable law, holders of shares of Series B Preferred Stock shall not be entitled to vote with respect to any matters, except with respect to certain matters generally involving Series B Preferred Stock.
- **Liquidation Rights** — Upon any liquidation, dissolution or winding-up of the Company, each holder of Series B Preferred Stock-Senior Stock shall be entitled to be paid with respect to each share of Series B Preferred Stock held by such holder, after payment or provision for payment of debts and other liabilities of the Company and before any amounts are paid to Series A Preferred Stockholders or common stockholders to an amount equal to \$1,000 per share.
- **Conversion Rights** — The Preferred Stock is automatically converted into common stock upon the consummation of a Qualified Public Offering, as defined. Each holder of a share of Series B Preferred Stock shall upon conversion be entitled to receive the number of shares of common stock equal to the Series B stated value (\$1 per share) divided by the qualified public offering price.

**Note 16: Significant Estimates and Concentrations**

***General Litigation***

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Company.

**Alsbridge Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2016**

***Significant Customers***

No individual customer accounted for more than 10% of revenues for the nine months ended September 30, 2016 and 2015. One customer comprised of 10% of total accounts receivable at December 31, 2015, and no customers accounted for more than 10% of accounts receivable at September 30, 2016.

***Foreign Operations***

Net assets in the Company's foreign operations totaled approximately \$1,904,000 and \$2,360,000 at September 30, 2016 and December 31, 2015, respectively, and revenues for these operations totaled approximately \$6,035,000 and \$5,410,000 for the nine months ended September 30, 2016 and the year ended December 31, 2015, respectively. A substantial portion of the net assets are located in the United Kingdom. Foreign revenues are earned primarily in the United Kingdom and India with a smaller portion of the revenues being earned in Germany and Canada.

**Note 17: Subsequent Events**

Subsequent events have been evaluated through February 16, 2017, which is the date the consolidated financial statements were available to be issued.

[\(Back To Top\)](#)

## **Section 5: EX-99.4 (EX-99.4)**

**Exhibit 99.4**

### **UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed financial statements combine (i) the historical balance sheets of ISG and Alsbridge as of September 30, 2016, giving pro forma effect to the acquisition as if it had occurred on September 30, 2016, and (ii) the historical statements of operations of ISG and Alsbridge for the year ended December 31, 2015 and for the nine months ended September 30, 2016, giving pro forma effect to the acquisition as if it had occurred on January 1, 2015. The historical consolidated financial statements have been adjusted to reflect factually supportable items that are directly attributable to the acquisition and, with respect to the unaudited pro forma condensed combined statements of operations only, expected to have a continuing impact on the results of the combined company.

The preparation of the unaudited pro forma condensed combined financial statements and related adjustments required ISG's management to make certain assumptions and estimates. The unaudited pro forma condensed combined financial statements should be read together with:

- The accompanying notes to the unaudited pro forma condensed combined financial statements;
- ISG's audited historical consolidated financial statements and accompanying notes included in ISG's Annual Report on 10-K for the year ended December 31, 2015;
- Alsbridge's audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2015, attached as Exhibit 99.2 to this Form 8-K;
- ISG's unaudited historical consolidated financial statements and accompanying notes included in ISG's Quarterly Report on Form 10-Q for the nine month periods ended September 30, 2016; and
- Alsbridge's unaudited historical consolidated financial statements and accompanying notes as of and for the nine month periods ended September 30, 2016, attached as Exhibit 99.3 to this Form 8-K.

The quarterly and annual reports referred to above are incorporated by reference into this Form 8-K.

The acquisition will be accounted for under the acquisition method of accounting for business combinations pursuant to the provisions of Accounting Standards Codification (“ASC”) 805, “Business Combinations,” (“ASC 805”) with ISG identified as the acquirer. The pro forma adjustments are based upon available information and assumptions that ISG believes are reasonable. Under the acquisition method of accounting, the total purchase price will be allocated to the net tangible and intangible assets acquired and liabilities assumed, based on various estimates of their respective fair values. ISG is determining the estimated fair values of certain assets and liabilities with the assistance of third-party valuation specialists and has engaged a third-party appraiser to assist management to perform a valuation of the acquired intangible assets. The purchase price allocations set forth in the following unaudited pro forma condensed combined financial statements are based on preliminary valuation estimates of Alsbridge’s intangible assets. Any excess of the purchase price over the fair value of identified assets acquired and liabilities assumed will be recognized as goodwill. The final valuations, and any interim updated preliminary valuation estimates, may differ materially from these preliminary valuation estimates and, as a result, the final allocation of the purchase price may result in reclassifications of the allocated amounts that are materially different from the purchase price allocations reflected below. Any material change in the valuation estimates and related allocation of the purchase price would materially impact ISG’s depreciation and amortization expenses, the unaudited pro forma condensed combined financial statements and ISG’s results of operations after the acquisition.

The unaudited pro forma condensed combined financial statements have been prepared by ISG management in accordance with Article 11 of Regulation S-X promulgated by the SEC and are not necessarily indicative of the consolidated financial condition of results of operations that might have been achieved had the transaction been completed as of the dates indicated, nor are they meant to be indicative of any anticipated consolidated financial condition or future results of operations that the combined company will experience after the transaction. In addition, the accompanying unaudited pro forma condensed combined statements of operations do not include any pro forma adjustments to reflect expected revenue synergies, expected cost savings or restructuring actions that may be achievable, or the impact of any non-recurring activities.

Certain financial information of Alsbridge, as presented in its historical consolidated financial statements, has been reclassified to conform to the historical presentation in ISG’s consolidated financial statements, for purposes of preparing the unaudited pro forma consolidated financial statements. Refer to Note 3 of the unaudited pro forma condensed combined financial statements for an explanation of these reclassifications.

**Unaudited Pro Forma Condensed Combined Balance Sheet**  
**September 30, 2016**  
(in thousands)

	<u>Historical ISG</u>	<u>Historical Alsbridge</u>	<u>Pro Forma Adjustments</u>		<u>Pro Forma As Adjusted</u>
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 19,133	\$ 2,742	\$ (4,348)	(5a)	\$ 17,527
Accounts and unbilled receivables, net	49,951	18,770	(1,988)	(5b)	66,733
Deferred tax asset	1,988	1,354	(268)	(5c)	3,074
Prepaid expenses and other assets	2,671	1,437	—		4,108
Total current assets	<u>73,743</u>	<u>24,303</u>	<u>(6,604)</u>		<u>91,442</u>
Restricted cash	338	—	—		338
Furniture, fixtures and equipment, net	3,510	2,922	(1,300)	(5d)	5,132
Goodwill	42,164	39,199	3,419	(5e)	84,782
Intangible assets	11,871	1,796	23,329	(5f)	36,996
Other assets	5,754	287	(2,512)	(5g)	3,529
Total assets	<u>\$ 137,380</u>	<u>\$ 68,507</u>	<u>\$ 16,332</u>		<u>\$ 222,219</u>
<b>Liabilities and Stockholders' Equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 7,348	\$ 254	\$ —		\$ 7,602
Current maturities of long-term debt	2,250	7,673	(4,423)	(5h)	5,500
Deferred revenue	4,255	2,304	(696)	(5i)	5,863
Accrued expenses	17,386	5,981	346	(5j)	23,713
Total current liabilities	<u>31,239</u>	<u>16,212</u>	<u>(4,773)</u>		<u>42,678</u>
Long-term debt, net of current maturities	56,519	5,107	46,813	(5k)	108,439
Notes payable			7,000	(5l)	7,000
Deferred tax liabilities	—	446	3,672	(5m)	4,118
Other liabilities	6,578	687	1,017	(5n)	8,282
Total Liabilities	<u>94,336</u>	<u>22,452</u>	<u>53,729</u>		<u>170,517</u>
Redeemable noncontrolling interest	1,121	—	—		1,121
<b>Stockholders' equity</b>					
Preferred stock, \$.001 par value	—	36,482	(36,482)	(5o)	—
Common stock, \$.001 par value	38	—	3	(5p)	41

Additional paid-in-capital	205,002	5,095	5,846	(5q)	215,943
Treasury stock (2,268 and 758 common shares, respectively, at cost)	(9,037)	—	—		(9,037)
Accumulated other comprehensive income	(6,547)	(537)	537	(5r)	(6,547)
Retained earnings (accumulated deficit)	(147,533)	5,015	(7,301)	(5s)	(149,819)
Total stockholders' equity	<u>41,923</u>	<u>46,055</u>	<u>(37,397)</u>		<u>50,581</u>
Total liabilities, redeemable noncontrolling interest and stockholders' equity	<u>\$ 137,380</u>	<u>\$ 68,507</u>	<u>\$ 16,332</u>		<u>\$ 222,219</u>

3

**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**Nine Months Ended September 30, 2016**

(in thousands, except share and per share data)

	<u>Historical ISG</u>	<u>Historical Alsbridge</u>	<u>Pro Forma Adjustments</u>		<u>Pro Forma As Adjusted</u>
<b>Revenue</b>	\$ 162,212	\$ 46,104	\$ —		\$ 208,316
<b>Operating expenses</b>					
Direct costs and expenses for advisors	98,433	18,231			116,664
Selling, general and administrative	52,428	24,378	(393)	(6a)	76,413
Depreciation and amortization	5,386	1,086	2,127	(6b)	8,599
<b>Operating income (loss)</b>	<u>5,965</u>	<u>2,409</u>	<u>(1,734)</u>		<u>6,641</u>
Interest income	24	—	—		24
Interest expense	(1,590)	(638)	(2,104)	(6c)	(4,332)
Foreign currency transaction (loss) gain	(300)	32			(268)
<b>Total other (expense) income</b>	<u>(1,866)</u>	<u>(606)</u>	<u>(2,104)</u>		<u>(4,576)</u>
<b>Net income (loss) before taxes</b>	4,099	1,803	(3,838)		2,064
Income tax provision (benefit)	2,331	1,456	(1,343)	(6d)	2,444
<b>Net income (loss)</b>	<u>\$ 1,768</u>	<u>\$ 347</u>	<u>\$ (2,495)</u>		<u>\$ (380)</u>
Net income attributable to noncontrolling interest	123				123
<b>Net income (loss) attributable to ISG</b>	<u>\$ 1,645</u>	<u>\$ 347</u>	<u>\$ (2,495)</u>		<u>\$ (503)</u>
Weighted average shares outstanding :					
Basic	<u>36,219</u>		3,200	(6e)	<u>39,419</u>
Diluted	<u>36,977</u>		3,200	(6e)	<u>40,177</u>
Earnings per share attributable to ISG:					
Basic	<u>\$ 0.05</u>				<u>\$ (0.01)</u>
Diluted	<u>\$ 0.05</u>				<u>\$ (0.01)</u>

4

**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**Year Ended December 31, 2015**

(in thousands, except share and per share data)

	<u>Historical ISG</u>	<u>Historical Alsbridge</u>	<u>Pro Forma Adjustments</u>		<u>Pro Forma As Adjusted</u>
<b>Revenue</b>	\$ 209,240	\$ 69,868	\$ —		\$ 279,108
<b>Operating expenses</b>					
Direct costs and expenses for advisors	124,701	27,627			152,328

Selling, general and administrative	67,841	29,153		96,994
Depreciation and amortization	7,083	1,311	3,804 (6b)	12,198
<b>Operating income (loss)</b>	<u>9,615</u>	<u>11,777</u>	<u>(3,804)</u>	<u>17,588</u>
Interest income	14	—	—	14
Interest expense	(1,789)	(855)	(3,481) (6c)	(6,125)
Foreign currency transaction gain (loss)	303	(24)	—	279
<b>Total other (expense) income</b>	<u>(1,472)</u>	<u>(879)</u>	<u>(3,481)</u>	<u>(5,832)</u>
<b>Net income (loss) before taxes</b>	8,143	10,898	(7,285)	11,756
Income tax provision (benefit)	3,189	4,337	(2,550) (6d)	4,976
<b>Net income (loss)</b>	\$ 4,954	\$ 6,561	\$ (4,735)	\$ 6,780
Net income attributable to noncontrolling interest	113			113
<b>Net income (loss) attributable to ISG</b>	<u>\$ 4,841</u>	<u>\$ 6,561</u>	<u>\$ (4,735)</u>	<u>\$ 6,667</u>
Weighted average shares outstanding :				
Basic	<u>37,186</u>		3,200 (6e)	<u>40,386</u>
Diluted	<u>38,936</u>		3,200 (6e)	<u>42,136</u>
Earnings per share attributable to ISG:				
Basic	<u>\$ 0.13</u>			<u>\$ 0.17</u>
Diluted	<u>\$ 0.13</u>			<u>\$ 0.16</u>

**NOTES TO UNAUDITED PRO FORMA  
CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Description of Transaction and Basis of Presentation**

On December 1, 2016, a wholly-owned subsidiary of Information Services Group, Inc. (“ISG” or the “Company”) executed an Agreement and Plan of Merger (the “Merger Agreement”), by and among Alsbridge Holdings, Inc., a Delaware corporation (“Alsbridge”), ISG Information Services Group Americas, Inc., a Texas corporation (“Parent”), Gala Acquisition Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Parent (“Acquisition Sub”), and LLR Equity Partners III, L.P., solely in its capacity as representative of the equity holders of Alsbridge, pursuant to which Acquisition Sub merged with and into Alsbridge with Alsbridge becoming an indirect wholly-owned subsidiary of ISG (the “Merger”).

Under the terms of the Merger Agreement, Parent paid to the former security holders of Alsbridge merger consideration with an aggregate value equal to approximately \$74 million, consisting of \$56 million in cash, an aggregate of \$7 million in unsecured subordinated promissory notes (the “Notes”) and 3.2 million shares of ISG’s common stock, par value \$0.001 per share (“ISG Stock”) (collectively, the “Merger Consideration”). The stockholders of Alsbridge also could receive contingent consideration in an aggregate amount up to approximately \$2.5 million based upon the collection of certain accounts receivable. The fair value of this contingent consideration has been determined to be \$1.5 million.

To facilitate the transaction, on December 1, 2016, the Company entered into an amended and restated senior secured credit facility comprised of a \$110 million term loan facility and a \$30 million revolving credit facility, amending and restating the senior secured credit facility entered into on May 3, 2015 (“Amended and Restated Credit Agreement”).

The unaudited pro forma consolidated financial statements were prepared using the acquisition method of accounting in accordance with ASC 805 with ISG as the acquiring entity. Under ASC 805, all of Alsbridge’s assets acquired and liabilities assumed were recognized at their fair values as of the acquisition date.

**2. Accounting Policies**

As part of preparing the unaudited pro forma consolidated financial statements, ISG conducted a review of the accounting policies of Alsbridge to determine if differences in accounting policies require restatement or reclassification of results of operations or reclassification of assets or liabilities to conform to ISG’s accounting policies and classifications. During the preparation of these unaudited pro forma consolidated financial statements, ISG did not become aware of any material differences between accounting policies of ISG and Alsbridge, except for certain reclassifications necessary to conform to ISG’s financial presentation, and accordingly, these unaudited pro forma consolidated financial statements do not assume any material differences in accounting policies between ISG and Alsbridge. The results of this review are included in Note 3.

**3. Alsbridge Conforming Adjustments**

Financial information of Alsbridge in the “Historical Alsbridge” column of the unaudited pro forma consolidated financial statements represents the reported balances of Alsbridge reclassified to conform to the presentation in ISG’s consolidated financial statements as set forth below (in thousands):

6

*Reclassification of the Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2016.*

	<u>Before Reclassification</u>	<u>Reclassification Amount</u>	<u>Ref.</u>	<u>After Reclassification</u>
Accounts and unbilled receivables, net	\$ 8,659	\$ 10,111	1, 2, 3	\$ 18,770
Other receivable	328	(328)	1	—
Taxes receivable	53	(53)	2	—
Unbilled revenue	9,730	(9,730)	3	—
Deferred financing costs	42	(42)	4	—
Other assets	245	42	4	287
Current maturities of long-term debt	3,173	4,500	5	7,673
Line of credit	4,500	(4,500)	5	—
Accrued expenses	5,691	290	6	5,981
Capital lease obligations, current portion	290	(290)	6	—
Other liabilities	3	684	7, 8	687
Capital lease obligations, less current portion	122	(122)	7	—
Deferred rent	562	(562)	8	—

Reference:

1. Represents reclassification of \$0.3 million from “Other receivable” to “Accounts and unbilled receivables, net.”
2. Represents reclassification of \$53 thousand from “Taxes receivable” to “Accounts and unbilled receivables, net.”
3. Represents reclassification of \$9.7 million from “Unbilled revenue” to “Accounts and unbilled receivables, net.”
4. Represents reclassification of \$42 thousand from “Deferred financing costs” to “Other assets.”
5. Represents reclassification of \$4.5 million from “Line of credit” to “Current maturities of long-term debt.”
6. Represents reclassification of \$0.3 million from “Capital lease obligations, current portion” to “Accrued expenses.”
7. Represents reclassification of \$0.1 million from “Capital lease obligation, less current portion” to “Other liabilities.”
8. Represents reclassification of \$0.6 million from “Deferred rent” to “Other liabilities.”

7

*Reclassification of the Unaudited Pro Forma Condensed Combined Statement of Operations for the Year Ended December 31, 2015.*

	<u>Before Reclassification</u>	<u>Reclassification Amount</u>	<u>Ref.</u>	<u>After Reclassification</u>
Direct costs and expenses for advisors	\$ 25,386	\$ 2,241	1	\$ 27,627
Selling, general and administrative	32,729	(3,576)	1, 2, 3	29,153
Depreciation and amortization	—	1,311	2	1,311
Foreign currency transaction gain (loss)	—	(24)	3	(24)

Reference:

1. Represents reclassification of \$2.2 million from “Selling, general and administrative” to “Direct costs and expenses for advisors” related to compensation and benefits.
2. Represents reclassification of \$1.3 million from “Selling, general and administrative” to “Depreciation and amortization.”
3. Represents reclassification of \$24 thousand from “Selling, general and administrative” to “Foreign currency transaction gain (loss).”

*Reclassification of the Unaudited Pro Forma Condensed Combined Statement of Operations for the Nine Months Ended September 30, 2016.*

	<u>Before Reclassification</u>	<u>Reclassification Amount</u>		<u>After Reclassification</u>
Direct costs and expenses for advisors	\$ 14,721	\$ 3,510	1	\$ 18,231
Selling, general and administrative	28,942	(4,564)	1, 2, 3	24,378
Depreciation and amortization	—	1,086	2	1,086
Foreign currency transaction gain (loss)	—	32	3	32

Reference:

1. Represents reclassification of \$3.5 million from “Selling, general and administrative” to “Direct costs and expenses for advisors” related to compensation and benefits.
2. Represents reclassification of \$1.1 million from “Selling, general and administrative” to “Depreciation and amortization.”
3. Represents reclassification of \$32 thousand from “Selling, general and administrative” to “Foreign currency transaction gain (loss).”

#### 4. Preliminary Purchase Price Allocation

For purposes of the unaudited pro forma combined financial statements, the purchase price has been allocated based upon a preliminary estimate of the fair value of assets acquired and liabilities assumed. The determination of the estimated fair value required management to make significant estimates and assumptions. These estimates and assumptions of the fair value allocation are preliminary and subject to change upon the finalization of the appraisals and other valuation analyses, which are in the process of being completed. The final allocation could be materially different from the preliminary allocation set forth in these unaudited pro forma combined financial statements. Although the final determinations may result in asset and liability fair values that are materially different than the preliminary estimates of these amounts included herein, it is not expected that those differences will be material to an understanding of the impact of this transaction on the financial results of the Company.

8

The following is a preliminary estimate of the purchase consideration to Alsbridge shareholders and the allocation of the purchase price to acquired identifiable assets and assumed liabilities (in thousands):

##### Calculation of Allocable Purchase Price:

Cash consideration	\$ 56,000
Notes payable	7,000
Common stock(1)	10,944
Contingent consideration(2)	1,456
Total allocable purchase price	<u>\$ 75,400</u>

##### Estimated Allocation of Purchase Price:

Cash	\$ 2,742
Current assets	19,305
Furniture, fixtures and equipment	1,622
Other assets	2,199
Customer relationships	17,194
Covenants not-to-compete	239
Databases	7,692
Non-interest bearing liabilities	(9,417)
Deferred income tax liability	(8,794)
Net value of identified assets	32,782
Goodwill	42,618
Total net assets acquired	<u>\$ 75,400</u>

(1) 3,200,000 shares issued at \$3.42 per share as part of the Merger Consideration

(2) Estimated fair value of the contingent consideration

The preliminary allocation to intangible assets and the amortization period were as follows (in thousands):

	<u>Preliminary Purchase Price Allocation</u>	<u>Asset Life</u>
Amortizable intangible assets:		

Customer relationships	\$	17,194	15 years
Covenants not-to-compete		239	5 years
Databases - ProBenchmark		1,099	15 years
Databases -Network Advisors		6,593	15 years
<b>Total identified intangible assets</b>	<b>\$</b>	<b>25,125</b>	

Amortization expense for the five years subsequent to December 31, 2016, are as follows (in thousands):

2017	\$	4,496
2018		3,573
2019		2,832
2020		2,285
2021		1,878
Thereafter		9,515
	<b>\$</b>	<b>24,579</b>

9

Some of the more significant assumptions inherent in the development of the valuations include the estimated annual net cash flows for each definite lived intangible assets, the appropriate discount rate that reflects the risk inherent in each future cash flow stream, competitive trends as well as other factors. The assumptions used in the financial forecasts are determined utilizing primarily historical data, supplemented by current and anticipated market conditions, product category growth rates, management plans, and market comparable. Fair value determinations require considerable judgement and are sensitive to changes in underlying assumptions and factors. Preliminary assumptions may change and may result in significant changes to the final valuation.

## 5. Unaudited Pro Forma Consolidated Balance Sheet Adjustments

Adjustments included in the “Pro Forma Adjustments” column in the accompanying unaudited pro forma balance sheet as of September 30, 2016, are as follows:

(in thousands)		Increase (Decrease) As of September 30, 2016
<b>Assets</b>		
(5a)	Adjustments to cash:	
	To reflect estimated transaction costs to be paid by ISG	\$ (3,719)
	Represents cash outflow from consideration paid.	(56,000)
	To reflect deferred financing costs to be paid by ISG for the debt issuance.	(2,721)
	To reflect the cash inflow from the term loan that was used to fund the cash consideration.	58,092
		<u>(4,348)</u>
(5b)	Represents the fair value adjustment in relation to Alsbridge’s accounts receivable that were assumed by ISG in the transaction.	(1,988)
(5c)	Represents the adjustments of deferred tax asset to fair market value of Alsbridge’s intangibles and deferred rent.	(268)
(5d)	Represents the fair market value adjustments of the acquired enterprise resource planning system and computer equipment.	(1,300)
(5e)	Adjustments to goodwill:	
	Elimination of historical Alsbridge goodwill.	(39,199)
	To record goodwill determined as the preliminary acquisition consideration paid to effect the merger in excess of the estimated fair value of the net assets acquired.	42,618
		<u>3,419</u>
(5f)	Represents the estimate fair value adjustment to step-up Alsbridge’s intangible assets.	23,329
(5g)	Adjustments to other assets:	
	To eliminate Alsbridge’s historical deferred financing costs.	(42)
	Reclassify deferred tax asset to net deferred tax liabilities upon consolidation	(4,424)
	To record an indemnification asset for the full amount of the accrued tax liability for positions taken by Alsbridge in tax returns filed before the acquisition date. ISG performed an independent assessment after the acquisition effective date and concluded its judgement on whether the positions would be more likely than not to be sustained. ISG has been indemnified from this liability per the Merger Agreement.	1,954
		<u>(2,512)</u>
	<b>Total adjustments to assets</b>	<b>\$ 16,332</b>



(in thousands)		Increase (Decrease) As of September 30, 2016
<b>Liabilities</b>		
(5h)	Adjustments to current maturities of long-term debt:	
	To record current portion of the new borrowings as part of the Merger.	\$ 3,250
	Elimination of Alsbridge current portion of long-term debt that was not assumed in the Merger.	(7,673)
		<u>(4,423)</u>
(5i)	Adjustment to decrease the assumed deferred revenue obligations to fair market value. The fair value was determined based on the estimated costs to fulfill the remaining obligations plus a normal profit margin.	(696)
(5j)	Adjustments to accrued liabilities:	
	To reduce tax payable to reflect income tax effect of transaction costs.	(1,231)
	To record Alsbridge's closing costs unpaid at transaction date.	36
	To record ISG's obligation to transfer cash collected from certain receivables assumed in the Merger to Alsbridge, which has been recognized at fair value.	1,456
	Represents the estimated tax liability of uncertain tax positions for payroll taxes. ISG performed an independent assessment after the acquisition effective date and concluded its judgement on whether the positions would be more likely than not to be sustained.	375
	Elimination of Alsbridge's capital lease obligation that was not assumed in the Merger.	(290)
		<u>346</u>
(5k)	Adjustments to long-term debt, net of current portion:	
	To record non-current portion of the new borrowings as part of the Merger, net of deferred financing costs.	52,750
	To reflect deferred financing costs to be paid by ISG, net of the costs borrowed	(830)
	Elimination of Alsbridge non-current liabilities not assumed.	(5,107)
		<u>46,813</u>
(5l)	To record the Notes issued and included as part of the Merger Consideration.	7,000
(5m)	Adjustments to deferred tax liabilities:	
	Represents the adjustment to record the deferred tax liabilities related to the intangibles assets being acquired.	8,794
	Reclassify deferred tax asset to net deferred tax liabilities upon consolidation	(4,424)
	Represents the adjustment to record the deferred tax liabilities related to the fair value adjustment to deferred revenue.	(244)
	Represents the adjustment to the fair market value of the enterprise resource planning system.	(454)
		<u>3,672</u>
(5n)	Represents the estimated tax liabilities of various uncertain tax benefits taken by Alsbridge in tax returns filed before the acquisition date. ISG performed an independent assessment after the acquisition effective date and concluded its judgement on whether the positions would be more likely than not to be sustained.	1,579
	Represents the adjustment to the fair market value of deferred rent.	(562)
		<u>1,017</u>
	<b>Total adjustments to liabilities</b>	<b><u>\$ 53,729</u></b>

(in thousands)		Increase (Decrease) As of September 30, 2016
<b>Shareholders' equity</b>		
(5o)	Elimination of Alsbridge historical preferred stock.	\$ (36,482)
(5p)	To record the par value for 3,200,000 ISG common shares issued as part of the Merger Consideration.	3
(5q)	Adjustments to additional paid-in-capital:	
	Elimination of Alsbridge historical paid in capital.	(5,095)
	To reflect additional paid-in capital from the issuance of 3,200,000 ISG common shares as part of the Merger Consideration.	10,941
		<u>5,846</u>
(5r)	Elimination of Alsbridge historical accumulated other comprehensive income.	537
(5s)	Elimination of Alsbridge historical retained earnings.	(5,015)
	To reflect estimated transaction costs to be paid by ISG, net of tax.	(2,286)
		<u>(7,301)</u>
	<b>Total adjustments to shareholders' equity</b>	<b><u>\$ (37,397)</u></b>
	<b>Total adjustments to liabilities and shareholders' equity</b>	<b><u>\$ 16,332</u></b>

## 6. Unaudited Pro Forma Consolidated Statements of Operations Adjustments

Adjustments included in the “Pro Forma Adjustments” column in the accompanying unaudited pro forma consolidated statements of operations for the year ended December 31, 2015 and for the nine months ended September 30, 2016 are as follows:

(in thousands)	Increase (Decrease) For the Nine Months Ended September 30, 2016	Increase (Decrease) For the Year Ended December 31, 2015	
<b>Expenses:</b>			
(6a)	Adjustment to selling, general and administrative to reverse nonrecurring transaction costs that have been incurred by ISG and Alsbridge as part of the Merger.	\$ (393)	\$ —
(6b)	Adjustments to depreciation and amortization:		
	Adjustments to amortize the difference between the estimated fair value and historical value of Alsbridge enterprise resource planning system and intangibles.	(630)	(862)
	Adjustments to amortize Alsbridge intangible assets.	2,757	4,666
		<u>2,127</u>	<u>3,804</u>
(6c)	Adjustments to interest expense:		
	Represents the elimination of historical interest expense associated with repaid debt and the Alsbridge debt that was not acquired.	2,179	2,511
	To record the estimated interest expense on the new debt raised in connection with the Merger and issued as part of the Merger Consideration. Each 0.125% change in assumed interest rates would result in an increase or decrease to pro forma interest expense \$148 thousand for the year ended December 31, 2015 and \$110 thousand for the nine months ended September 30, 2016.	(3,727)	(5,214)
	Adjustments to amortize the estimated new deferred financing costs using the effective interest rate method.	(556)	(778)
		<u>(2,104)</u>	<u>(3,481)</u>
	<b>Total adjustments to net income (loss) before taxes</b>	<b>\$ (3,838)</b>	<b>\$ (7,285)</b>
(6d)	Adjust to reflect the income tax impact on the unaudited pro forma adjustments using the U.S. statutory tax rate.	(1,343)	(2,550)
	<b>Total adjustments to net income</b>	<b>\$ (2,495)</b>	<b>\$ (4,735)</b>
(6e)	Represents ISG common shares issued as part of the Merger Consideration.		

[\(Back To Top\)](#)