Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from to

Commission File Number 001-33287

INFORMATION SERVICES GROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**20-5261587**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐	Smaller reporting company ☐ Emerging growth company ☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 27, 2017
Common Stock, $0.001 par value	43,400,494 shares

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10–Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “continue,” or the negative of such terms or other similar expressions. The actual results of ISG may vary materially from those expected or anticipated in these forward-looking statements. The realization of such forward-looking statements may be impacted by certain important unanticipated factors. Because of these and other factors that may affect ISG’s operating results, past performance should not be considered as an indicator of future performance, and investors should not use historical results to anticipate results or trends in future periods. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers should carefully review the risk factors described in this and other documents that ISG files from time to time with the Securities and Exchange Commission, including subsequent Current Reports on Form 8-K, Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K.

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

INFORMATION SERVICES GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except par value)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 22,227	$ 34,485
Accounts and unbilled receivables, net of allowance of $615 and $494, respectively	74,796	64,662
Deferred tax asset	—	1,730
Prepaid expense and other current assets	4,523	5,374
Total current assets	101,546	106,251
Restricted cash	92	497
Furniture, fixtures and equipment, net	4,603	4,789
Goodwill	85,602	85,940
Intangible assets, net	28,065	35,113
Other assets	4,889	2,532
Total assets	$ 224,797	$ 235,122
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 8,267	$ 9,724
Current maturities of long-term debt	14,815	5,546
Deferred revenue	8,196	9,112
Accrued expenses	22,527	27,971
Total current liabilities	53,805	52,353
Long-term debt, net of current maturities	100,707	116,485
Deferred tax liability	—	396
Other liabilities	6,516	7,476
Total liabilities	161,028	176,710
Commitments and contingencies (Note 6)		
Redeemable non-controlling interest	—	1,376
Stockholders' equity		
Preferred stock, $.001 par value; 10,000 shares authorized; none issued	—	—
Common stock, $.001 par value, 100,000 shares authorized; 44,490 shares issued and 43,340 outstanding at September 30, 2017 and 44,203 shares issued and 42,140 outstanding at December 31, 2016	44	44
Additional paid-in capital	228,761	228,692
Treasury stock (1,150 and 2,063 common shares, respectively, at cost)	(4,022)	(8,216)
Accumulated other comprehensive loss	(5,850)	(7,800)
Accumulated deficit	(155,164)	(155,684)
Total stockholders' equity	63,769	57,036
Total liabilities, redeemable non-controlling interest and stockholders' equity	$ 224,797	$ 235,122

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

INFORMATION SERVICES GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$68,349	$51,929	$202,942	$162,212
Operating expenses				
Direct costs and expenses for advisors	38,214	30,959	119,153	98,433
Selling, general and administrative	23,710	16,613	68,815	52,428
Depreciation and amortization	2,951	1,741	9,773	5,386
Operating income	3,474	2,616	5,201	5,965
Interest income	15	—	94	24
Interest expense	(1,716)	(596)	(5,132)	(1,590)
Foreign currency transaction loss	(111)	(38)	(292)	(300)
Income (loss) before taxes	1,662	1,982	(129)	4,099
Income tax provision (benefit)	234	1,226	(681)	2,331
Net income	$ 1,428	$ 756	$ 552	$ 1,768
Net income attributable to non-controlling interest	—	24	32	123
Net income attributable to ISG	$ 1,428	$ 732	$ 520	$ 1,645
Weighted average shares outstanding:				
Basic	43,305	35,707	42,893	36,219
Diluted	44,658	36,873	43,344	36,977
Earnings per share attributable to ISG:				
Basic	$ 0.03	$ 0.02	$ 0.01	$ 0.05
Diluted	$ 0.03	$ 0.02	$ 0.01	$ 0.05
Comprehensive income:				
Net income	$ 1,428	$ 756	$ 552	$ 1,768
Foreign currency translation, net of tax (expense) benefit of $(232), $(22), $(1,161) and $44, respectively.	601	100	1,950	(9)
Comprehensive income:	$ 2,029	$ 856	$ 2,502	$ 1,759
Comprehensive income attributable to non-controlling interest	—	24	32	123
Comprehensive income attributable to ISG	$ 2,029	$ 832	$ 2,470	$ 1,636

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

INFORMATION SERVICES GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash flows from operating activities		
Net income	$ 552	$ 1,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	2,640	1,337
Amortization of intangible assets	7,133	4,049
Tax expense from stock issuances	315	110
Amortization of deferred financing costs	739	130
Loss on sublease	578	—
Stock-based compensation	5,383	5,180
Change in fair value of contingent consideration	145	(279)
Changes in accounts receivable allowance	398	(16)
Deferred tax benefit	(2,338)	(1,267)
Loss on disposal of fixed assets	23	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(10,424)	2,341
Prepaid expense and other assets	1,628	(1,516)
Accounts payable	(1,458)	38
Deferred revenue	(980)	(1,408)
Debt issuance costs	(38)	198
Accrued expenses	(1,023)	829
Net cash provided by operating activities	3,273	11,494
Cash flows from investing activities		
Acquisitions, net of cash acquired	(889)	(1,862)
Restricted cash	405	56
Purchase of furniture, fixtures and equipment	(2,270)	(1,904)
Net cash used in investing activities	(2,754)	(3,710)
Cash flows from financing activities		
Proceeds from debt	—	13,500
Principal payments on borrowings	(7,151)	(4,850)
Proceeds from issuance of ESPP shares	494	444
Payment of contingent consideration	(2,665)	(2,483)
Payment for acquisition of Experton	(543)	—
Payments related to tax withholding for stock-based compensation	(2,174)	(1,576)
Debt issuance costs	—	9
Tax expense from stock issuances	—	(110)
Equity securities repurchased	(2,853)	(11,441)
Net cash used in financing activities	(14,892)	(6,507)
Effect of exchange rate changes on cash	2,115	21
Net (decrease) increase in cash and cash equivalents	(12,258)	1,298
Cash and cash equivalents, beginning of period	34,485	17,835
Cash and cash equivalents, end of period	$ 22,227	$ 19,133
Supplemental disclosures of cash flow information:		
Noncash financing activities:		
Issuance of treasury stock for vested restricted stock awards	$ 6,437	$ 4,973

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

NOTE 1—DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

Information Services Group, Inc. (the “Company”, or “ISG”) was founded in 2006 with the strategic vision to become a high-growth, leading provider of information-based advisory services. In 2007, we consummated our initial public offering and completed the acquisition of TPI Advisory Services Americas, Inc. (“TPI”). In December 2016, we consummated our transformational acquisition of Alsbridge Holdings, Inc. (“Alsbridge”).

NOTE 2—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements as of September 30, 2017 and for the three and nine months ended September 30, 2017 and 2016, have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements and pursuant to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are considered necessary for a fair statement of the financial position of the Company as of September 30, 2017, the results of operations for the three and nine months ended September 30, 2017 and 2016 and the cash flows for the nine months ended September 30, 2017 and 2016. The condensed consolidated balance sheet as of December 31, 2016 has been derived from the Company’s audited consolidated financial statements. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with GAAP have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2016, which are included in the Company’s 2016 Annual Report on Form 10-K filed with the SEC.

Reclassification

Certain prior years’ amounts have been reclassified to conform to the current year’s presentation, including reclassification to the Condensed Consolidated Statements of Cash Flows due to the adoption of the share-based payment accounting standard in the first quarter of 2017 as further described below under Note 3—Summary of Significant Accounting Policies: Recently Issued Accounting Pronouncements. This reclassification had no impact on our results of operations, financial position, or changes in shareholders’ equity.

NOTE 3—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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 the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the proportional performance method of accounting affect the amounts of revenues, expenses, unbilled receivables and deferred revenue. Numerous internal and external factors can affect estimates. Estimates are also used for, but not limited to: allowance for doubtful accounts, useful lives of furniture, fixtures and equipment, depreciation expense, contingent consideration, fair value assumptions in analyzing goodwill and intangible asset impairments, income taxes and deferred tax asset valuation, and the valuation of stock based compensation.

(tabular amounts in thousands, except per share data)

Fair Value

The carrying value of the Company's cash and cash equivalents, restricted cash, receivables, accounts payable, other current liabilities, and accrued interest approximated their fair values at September 30, 2017 and December 31, 2016 due to the short-term nature of these instruments.

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

- Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market;
- Level 2 measurements include quoted market prices for identical assets or liabilities in an active market that have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets; and
- Level 3 measurements include those that are unobservable and of a highly subjective measure.

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

	Basis of Fair Value Measurements September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 1,548	$ —	$ —	$ 1,548
Total	$ 1,548	$ —	$ —	$ 1,548
Liabilities:				
Contingent consideration (1)	$ —	$ —	$ 3,890	$ 3,890
Total	$ —	$ —	$ 3,890	$ 3,890

	Basis of Fair Value Measurements December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 22	$ —	$ —	$ 22
Total	$ 22	$ —	$ —	$ 22
Liabilities:				
Contingent consideration (1)	$ —	$ —	$ 6,073	$ 6,073
Total	$ —	$ —	$ 6,073	$ 6,073

(1) The short-term portion is included in "Accrued expenses." The long-term portion is included in "Other liabilities."

(tabular amounts in thousands, except per share data)

The Company’s contingent consideration liability was $3.9 million and $6.1 million at September 30, 2017 and December 31, 2016, respectively. The fair value measurement of this contingent consideration is classified within Level 3 of the fair value hierarchy and reflects the Company’s own assumptions in measuring fair values using the income approach. In developing these estimates, the Company considered certain performance projections, historical results, and industry trends. This amount was estimated through a valuation model that incorporated probability-weighted assumptions related to the achievement of these milestones and the likelihood of the Company making payments. These cash outflow projections have then been discounted using a rate ranging from 14.5% to 19.8%.

The Company’s financial instruments include outstanding borrowings of $118.1 million at September 30, 2017 and $125.3 million at December 31, 2016, which are carried at amortized cost. The fair value of debt is classified within Level 3 of the fair value hierarchy. The fair value of the Company's outstanding borrowings is approximately $118.0 million and $124.9 million at September 30, 2017 and December 31, 2016, respectively. The fair values of debt have been estimated using a discounted cash flow analysis based on the Company's incremental borrowing rate for similar borrowing arrangements. The incremental borrowing rate used to discount future cash flows ranged from 2.00% to 4.83%. The Company also considered recent transactions of peer group companies for similar instruments with comparable terms and maturities as well as an analysis of current market conditions.

The following table represents the change in the contingent consideration liability during the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,	
	2017	**2016**
Beginning Balance	$ 6,073	$ 4,019
Payment of contingent consideration	(3,386)	(2,483)
Acquisitions	—	4,841
Change in fair value of contingent consideration	145	(279)
Accretion of contingent consideration	1,030	568
Unrealized gain related to currency translation	28	61
Ending Balance	$ 3,890	$ 6,727

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance that outlines a single comprehensive model for entities to use in accounting for revenue. Under the guidance, revenue is recognized when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for public entities with annual and interim reporting periods beginning after December 15, 2016. On July 9, 2015, the FASB approved the deferral of the effective date of the new revenue guidance by one year to annual reporting periods beginning after December 15, 2017, with early adoption being permitted for annual periods beginning after December 15, 2016. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective transition method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The guidance also requires significantly expanded disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, which we are currently compiling. We have completed an initial assessment of the impact of the guidance on our existing revenue recognition policies. We currently anticipate that our historical revenue recognition will not significantly change other than for software and implementation contracts, certain network contingency contracts, and certain managed service implementation contracts. For software and implementation contracts, revenue recognition on the software component will be accelerated to the point at which software is installed, while revenue on the implementation component will be recognized over the software implementation period as a percentage of hours incurred to date as compared to the total expected hours. On certain network contingency contracts, revenue will be recognized over time due to the existence of provisions for payment for progress incurred to date plus a margin in contracts with termination for convenience clauses. On the implementation phase of certain managed service contracts, revenue will be recognized over time as a percentage of hours incurred to date as compared to the total expected hours. We will be adopting the standard using the cumulative catch-up transition method of adoption on January 1, 2018. The Company is in the process of preparing for the enhanced disclosure requirements of the new standard as well as evaluating its impact on our processes and controls. We will continue to evaluate the impact of our pending adoption of this guidance to our consolidated financial statements and our preliminary assessments are subject to change.

In November 2015, the FASB issued an accounting standards update to simplify the presentation of deferred income taxes on the balance sheet. The update requires that all deferred tax assets and liabilities be classified as noncurrent. The current guidance that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is not impacted by this update. The provisions of the new standard are effective beginning January 1, 2017, for annual and interim periods and early adoption is permitted. The Company adopted this guidance on a prospective method; therefore, prior periods were not retrospectively adjusted. As a result of this adoption, $2.6 million of net current deferred tax assets are included in the net noncurrent deferred tax assets as of September 30, 2017. The adoption of this guidance in the first quarter of 2017 by the Company did not have a material impact on its results of operations.

In February 2016, the FASB issued guidance on accounting for leases which requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. The guidance requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases and will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The guidance requires the use of a modified retrospective approach. The Company is evaluating the impact of the guidance on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, amended guidance related to employee share-based payment accounting. The new guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled, allows an employer to repurchase more of an employee’s shares than previously allowed for tax withholding purposes without triggering liability accounting, allows a company to make a policy election to account for forfeitures as they occur, and eliminates the requirement that excess tax benefits be realized before companies can recognize them. The new guidance also requires excess tax benefits and tax shortfalls to be presented on the cash flow statement as an operating activity rather than as a financing activity, and clarifies that cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation are to be presented as a financing activity. This guidance is effective prospectively for annual reporting periods, and interim periods therein, beginning after December 15, 2016.

We have adopted ASU 2016-09 effective January 1, 2017 on a prospective basis as permitted by the new standard. As a result of this adoption:

- Tax expenses of $0.3 million were recognized on stock-based compensation expense were reflected as a component of the provision for income taxes for the nine months ended September 30, 2017.

- We elected to adopt the cash flow presentation of the excess tax benefits prospectively where these benefits are classified along with other income tax cash flows as operating cash flows.

- We have elected to continue to estimate the number of stock-based awards expected to vest, rather than electing to account for forfeitures as they occur to determine the amount of compensation cost to be recognized in each period.

- We presented employee taxes paid as a financing activity on the Condensed Consolidated Statements of Cash Flows retrospectively, as such the comparable period within the Condensed Consolidated Statements of Cash Flows has been recast to reflect the adoption.

The adoption of this guidance in the first quarter of 2017 by the Company did not have a material impact on its results of operations.

In August 2016, the FASB issued new guidance intended to reduce diversity in practice in how certain cash receipts and payments are classified in the statement of cash flows, including debt prepayment or extinguishment costs, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, and distributions from certain equity method investees. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires application using a retrospective transition method. The Company is evaluating the impact of the guidance on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued an accounting standard to require that amounts generally described as restricted cash and restricted cash equivalents be presented with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. If different, a reconciliation of the cash balances reported in the cash flow statement and the balance sheet would need to be provided along with explanatory information. The guidance is effective on January 1, 2018. We have started an initial assessment of the impact of the guidance, and we do not expect it will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued an accounting standard that changes the GAAP definition of a business which can impact the accounting for asset purchases, acquisitions, goodwill impairment, and other assessments. The guidance is effective on January 1, 2018. We are currently evaluating the impact of this guidance on the Company's consolidated financial statements.

In January 2017, the FASB issued an accounting standard that eliminates Step 2 of the goodwill impairment test, which required us to determine the implied fair value of goodwill by allocating the reporting unit's fair value to each of its assets and liabilities as if the reporting unit was acquired in a business acquisition. Instead, the updated guidance requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit to its carrying value, and recognizing a non-cash impairment charge for the amount by which the carrying value exceeds the reporting unit's fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. The updated guidance is effective beginning January 1, 2020, with early adoption permitted, and will be applied on a prospective basis. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

NOTE 4—NET INCOME PER COMMON SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would share in the net income of the Company. For the three and nine months ended September 30, 2017, the effect of 34,374 stock appreciation rights (“SARs”) have not been considered in the diluted earnings per share, because the market price of the stock was less than the exercise price during the period in the computation, respectively. In addition, 2.5 million restricted shares have not been considered in the diluted earnings per share calculation for the nine months ended September 30, 2017, as the effect would be anti-dilutive.

(tabular amounts in thousands, except per share data)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Basic:				
Net income attributable to ISG	$ 1,428	$ 732	$ 520	$ 1,645
Weighted average common shares	43,305	35,707	42,893	36,219
Earnings per share attributable to ISG	$ 0.03	$ 0.02	$ 0.01	$ 0.05
Diluted:				
Net income attributable to ISG	$ 1,428	$ 732	$ 520	$ 1,645
Interest expense of convertible debt, net of tax	2	1	6	21
Net income attributable to ISG, as adjusted	$ 1,430	$ 733	$ 526	$ 1,666
Basic weighted average common shares	43,305	35,707	42,893	36,219
Potential common shares	1,353	1,166	451	758
Diluted weighted average common shares	44,658	36,873	43,344	36,977
Diluted earnings per share attributable to ISG	$ 0.03	$ 0.02	$ 0.01	$ 0.05

NOTE 5—INCOME TAXES

The Company's effective tax rate for the three and nine months ended September 30, 2017 was 14.1% and 527.9% based on pretax income of $1.7 million and pretax loss of $0.1 million, respectively. The Company's effective tax rate for the quarter was less than the statutory rate primarily due to the impact of current quarter earnings in jurisdictions where the Company is currently precluded from recording a tax provision and the impact of the partial release of previously unrecognized tax benefits. The effective tax rate was 61.9% and 56.9% for the three and nine months ended September 30, 2016. The difference was primarily due to the impact of current quarter earnings in jurisdictions where the Company is currently precluded from recording a tax provision for the three months ended September 30, 2017 and the impact of the partial release of previously unrecognized tax benefits.

As of September 30, 2017, the Company had total unrecognized tax benefits of approximately $2.8 million all of which would impact the Company's effective tax rate if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax provision in its condensed consolidated statement of operations. As of September 30, 2017, the Company's accrual of interest and penalties amounted to $0.9 million. The Company recorded no material year-to-date change in accrual of unrecognized tax benefits and associated interest and penalties.

NOTE 6—COMMITMENTS AND CONTINGENCIES

The Company is subject to contingencies which arise through the ordinary course of business. All material liabilities of which management were aware are properly reflected in the financial statements at September 30, 2017 and December 31, 2016.

Saugatuck Contingent Consideration

As of September 30, 2017, the Company has recorded a liability of $0.6 million representing the estimated fair value of contingent consideration related to the acquisition of Saugatuck, of which $0.3 million is classified as current and included in accrued expenses on the consolidated balance sheet. The Company paid $0.5 million in April 2017 related to 2016 performance.

(tabular amounts in thousands, except per share data)

Experton Contingent Consideration

As of September 30, 2017, the Company has recorded a liability of $0.8 million representing the estimated fair value of contingent consideration related to the acquisition of Experton, of which $0.4 million is classified as current and included in accrued expenses on the consolidated balance sheet. The Company paid $0.1 million in July 2017 related to 2016 performance.

TracePoint Contingent Consideration

As of September 30, 2017, the Company has recorded a liability of $2.5 million representing the estimated fair value of contingent consideration related to the acquisition of TracePoint, of which $1.4 million is classified as current and included in accrued expenses on the consolidated balance sheet. The Company paid $2.1 million in April 2017 related to 2016 performance.

Alsbridge Contingent Consideration

As of September 30, 2017, the Company paid the remaining $0.1 million in July 2017 representing the estimated fair value of contingent consideration related to the acquisition of Alsbridge.

Severance Accrual

The Company recorded $0.3 million of severance expense during the three months ended September 30, 2017. The charge was primarily related to contractual termination benefits, and was recorded in selling, general and administrative expenses. As of September 30, 2017, the remaining balance in accrued severance is $0.2 million and is classified as current and included in accrued expenses on the consolidated balance sheet.

NOTE 7—SEGMENT AND GEOGRAPHICAL INFORMATION

The Company operates as one reportable segment consisting primarily of fact-based sourcing advisory services. The Company operates principally in the Americas, Europe and Asia Pacific.

Geographical revenue information for the segment is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Americas	$41,524	$29,239	$122,581	$ 86,832
Europe	19,732	16,611	61,443	56,885
Asia Pacific	7,093	6,079	18,918	18,495
	$68,349	$51,929	$202,942	$162,212

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

NOTE 8—FINANCING ARRANGEMENTS AND LONG-TERM DEBT

On December 1, 2016, the Company entered into an amended and restated senior secured credit facility (the "2016 Credit Agreement") comprised of a $110.0 million term facility and a $30.0 million revolving facility, amending and restating its senior secured credit facility originally entered into on May 3, 2013. The material terms of the 2016 Credit Agreement are as follows:

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

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

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

- At the Company's option, the credit facility bears interest at a rate per annum equal to either (i) the "Base Rate" (which is the highest of (a) the rate publicly announced from time to time by the administrative agent as its "prime rate", (b) the Federal Funds Rate plus 0.5% per annum and (c) the Eurodollar Rate, plus 1.0%), plus the applicable margin (as defined below) or (ii) Eurodollar Rate (adjusted for maximum reserves) as determined by the Administrative Agent, plus the applicable margin. The applicable margin is adjusted quarterly based upon the Company's quarterly leverage ratio. Prior to the end of the first full quarter following the closing of the credit facility, the applicable margin shall be a percentage per annum equal to 2.5% for the term loans and the revolving loans maintained as Base Rate loans or 3.5% for the term loans and revolving loans maintained as Eurodollar loans.

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

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

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

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

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

As of September 30, 2017, the total principal outstanding under the term loan facility and revolving credit facility was $105.9 million and $5.0 million, respectively.

Compass Convertible Notes

On January 4, 2011, as part of the consideration for the acquisition of Compass, we issued an aggregate of $6.3 million in convertible notes to Compass (the "Compass Notes"). The Compass Notes mature on January 4, 2018 and interest is payable on the outstanding principal amount, computed daily, at the rate of 3.875% per annum on January 31 of each calendar year and on the seventh anniversary of the date of the Compass Notes. The Compass Notes were subject to transfer restrictions until January 31, 2013. If the price of our common stock on the Nasdaq Global Market exceeds $4 per share for 60 consecutive trading days (the "Trigger Event"), the holder of the Compass Notes may convert all (but not less than all) of the outstanding principal amount of the Compass Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. After the Trigger Event, we may prepay all or any portion of the outstanding principal amount of the Compass Notes by giving the holder 30 days written notice. On March 21, 2014, the Trigger Event occurred. As a result, a holder of the Compass Notes may convert all (but not less than all) of the outstanding principal amount of the Compass Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. In addition, ISG may elect to prepay all or any portion of the outstanding principal amount of the Compass Notes by giving a holder 30 days written notice; however, such holder shall be given the opportunity to convert the outstanding principal amount into shares as described above. No holder of the Compass Notes has the option to require cash payment as a result of the Trigger Event.

In 2013 and 2016, we prepaid substantial portions of the outstanding principal amount of the Compass Notes. As of September 30, 2017, the total principal outstanding under the remaining Compass Notes was $0.2 million.

Alsbridge Notes

On December 1, 2016, as part of the merger consideration for the acquisition of Alsbridge, we issued an aggregate of $7.0 million in unsecured subordinated promissory notes (the "Alsbridge Notes"). The Alsbridge Notes mature on September 1, 2018 and interest accrues on the principal amount daily at a rate of 2.0% and is payable upon maturity. At any time, the Company may at its option prepay all or any portion of Alsbridge Notes. As of September 30, 2017, the total principal outstanding under the Alsbridge Notes was $7.0 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as "may," "should," "could," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "forecast" and similar expressions (or the negative of such expressions.) Forward-looking statements include statements concerning 2017 revenue growth rates and capital expenditures. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, the volatility of our stock price, and current competitive conditions. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion in our 2016 Annual Report on Form 10-K titled "Risk Factors."

BUSINESS OVERVIEW

Information Services Group, Inc. ("ISG") (NASDAQ: III) is a leading technology insights, market intelligence and advisory services company serving more than 700 clients around the world to help them achieve operational excellence and faster growth. ISG specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. ISG supports both private and public sector organizations to transform and optimize their operational environments. Clients look to ISG for unique insights and innovative solutions for leveraging technology, our deep data source, and more than five decades of experience of global leadership in information and advisory services. Based in Stamford, Connecticut, the Company has approximately 1,300 employees and operates in over 20 countries.

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

We derive our revenues from fees and reimbursable expenses for professional services. A portion of our revenues are generated under hourly or daily rates billed on a time and expense basis. Clients are typically invoiced on a monthly basis, with revenue recognized as the services are provided. There are also client engagements in which we are paid a fixed amount for our services, often referred to as fixed fee billings. This may be one single amount covering the whole engagement or several amounts for various phases, milestones or functions. We also earn incremental revenues, in addition to hourly or fixed fee billings, which are contingent on the attainment of certain contractual milestones or objectives. Such revenues may cause unusual variations in quarterly revenues and operating results. We also derive our revenues from recurring revenue streams. This includes Managed Services, Research, the U.S. Public Sector, subscription services around Robotic Process Automation ("RPA") and analytic benchmarking. All are characterized by subscriptions (i.e., renewal centric as opposed to project centric revenue streams) or multi-year contracts. Our digital services now span a volume of offerings and have become embedded as part of even our traditional transaction services. Digital enablement provides capabilities, digital insights and better engagement with clients and partners. Our digital offerings expanded in 2017 to include RPA.

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016

Revenues

Revenues are generally derived from engagements priced on a time and materials basis as well as various fixed fee projects, and are recorded based on actual time worked and are recognized as the services are performed. Revenues related to materials (mainly out-of-pocket expenses such as airfare, lodging and meals) required during an engagement generally do not include a profit mark-up and can be charged and reimbursed discretely or as part of the overall fee structure. Invoices are issued to clients at least monthly.

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

Geographical revenue information for the segment is as follows:

	Three Months Ended September 30,			
Geographic Area	**2017**	**2016**	**Change**	**Percent Change**
	(in thousands)			
Americas	$ 41,524	$ 29,239	$ 12,285	42 %
Europe	19,732	16,611	3,121	19 %
Asia Pacific	7,093	6,079	1,014	17 %
Total revenues	$ 68,349	$ 51,929	$ 16,420	32 %

Revenues increased $16.4 million or approximately 32% in 2017. The increase in revenues in the Americas and Europe regions was primarily attributable to higher levels of sourcing activity in our Consulting line of service due to the Alsbridge acquisition and increased sourcing revenue in Germany. The increase in revenues in the Asia Pacific region was primarily attributable to higher levels of sourcing activity in our Consulting line of service.

Operating Expenses

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

	Three Months Ended September 30,			
Operating Expenses	**2017**	**2016**	**Change**	**Percent Change**
	(in thousands)			
Direct costs and expenses for advisors	$ 38,214	$ 30,959	$ 7,255	23 %
Selling, general and administrative	23,710	16,613	7,097	43 %
Depreciation and amortization	2,951	1,741	1,210	70 %
Total operating expenses	$ 64,875	$ 49,313	$ 15,562	32 %

Total operating expenses increased $15.6 million for the quarter with increases in selling, general and administrative ("SG&A") expenses, direct expenses and depreciation and amortization. The increases were due primarily to higher compensation and benefits, bad debts and travel expenses due to the acquisition of Alsbridge. We also recorded $0.4 million in severance and integration related expenses and $0.5 million related to the reversal of a tax indemnity receivable established with an unrealized tax benefit liability at the time of the acquisition of Alsbridge, which are included in selling, general and administrative expense. The associated unrealized tax benefit liability was also reversed and recorded as a reduction in the tax provision. These cost increases were partially offset by decreases in contract labor and occupancy expenses.

Compensation costs consist of a mix of fixed and variable salaries, annual bonuses, benefits and profit sharing plan contributions. A portion of compensation expenses for certain billable employees are allocated between direct costs and selling, general and administrative costs based on relative time spent between billable and non-billable activities. Bonus compensation is determined based on achievement against Company financial and individual targets, and is accrued monthly throughout the year based on management's estimates of target achievement. Statutory and elective profit sharing plans are offered to employees as appropriate. Direct costs also include employee taxes, health insurance, workers compensation and disability insurance.

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

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

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

Depreciation and amortization expense in the third quarter of 2017 and 2016 was $2.9 million and $1.7 million, respectively. The increase of $1.2 million in depreciation and amortization expense was primarily due the acquisition of Alsbridge. Our fixed assets consist of furniture, fixtures, equipment (mainly personal computers) and leasehold improvements. Depreciation expense is generally computed by applying the straight-line method over the estimated useful lives of assets. We also capitalize certain costs associated with the purchase and development of internal-use software, system conversions and website development costs. These costs are amortized over the estimated useful life of the software or system.

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

Other (Expense), Net

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

	Three Months Ended September 30,			
	2017	2016	Change	Percent Change
	(in thousands)			
Interest income	$ 15	$ —	$ 15	N/A %
Interest expense	(1,716)	(596)	(1,120)	(188)%
Foreign currency loss	(111)	(38)	(73)	(192)%
Total other (expense), net	$ (1,812)	$ (634)	$ (1,178)	(186)%

The total increase of $1.2 million was primarily the result of higher interest expense due to an increase in interest rates and higher debt balances and an increase of $0.1 million of foreign currency losses.

Income Tax Expense

Our quarterly effective tax rate varies from period to period based on the mix of earnings among the various state and foreign tax jurisdictions in which business is conducted and the level of non-deductible expenses projected to be incurred during the current fiscal year. Our effective tax rate for the three months ended September 30, 2017 was 14.1% compared to 61.9% for the three months ended September 30, 2016. The difference was primarily due to the partial release of liability accrued for previously unrecognized tax benefits and the impact of current quarter earnings in jurisdictions where the Company is currently precluded from booking a tax provision for the three months ended September 30, 2017.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016

Revenues

Geographical revenue information for the segment is as follows:

Geographic Area	Nine Months Ended September 30,			
	2017	2016	Change	Percent Change
	(in thousands)			
Americas	$ 122,581	$ 86,832	$ 35,749	41 %
Europe	61,443	56,885	4,558	8 %
Asia Pacific	18,918	18,495	423	2 %
Total revenues	$ 202,942	$ 162,212	$ 40,730	25 %

Revenues increased $40.7 million or approximately 25% in 2017. The increase in revenues in the Americas region was primarily attributable to higher levels of sourcing activity in Consulting, primarily associated with the acquisitions of TracePoint and Alsbridge. The increase in the Europe region was primarily attributable to a higher level of sourcing activity in our Consulting line of business, primarily associated with the acquisition of Alsbridge and increased sourcing revenue in Germany. The increase in revenues in the Asia Pacific region was primarily attributable to higher levels of Consulting and Managed Services.

Operating Expenses

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

Operating Expenses	Nine Months Ended September 30,			
	2017	2016	Change	Percent Change
	(in thousands)			
Direct costs and expenses for advisors	$ 119,153	$ 98,433	$ 20,720	21 %
Selling, general and administrative	68,815	52,428	16,387	31 %
Depreciation and amortization	9,773	5,386	4,387	81 %
Total operating expenses	$ 197,741	$ 156,247	$ 41,494	27 %

Total operating expenses increased $41.5 million for 2017 with increases in SG&A expenses, direct expenses and depreciation and amortization. The increases were due primarily to higher compensation and benefits, travel, information technology, marketing, interest on contingent consideration, stock compensation expense and bad debt expenses. We recorded $5.4 million of stock compensation expense, included in selling, general and administrative expense, compared to $5.2 million in 2016. During the second quarter of 2017, we recorded $0.6 million for the loss on the sublease of Alsbridge's headquarters office. During the first nine months of 2017, we recorded $1.5 million in severance and integration related expenses. The increases were also due to the acquisitions of TracePoint, Experton and Alsbridge. We also recorded $0.5 million related to the reversal of a tax indemnity receivable established with an unrealized tax benefit liability at the time of the acquisition of Alsbridge. The associated unrealized tax benefit liability was also reversed and recorded as a reduction in the tax provision. These cost increases were partially offset by decreases in professional fees from our service providers. SG&A costs in 2016 also included $0.4 million in transaction costs associated with our stock repurchase in April 2016 conducted through a modified "Dutch" auction.

Depreciation and amortization expense in 2017 and 2016 was $9.8 million and $5.4 million, respectively. The increase of $4.4 million in depreciation and amortization expense was primarily due to the acquisitions of TracePoint, Experton and Alsbridge.

Other (Expense), Net

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

	Nine Months Ended September 30,			
	2017	2016	Change	Percent Change
	(in thousands)			
Interest income	$ 94	$ 24	$ 70	292 %
Interest expense	(5,132)	(1,590)	(3,542)	(223)%
Foreign currency loss	(292)	(300)	8	3 %
Total other (expense), net	$ (5,330)	$ (1,866)	$ (3,464)	(186)%

The total increase of $3.5 million was primarily the result of higher interest expense due to an increase in interest rates and higher debt balances.

Income Tax Expense

Our effective tax rate for the nine months ended September 30, 2017 was 527.9% compared to 56.9% for the nine months ended September 30, 2016. The difference was primarily due to the impact of current earnings in the nine months ended September 30, 2017 in jurisdictions where the Company is currently precluded from booking a tax provision for the nine months ended September 30, 2017 and the partial release of liability accrued for previously unrecognized tax benefits during the quarter ended September 30, 2017.

NON-GAAP FINANCIAL PRESENTATION

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

NON-GAAP FINANCIAL MEASURES

We use non-GAAP financial measures to supplement the financial information presented on a GAAP basis. We provide adjusted EBITDA (defined as net income before net income attributable to non-controlling interest plus interest, taxes, depreciation and amortization, foreign currency transaction gains/losses, non-cash stock compensation, impairment charges for goodwill and intangible assets, interest on contingent consideration, acquisition-related costs, severance and integration expense, tax indemnity receivable, and bargain purchase gain), adjusted net income (defined as net income plus amortization of intangible assets, non-cash stock compensation, foreign currency transaction gains/losses, non-cash impairment charges for goodwill and intangible assets, interest on contingent consideration, acquisition-related costs, severance and integration expense and bargain purchase gain, on a tax-adjusted basis) and adjusted net income as earnings per diluted share, excluding the net of tax effect of the items set forth in the table below. These are non-GAAP measures that the Company believes provide useful information to both management and investors by excluding certain expenses and financial implications of foreign currency translations, which management believes are not indicative of ISG's core operations. These non-GAAP measures are used by the Company to evaluate the Company's business strategies and management's performance. These non-GAAP financial measures exclude non-cash and certain other special charges that many investors believe may obscure the user's overall understanding of the Company's current financial performance and the Company's prospects for the future. We believe that these non-GAAP measures provide useful information to investors because they improve the comparability of the financial results between periods and provide for greater transparency of key measures used to evaluate the Company's performance.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income attributable to ISG	$ 1,428	$ 732	$ 520	$ 1,645
Net income attributable to non-controlling interest	—	24	32	123
Interest expense (net of interest income)	1,701	596	5,038	1,566
Income taxes	234	1,226	(681)	2,331
Depreciation and amortization	2,951	1,741	9,773	5,386
Interest on contingent consideration	415	373	1,108	433
Acquisition-related costs[1]	89	—	1,186	—
Severance and integration expense	356	—	1,514	—
Tax indemnity receivable	454	—	454	—
Foreign currency transaction	111	38	292	300
Non-cash stock compensation	1,873	1,865	5,383	5,180
Adjusted EBITDA	$ 9,612	$ 6,595	$ 24,619	$ 16,964

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income attributable to ISG	$ 1,428	$ 732	$ 520	$ 1,645
Non-cash stock compensation	1,873	1,865	5,383	5,180
Intangible amortization	2,382	1,392	7,133	4,049
Interest on contingent consideration	415	373	1,108	433
Acquisition-related costs(1)	89	—	1,186	—
Severance and integration expense	356	—	1,514	—
Foreign currency transaction	111	38	292	300
Tax effect (2)	(1,986)	(1,394)	(6,314)	(3,786)
Adjusted net income	$ 4,668	$ 3,006	$ 10,822	$ 7,821

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income per diluted share attributable to ISG	$ 0.03	$ 0.02	$ 0.01	$ 0.05
Non-cash stock compensation	0.04	0.05	0.12	0.14
Intangible amortization	0.05	0.04	0.16	0.11
Interest on contingent consideration	0.01	0.01	0.03	0.01
Acquisition-related costs(1)	0.00	—	0.03	—
Severance and integration expense	0.01	—	0.03	—
Foreign currency transaction	0.00	0.00	0.01	0.01
Tax effect(2)	(0.04)	(0.04)	(0.14)	(0.11)
Adjusted net income per diluted share	$ 0.10	$ 0.08	$ 0.25	$ 0.21

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(1) Consists of expenses from acquisition-related costs and non-cash fair value adjustments on pre-acquisition deferred revenues.

(2) Marginal tax rate of 38% applied.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

As of September 30, 2017, our cash and cash equivalents were $22.2 million, a net decrease of $12.3 million from December 31, 2016, which was primarily attributable to the following:

- net cash provided by operating activities of $3.3 million;
- payments of principal amounts due on the debt under our Credit Agreement of $7.2 million;
- payments of contingent consideration of $2.7 million;
- capital expenditures for furniture, fixtures and equipment of $2.3 million;

- equity repurchases of $2.9 million;
- payment to the minority holder of ISG Italia S.p.A. for non-controlling interest of $0.9 million;
- payments of $2.2 million related to tax withholding for stock-based compensation; and
- installment payment for the acquisition of Experton of $0.5 million.

Capital Resources

On December 1, 2016, the Company entered into an amended and restated senior secured credit facility (the "2016 Credit Agreement") comprised of a $110.0 million term facility and a $30.0 million revolving facility, amending and restating its senior secured credit facility originally entered into on May 3, 2013. The material terms of the 2016 Credit Agreement are as follows:

- Each of the term loan facility and revolving credit facility has a maturity date of December 1, 2021 (the "Maturity Date").
- The credit facility is secured by all of the equity interests owned by the Company, and its direct and indirect domestic subsidiaries and, subject to agreed exceptions, the Company's direct and indirect "first-tier" foreign subsidiaries and a perfected first priority security interest in all of the Company's and its direct and indirect domestic subsidiaries' tangible and intangible assets.
- The Company's direct and indirect existing and future wholly-owned domestic subsidiaries serve as guarantors to the Company's obligations under the senior secured facility.
- At the Company's option, the credit facility bears interest at a rate per annum equal to either (i) the "Base Rate" (which is the highest of (a) the rate publicly announced from time to time by the administrative agent as its "prime rate", (b) the Federal Funds Rate plus 0.5% per annum and (c) the Eurodollar Rate, plus 1.0%), plus the applicable margin (as defined below) or (ii) Eurodollar Rate (adjusted for maximum reserves) as determined by the Administrative Agent, plus the applicable margin. The applicable margin is adjusted quarterly based upon the Company's quarterly leverage ratio. Prior to the end of the first full quarter following the closing of the credit facility, the applicable margin shall be a percentage per annum equal to 2.5% for the term loans and the revolving loans maintained as Base Rate loans or 3.5% for the term loans and revolving loans maintained as Eurodollar loans.
- The Term Loan is repayable in four consecutive quarterly installments of $1,375,000 each, commencing March 31, 2017, followed by eight consecutive quarterly installments in the amount of $2,062,500 each, commencing March 31, 2018, followed by seven consecutive quarterly installments of $2,750,000 each, commencing March 31, 2020 and a final payment of the remaining outstanding principal amount of the Term Loan on the Maturity Date.
- Mandatory repayments of term loans shall be required from (subject to agreed exceptions) (i) 100% of the proceeds from asset sales by the Company and its subsidiaries, (ii) 100% of the net proceeds from issuances of debt and equity by the Company and its subsidiaries, and (iii) 100% of the net proceeds from insurance recovery and condemnation events of the Company and its subsidiaries.
- The senior secured credit facility contains a number of covenants that, among other things, place restrictions on matters customarily restricted in senior secured credit facilities, including restrictions on indebtedness (including guarantee obligations), liens, fundamental changes, sales or disposition of property or assets, investments (including loans, advances, guarantees and acquisitions), transaction with affiliates, dividends and other payments in respect of capital stock, optional payments and modifications of other material debt instruments, negative

pledges and agreements restricting subsidiary distributions and changes in line of business. In addition, the Company is required to comply with a total leverage ratio and fixed charge coverage ratio.

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

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

As of September 30, 2017, the total principal outstanding under the term loan facility and revolving credit facility was $105.9 million and $5.0 million, respectively.

Compass Convertible Notes

On January 4, 2011, as part of the consideration for the acquisition of Compass, we issued an aggregate of $6.3 million in convertible notes to Compass (the "Compass Notes"). The Compass Notes mature on January 4, 2018 and interest is payable on the outstanding principal amount, computed daily, at the rate of 3.875% per annum on January 31 of each calendar year and on the seventh anniversary of the date of the Compass Notes. The Compass Notes were subject to transfer restrictions until January 31, 2013. If the price of our common stock on the Nasdaq Global Market exceeds $4 per share for 60 consecutive trading days (the "Trigger Event"), the holder of the Compass Notes may convert all (but not less than all) of the outstanding principal amount of the Compass Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. After the Trigger Event, we may prepay all or any portion of the outstanding principal amount of the Compass Notes by giving the holder 30 days written notice. On March 21, 2014, the Trigger Event occurred. As a result, a holder of the Compass Notes may convert all (but not less than all) of the outstanding principal amount of the Compass Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. In addition, ISG may elect to prepay all or any portion of the outstanding principal amount of the Compass Notes by giving a holder 30 days written notice; however, such holder shall be given the opportunity to convert the outstanding principal amount into shares as described above. No holder of the Compass Notes has the option to require cash payment as a result of the Trigger Event.

In 2013 and 2016, we prepaid substantial portions of the outstanding principal amount of the Compass Notes. As of September 30, 2017, the total principal outstanding under the remaining Compass Notes was $0.2 million.

Alsbridge Notes

On December 1, 2016, as part of the merger consideration for the acquisition of Alsbridge, we issued an aggregate of $7.0 million in unsecured subordinated promissory notes (the "Alsbridge Notes"). The Alsbridge Notes mature on September 1, 2018 and interest accrues on the principal amount daily at a rate of 2.0% and is payable upon maturity. At any time, the Company may at its option prepay all or any portion of Alsbridge Notes. As of September 30, 2017, the total principal outstanding under the Alsbridge Notes was $7.0 million.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

See Note 3 to our condensed consolidated financial statements included elsewhere in this report.

Critical Accounting Policies and Accounting Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. We prepare these financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates; however, actual results may differ from these estimates under different assumptions or conditions. There have been no material changes or developments in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Annual Report on Form 10-K, for the year ended December 31, 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

We are exposed to financial market risks primarily related to changes in interest rates associated with our borrowing and investing activities. A 100 basis point change in interest rates would result in an annual change in the results of operations of $1.1 million pre-tax.

Foreign Currency Risk

We operate in a number of international areas which exposes us to foreign currency exchange rate risk. We have significant international revenue, which is predominantly collected in local currency. From time to time, when feasible, we also economically hedge our exposure to changes in foreign exchange rates principally with forward contracts. These contracts are marked-to-market with the resulting gains and losses recognized in earnings offsetting the gains and losses on the non-functional currency denominated monetary assets and liabilities being hedged. As of September 30, 2017, we have no outstanding forward exchange contracts or other derivative instruments for hedging or speculative purposes. It is expected that our international revenues will continue to grow as European, Asian and other markets adopt sourcing solutions. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

We have not invested in foreign operations in highly inflationary economies; however, we may do so in future periods.

Credit Risk

Concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. All cash and cash equivalents are on deposit in fully liquid form in high quality financial institutions. We extend credit to our clients based on an evaluation of each client’s financial condition.

Our 25 largest clients accounted for approximately 38% of revenue in 2016 and 49% in 2015. If one or more of our large clients terminate or significantly reduce their engagements or fail to remain a viable business, then our revenues could be materially and adversely affected. In addition, our large clients generally maintain sizable receivable balances at any given time and our ability to collect such receivables could be jeopardized if such client fails to remain a viable business.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017, as required by the Rule 13a-15(b) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2017.

Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

The risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 have not materially changed.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table details the repurchases that were made during the three months ended September 30, 2017.

Period	Total Number of Securities Purchased (In thousands)	Average Price per Securities	Total Numbers of Securities Purchased as Part of Publicly Announced Plan (In thousands)	Approximate Dollar Value of Securities That May Yet Be Purchased Under The Plan (In thousands)
July 1 – July 31	30	$ 4.11	30	$ 15,233
August 1 – August 31	—	$ —	—	$ 15,233
September 1 – September 30	—	$ —	—	$ 15,233

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

Exhibit Number		Description
31.1	*	Certification of Chief Executive Officer Pursuant to SEC Rule 13a−14(a)/15d−14(a).
31.2	*	Certification of Chief Financial Officer Pursuant to SEC Rule 13a−14(a)/15d−14(a).
32.1	*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	*	The following materials from ISG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows and (iv) the Notes to Consolidated Financial Statements.

* Filed herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INFORMATION SERVICES GROUP, INC.

Date: November 9, 2017	/s/ Michael P. Connors Michael P. Connors, Chairman of the Board and Chief Executive Officer
Date: November 9, 2017	/s/ David E. Berger David E. Berger, Executive Vice President and Chief Financial Officer

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

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

I, Michael P. Connors, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Information Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 9, 2017

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

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

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

I, David E. Berger, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Information Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 9, 2017	/s/ DAVID E. BERGER David E. Berger Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

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

In connection with the quarterly report on Form 10−Q of Information Services Group, Inc. (the “Company”) for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael P. Connors, Chairman and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes−Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2017	/s/ MICHAEL P. CONNORS Michael P. Connors Chairman and Chief Executive Officer (Principal Executive Officer)

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

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

In connection with the quarterly report on Form 10−Q of Information Services Group, Inc. (the “Company”) for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David E. Berger, Executive Vice President, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes−Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2017	/s/ DAVID E. BERGER David E. Berger Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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