

Registered number: 06938214

**AI FINANCIAL INFORMATION UK LIMITED**

**FINANCIAL STATEMENTS**

**INFORMATION FOR FILING WITH THE REGISTRAR**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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**AI FINANCIAL INFORMATION UK LIMITED**  
**REGISTERED NUMBER: 06938214**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2020**

	Note	2020 £	2019 £
<b>Fixed assets</b>			
Tangible assets	4	9,743	12,896
Investments	5	28,189,356	28,189,356
		<u>28,199,099</u>	<u>28,202,252</u>
<b>Current assets</b>			
Debtors: amounts falling due after more than one year	6	258,110	353,590
Debtors: amounts falling due within one year	6	565,726	831,152
Cash at bank and in hand	7	2,150	935
		<u>825,986</u>	<u>1,185,677</u>
Creditors: amounts falling due within one year	8	(24,806,764)	(24,991,180)
<b>Net current liabilities</b>		<u>(23,980,778)</u>	<u>(23,805,503)</u>
<b>Total assets less current liabilities</b>		<u>4,218,321</u>	<u>4,396,749</u>
<b>Net assets</b>		<u>4,218,321</u>	<u>4,396,749</u>
<b>Capital and reserves</b>			
Called up share capital		4,416,715	4,416,715
Profit and loss account		(198,394)	(19,966)
		<u>4,218,321</u>	<u>4,396,749</u>

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**AI FINANCIAL INFORMATION UK LIMITED**  
**REGISTERED NUMBER: 06938214**

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**BALANCE SHEET (CONTINUED)**  
**AS AT 31 DECEMBER 2020**

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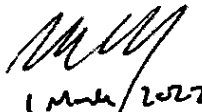
The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements have been delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The Company has opted not to file the income statement in accordance with provisions applicable to companies subject to the small companies' regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

**Allen Heery**  
Director



Date:

1 March 2022

The notes on pages 3 to 10 form part of these financial statements.

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## **AI FINANCIAL INFORMATION UK LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

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#### **1. General information**

IAI Financial Information UK Limited is a company limited by shares incorporated in England and Wales. The address of the registered office is No.1 London Bridge Fourth Floor, West Building, London, SE1 9BG. The presentational and functional currency is GBP. These financial statements are rounded to the nearest £1.

#### **2. Accounting policies**

##### **2.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The following principal accounting policies have been applied:

##### **2.2 Exemption from preparing consolidated financial statements**

The Company is a parent Company that is also a subsidiary included in the consolidated financial statements of its immediate parent undertaking established under the law of a non-EEA state and is therefore exempt from the requirement to prepare consolidated financial statements under section 401 of the Companies Act 2006.

##### **2.3 Going concern**

At the balance sheet date, the company had net current liabilities of £23,980,778 (2019: £23,805,503). The company is dependent on the continuing financial support from its parent company Institutional Shareholder Services Inc. (the Group).

The company has received a support letter from its parent company which has expressed its willingness to provide support to the company so that it can operate as a going concern and meet its obligations as they fall due for at least 12 months from the date of signing these financial statements. Therefore, in assessing the going concern position of the company for the year ended 31 December 2020, the directors have considered the Group's ability to provide support based on its assessment on the Group's cash flow, liquidity and business activities. The Group repaid its long term debt in 2021 and is projected to generate sufficient additional cash in 2022. The 2022 budget reflects continued growth in all business units globally, however the consolidated balance sheet as at 31 January 2022 included net current liabilities of nearly \$93m including deferred revenue. The Group has not obtained a support letter from its ultimate listed parent company Deutsche Börse Group on the basis that the Group has access to a \$40m revolving line of credit from Deutsche Börse Group and it has little external debt and can access debt markets easily if ever necessary.

The directors acknowledge that the company remains dependent upon the support of the wider group to continue in existence. In the event that support ceased, there is significant doubt whether the company could continue trading and the directors therefore acknowledge that a material uncertainty exists.

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**AI FINANCIAL INFORMATION UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**2. Accounting policies (continued)****2.4 Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

**Rendering of services**

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

**2.5 Pensions****Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**2. Accounting policies (continued)**

**2.6 Taxation**

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

**2.7 Tangible fixed assets**

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Plant and machinery	-	20% on cost
Fixtures and fittings	-	20% on cost

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

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**AI FINANCIAL INFORMATION UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**2. Accounting policies (continued)**

**2.8 Valuation of investments**

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Company shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Income statement for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each Balance sheet date. Gains and losses on remeasurement are recognised in profit or loss for the period.

**2.9 Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

**2.10 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

**2.11 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

**3. Employees**

The average monthly number of employees, excluding directors, during the year was 5 (2019 - 6).

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**AI FINANCIAL INFORMATION UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**4. Tangible fixed assets**

	Fixtures and fittings £
<b>Cost or valuation</b>	
At 1 January 2020	33,689
At 31 December 2020	<u>33,689</u>
<b>Depreciation</b>	
At 1 January 2020	20,793
Charge for the year on owned assets	3,153
At 31 December 2020	<u>23,946</u>
<b>Net book value</b>	
At 31 December 2020	<u>9,743</u>
At 31 December 2019	<u>12,896</u>



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**AI FINANCIAL INFORMATION UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**5. Fixed asset investments**

	<b>Investments in subsidiary companies £</b>
<b>Cost or valuation</b>	
At 1 January 2020	<b>28,189,356</b>
At 31 December 2020	<b>28,189,356</b>

**6. Debtors**

	<b>2020 £</b>	<b>2019 £</b>
<b>Due after more than one year</b>		
Other debtors	<b>258,110</b>	<b>353,590</b>
	<b>258,110</b>	<b>353,590</b>
<b>Due within one year</b>		
Amounts owed by group undertakings	<b>447,820</b>	<b>715,350</b>
Other debtors	<b>117,827</b>	<b>115,091</b>
Prepayments and accrued income	<b>79</b>	<b>711</b>
	<b>565,726</b>	<b>831,152</b>

Amounts owed by/to group undertakings included in debtors and creditors in prior year have been reclassified, which resulted in the increase in the amounts owed by group undertakings by £715,350 and the decrease in the amounts owed to group undertakings by £715,350.

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**AI FINANCIAL INFORMATION UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**7. Cash and cash equivalents**

	2020 £	2019 £
Cash at bank and in hand	2,150	935
	<u>2,150</u>	<u>935</u>

**8. Creditors: Amounts falling due within one year**

	2020 £	2019 £
Trade creditors	498	7,664
Amounts owed to group undertakings	24,776,308	24,861,138
Other taxation and social security	774	76,120
Accruals and deferred income	29,184	46,258
	<u>24,806,764</u>	<u>24,991,180</u>

Amounts owed by/to group undertakings included in debtors and creditors in prior year have been reclassified, which resulted in the increase in the amounts owed by group undertakings by £715,350 and the decrease in the amounts owed to group undertakings by £715,350.

**9. Pension commitments**

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £21,085 (2019: £10,171). Contributions totalling £3,419 (2019: £2,427) were payable to the fund at the balance sheet date and are included in accruals.

**10. Related party transactions**

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

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**AI FINANCIAL INFORMATION UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**11. Controlling party**

The immediate parent company is Asset International Financial Information UK Holdings Ltd, a company registered in the UK.

The ultimate controlling party is Institutional Shareholder Services Inc., a company based in the US.

The parent undertaking of the smallest and largest group, which includes the company and for which group accounts are prepared, is Institutional Shareholder Services Inc..

Institutional Shareholder Services Inc. is incorporated in Delaware, the United States of America. Copies of the financial statements for Institutional Shareholder Services Inc. are not publicly available.

After the year end, Deutsche Börse Group, a company listed on Frankfurt Stock Exchange Market, has acquired approximately 81% stake in Institutional Shareholder Services Inc..

**12. Auditors' information**

The auditors' report on the financial statements for the year ended 31 December 2020 was unqualified.

The audit report was signed on 02 March 2022 by Rajeev Shaunak FCA (Senior statutory auditor) on behalf of MHA MacIntyre Hudson.

# Institutional Shareholder Services Inc.

Consolidated Financial Statements as of December 31, 2020 and for  
the Year Ended December 31, 2020

Independent Auditors' Report

THESE PARTNERSHIP  
ACCOUNTS FORM  
PART OF THE ACCOUNTS  
OF COMPANY  
No. 6938214

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Shareholders of Institutional Shareholder Services Inc.:

We have audited the accompanying consolidated financial statements of Institutional Shareholder Services Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial condition as of December 31, 2020, and the related consolidated statements of operations, comprehensive loss, changes in shareholders equity (as restated), and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively "the financial statements").

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

Management is responsible for the preparation and fair presentation of these 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Institutional Shareholder Services Inc. and its subsidiaries as of December 31, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 15 to the financial statements, the accompanying 2020 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

**June 9, 2021**

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**

(in thousands, except for share data)	<u>December 31,</u> <u>2020</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash	\$ 43,951
Trade receivables	33,041
Prepaid income taxes	1,165
Prepaid and other assets	<u>11,149</u>
<b>Total current assets</b>	89,306
Property, equipment and leasehold improvements, net (See Note 9)	16,107
Intangible assets, net (See Note 10)	451,833
Goodwill (See Note 10)	833,268
Deferred taxes (See Note 13)	2,504
Other non-current assets	<u>10,341</u>
<b>Total assets</b>	<u>\$ 1,403,359</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 3,395
Accrued compensation and related benefits	23,276
Other accrued liabilities	48,973
Current maturities of long-term debt (See Note 8)	5,953
Income taxes payable	3,552
Deferred revenue	<u>105,201</u>
<b>Total current liabilities</b>	190,350
Long-term debt, net of current maturities (See Note 8)	687,004
Deferred taxes (See Note 13)	48,459
Other non-current liabilities	<u>8,637</u>
<b>Total liabilities</b>	<u>934,450</u>
<b>Commitments and Contingencies (See Note 7)</b>	
<b>Shareholder's Equity</b>	
Common stock (par value \$0.01; 1,000 shares authorized; 100 shares issued and outstanding)	
Additional paid in capital	516,971
Accumulated deficit	(42,682)
Accumulated other comprehensive loss	<u>(5,380)</u>
<b>Total shareholder's equity</b>	<u>468,909</u>
<b>Total liabilities and shareholder's equity</b>	<u>\$ 1,403,359</u>

See Notes to Consolidated Financial Statements.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.  
CONSOLIDATED STATEMENT OF OPERATIONS**

<b>(in thousands)</b>	<b><u>For the Year Ended</u> <u>December 31,</u> <u>2020</u></b>
<b>Operating revenues</b>	<b><u>\$ 294,046</u></b>
<b>Operating expenses</b>	
Compensation and benefits	161,091
Non-compensation	68,759
Acquisition and separation charges	3,302
Depreciation and amortization	5,250
Amortization of intangible assets	36,043
Restructuring expense	636
<b>Total operating expenses</b>	<b><u>275,081</u></b>
<b>Operating income</b>	<b>18,965</b>
Interest income	(4)
Interest expense	50,992
Other expense, net	419
Foreign exchange loss	112
<b>Other expenses, net</b>	<b><u>51,519</u></b>
<b>Loss before benefit from income taxes</b>	<b>(32,554)</b>
Income tax benefit	(4,620)
<b>Net loss</b>	<b><u>\$ (27,934)</u></b>

See Notes to Consolidated Financial Statements.



**INSTITUTIONAL SHAREHOLDER SERVICES INC.  
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS**

<b>(in thousands)</b>	<b><u>For the Year Ended</u> <u>December 31,</u> <u>2020</u></b>
<b>Net loss</b>	<b>\$ (27,934)</b>
Other comprehensive loss:	
Foreign currency translation adjustments	2,068
Income tax effect	(600)
Foreign currency translation adjustments, net	<u>1,468</u>
Pension and other post-retirement adjustments	(985)
Income tax effect	296
Pension and other post-retirement adjustments, net	<u>(689)</u>
Other comprehensive gain, net of tax	<u>779</u>
<b>Comprehensive loss</b>	<b><u>\$ (27,155)</u></b>

**See Notes to Consolidated Financial Statements.**

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY (AS RESTATED)**

(in thousands)	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
<b>Balance at December 31, 2019, as previously reported</b>	\$ -	\$ 514,915	\$ (32,885)	\$ (6,159)	\$ 475,871
Prior-period adjustment (See Note 15)	-	-	18,137	-	18,137
<b>Balance at December 31, 2019, as restated</b>	-	514,915	(14,748)	(6,159)	494,008
Net loss	-	-	(27,934)	-	(27,934)
Stock based compensation	-	2,075	-	-	2,075
Option cancellation payments	-	(19)	-	-	(19)
Other comprehensive gain, net of tax	-	-	-	779	779
<b>Balance at December 31, 2020</b>	<b>\$ -</b>	<b>\$ 516,971</b>	<b>\$ (42,682)</b>	<b>\$ (5,380)</b>	<b>\$ 468,909</b>

See Notes to Consolidated Financial Statements.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS**

(in thousands)	<u>For the Year Ended</u> <u>December 31,</u> <u>2020</u>
<b>Cash flows from operating activities</b>	
Net loss.....	\$ (27,934)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Amortization of intangible assets.....	36,043
Depreciation and amortization.....	5,250
Bad debt expense.....	358
Amortization of debt origination fees.....	2,535
Deferred taxes.....	(9,123)
Stock-based compensation expense.....	2,075
Loss on disposal of Property & Equipment.....	112
Changes in assets and liabilities, net of assets acquired and liabilities assumed:	
Trade receivables.....	6,086
Income taxes.....	1,773
Prepaid and other assets.....	(1,139)
Accounts payable.....	(3,379)
Deferred revenue.....	17,010
Accrued compensation and related benefits.....	3,757
Other accrued liabilities.....	9,707
Other.....	3,642
<b>Net cash provided by operating activities.....</b>	<b>46,773</b>
<b>Cash flows from investing activities</b>	
Payments for acquisitions.....	(10,137)
Capitalized software development costs.....	(6,302)
Capital expenditures.....	(6,671)
<b>Net cash used in investing activities.....</b>	<b>(23,110)</b>
<b>Cash flows from financing activities</b>	
Payments for contingent/deferred consideration.....	(91)
Repayments of term loan principal.....	(5,050)
Cash proceeds from Revolving Credit Facility.....	17,500
Repayments of Revolving Credit Facility borrowings.....	(11,750)
Option cancellation payments.....	(19)
Repayments of capital lease obligations.....	(1,289)
<b>Net cash used in financing activities.....</b>	<b>(699)</b>
<b>Effect of exchange rate changes.....</b>	<b>(2,319)</b>
<b>Net increase in cash.....</b>	<b>20,645</b>
<b>Cash, beginning of year.....</b>	<b>23,306</b>
<b>Cash, end of year.....</b>	<b>\$ 43,951</b>
<b>Supplemental disclosure of cash flow information:</b>	
Cash paid for interest.....	\$ 48,080
Cash paid for income taxes, net of refunds.....	\$ 2,739
<b>Supplemental disclosure of non-cash investing activities:</b>	
Property, equipment and leasehold improvements in other accrued liabilities.....	\$ 356
Property, equipment and leasehold improvements financed through capital leases.....	\$ 227
Subordinated note payable issued for acquisition of Cyber Risk.....	\$ 4,000

**See Notes to Consolidated Financial Statements.**

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. INTRODUCTION AND BASIS OF PRESENTATION**

**Company Description and Organization**

Institutional Shareholder Services Inc. together with its wholly-owned subsidiaries (the “Company” or “ISS”), is a leading provider of corporate governance and responsible investment (“RI”) solutions to institutional investors and corporations around the world. ISS is a wholly owned subsidiary of VISS Intermediate LLC, which is a wholly owned subsidiary of VISS Holdings, Inc. (“VISS”), a Delaware corporation. On September 1, 2017, VISS, Vestar/ISS Investments I L.P., a Delaware limited partnership and wholly owned subsidiary of Vestar Capital Partners VI, L.P. (the “Securityholder Representative” and “Seller”), and GC Lighthouse Merger Sub, Inc., a Delaware corporation wholly owned by Genstar Capital Partners VIII, L.P. (“Buyer”), entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”), pursuant to which, among other things, the Securityholder Representative agreed to sell to Buyer all of the outstanding capital stock of VISS. On October 16, 2017, Securityholder Representative, and Buyer completed the sale of VISS. As a result of this sale and certain other organizational changes made, VISS is now a wholly owned subsidiary of GC Lighthouse Holdings Inc. (“GCLH”).

Founded in 1985, ISS empowers investors and companies to build for long-term and sustainable growth by providing high-quality data, analytics, and insight. With over 2,000 employees spread across 30 U.S. and international locations, ISS is today the world's leading provider of corporate governance and responsible investment solutions, market intelligence and fund services, and events and editorial content for institutional investors and corporations, globally.

**COVID-19 Pandemic**

In March 2020, the World Health Organization categorized the novel coronavirus (COVID-19) as a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, and created significant volatility and disruption of financial markets. Due to the spread of COVID-19, many countries around the world and jurisdictions in the United States have imposed quarantines and restrictions on travel and mass gatherings to slow the spread of the virus. Such restrictions have impacted our Media Events business, as in-person events scheduled for 2020 had to be postponed or transitioned to a virtual format. Overall, the COVID-19 impact on our business was not significant.

The impacts of the COVID-19 pandemic may continue to impact our results during 2021. The extent to which our operations will be impacted by the pandemic will depend largely on future developments, including the continued severity of the pandemic and future actions by government authorities to contain it or treat its impact. These conditions are highly uncertain and cannot be accurately predicted. We will continue to actively monitor and respond to the evolving situation.

**Basis of Presentation**

The consolidated financial statements include the accounts of Institutional Shareholder Services Inc. and its wholly-owned subsidiaries. The Company's policy is to consolidate all entities in which it owns more than 50% of the outstanding voting stock unless it does not control the entity. It is also the Company's policy to consolidate any variable interest entity for which the Company is the primary beneficiary, as required by Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10, *Consolidation*. For investments in any entities in which the Company owns 20% or less of the outstanding voting stock and significant influence does not exist, such investments are carried at cost.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Significant Accounting Policies**

***Basis of Financial Statements and Use of Estimates***

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These accounting principles require the Company to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the year presented. Significant estimates and assumptions made by management include purchase accounting allocations, the deferral and recognition of revenue, internal use software capitalization, impairment of long-lived assets, accrued compensation, income taxes and other matters that affect the consolidated financial statements and related disclosures. The Company believes that estimates used in the preparation of these consolidated financial statements are reasonable; however, actual results could differ materially from these estimates.

Intercompany balances and transactions within the Company have been eliminated.

***Revenue Recognition***

***Revenue from Contracts with Customers***

The Company recognizes revenue when it satisfies a performance obligation by transferring the control of a service to a customer. The Company transfers control of a service to a customer for most services over time as services are rendered. Vote disclosure services are delivered at a point in time and revenue is recognized at the point in which services are delivered.

The Company provides products and services to its clients under various subscription arrangements. In most cases, the Company satisfies its performance obligations and recognizes revenues from subscription agreements ratably over the term of the agreement pursuant to the contract terms. Fees are generally billed in advance, which may be prior to the license start date or periodically over the term of the license. The majority of revenue is derived from recurring services which are subscription based.

The remaining revenue is derived from the sale of non-recurring services. Advertising and event sponsorship performance obligations are satisfied and revenue is recognized upon publication or occurrence of the periodical, digital ad, or event wherein the advertisement or sponsorship is placed. Consulting performance obligations are satisfied and fees are recognized over the service period, using an output method based on amounts that are invoiced to the customer.

On occasion, the Company will enter into cooperation agreements with strategic partners whereby customers are able to access ISS data and products through a strategic partner's offering. In these arrangements, the Company pays royalty fee to the partner company. The specific terms and conditions of these agreements will vary depending on specific circumstances. The Company records the full amount of revenue on these sales and expenses the amount being paid back to the partner company.

Contingent fees for securities and class action services are an element of variable consideration that is constrained until the contingency is resolved, which is when assets are recovered. Variable consideration is constrained, because the amount of recoveries is unknown and outside of the Company's control. Overages related to proxy research and voting services are another element of variable consideration. Overages are allocated to the period over which volume is measured and constrained until overage fees are earned due to the unpredictable nature of customer consumption and because they may be subject to renegotiation.

Payment for services rendered is typically due 30 days from invoicing. The period between when ISS transfers the promised services to the customer and when the Customer pays for those services is one year or less and ISS has elected to apply the practical expedient and not adjust the recurring consideration for a financing component.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
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**Costs to Obtain Contracts with Customers**

The Company capitalizes sales commissions that are directly related to obtaining customer contracts and that would not have been incurred if the contract had not been obtained. These costs are included in the accompanying Consolidated Statement of Financial Condition and are classified as "Prepaid and other assets." Deferred contract costs are amortized to sales and marketing expense over the expected period of benefit, which for new subscription contracts the Company determines based on customer industry and for renewal and on-time service contracts is the term of the contract.

***Share-Based Compensation***

Certain employees of the Company received share-based compensation awards under the share-based compensation programs established and maintained by GCLH. The Company's compensation expense reflects the fair value method of accounting for share-based payments under ASC Subtopic 718-10, *Compensation – Stock Compensation*. ASC Subtopic 718-10 requires measurement of compensation cost for equity-based awards at fair value and recognition of compensation cost over the service period, net of estimated forfeitures. This expense has been reflected in the accompanying Consolidated Statement of Operations as part of "Compensation and benefits."

***Research and Development***

The Company accounts for research and development ("R&D") costs in accordance with ASC Subtopic 730-10, *Research and Development*. Research costs are expensed as incurred and primarily represent the effort necessary to ensure ISS' voting policies are developed and applied within a framework for corporate governance best practices. This includes surveying institutional investors to share their ideas on corporate governance issues such as, board structure, executive compensation, mergers and acquisitions, and corporate accountability.

Development costs are expensed as incurred unless they meet the criteria for capitalization, and primarily include efforts to develop or maintain ISS's hosted product offerings, including supporting the application's management and account management teams in resolving customer specific issues.

***Internal Use Software***

The Company applies the provisions of ASC Subtopic 350-40, *Internal Use Software*, and accounts for the cost of computer software developed or obtained for internal use by capitalizing qualifying costs, which are incurred during the application development stage. These capitalized costs primarily relate to ISS' hosted product offerings and corporate applications. Costs incurred in the preliminary and post-implementation stages of the Company's internal use software are expensed as incurred.

The amounts capitalized include external direct costs of services used in developing internal-use software as well as payroll and payroll-related costs of employees directly associated with the development activities. Additionally, costs incurred relating to upgrades and enhancements to the software are capitalized if it is determined that these upgrades or enhancements add additional functionality to the software. The Company capitalized \$6.3 million of costs related to software developed for internal use for the year ended December 31, 2020. These amounts are included in "Intangible assets" in the Consolidated Statement of Financial Condition.

Internal use software costs are amortized on a straight-line basis over the estimated useful life of the related product, which is generally 3 years, beginning on the date that the software is placed into service. Amortization related to software developed for internal use was \$3.5 million for the year ended December 31, 2020.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
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***Income Taxes***

The Company uses the assets and liability method to account for income taxes. Under this approach, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the estimated tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided whenever it is more likely than not that a deferred tax asset will not be realized.

The Company recognizes the financial benefit of an income tax position only after determining that the relevant tax authorities would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Company applies the uncertain tax position guidance for which the statute of limitations remains open. The Company evaluates its tax positions in the tax return filed, as well as any un-filed tax positions and the amounts comprising deferred tax assets.

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and on December 27, 2020 enacted the Consolidated Appropriations Act, 2021. Pursuant to the Act, the Company exercised the option to defer payment of the employer portion of the Social Security tax, with 50% scheduled to be repaid by December 31, 2021 and the remainder by December 31, 2022. The Company deferred payment of approximately \$2.4 million of employer Social Security taxes during the year ended December 31, 2020. As of December 31, 2020, the current portion of the deferred payments are included in "Accrued compensation and benefits," and the remaining deferred payments are included in "Other non-current liabilities" in the accompanying Consolidated Statement of Financial Condition. As the deferred employer taxes are not tax deductible until paid in 2021 and 2022, a deferred tax asset of approximately \$0.6 million is included in the net deferred tax liabilities in the accompanying Consolidated Statement of Financial Condition as of December 31, 2020. Additionally, the Company has benefited from the increased ability to deduct interest expense as the Act made various favorable changes to the 163(j) expensing limitations including raising the deduction limit to 50% of adjusted taxable income.

The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions in which it files income tax returns. The Company has established unrecognized tax benefits that the Company believes are adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change. As part of the Company's periodic review of unrecognized tax benefits, the Company's unrecognized tax benefits were re-measured. Unrecognized tax benefits as of December 31, 2020 are \$4.3 million, which if recognized would have an impact on the effective tax rate. Interest and penalty expenses on unrecognized tax benefits were de minimis for the year ended December 31, 2020.

The Company does not anticipate a significant change to its unrecognized tax benefits over the next 12 months that would have a material impact on its effective tax rate.

***Deferred Revenue***

Deferred revenue represents amounts billed to customers for products and services in advance of delivery. The Company's clients generally pay subscription fees annually or quarterly in advance. Deferred revenue is amortized ratably over the service period as revenue recognition criteria are met. Where the service period has not begun and the client has not paid or the contract has not been renewed, deferred revenue and trade receivables are not recognized.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
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***Goodwill***

Goodwill is recorded as part of the Company's acquisitions of businesses when the purchase price exceeds the fair value of the net tangible and separately identifiable intangible assets acquired. The Company's goodwill was recorded pursuant to the initial "push down" accounting as part of GCLH's acquisition of VISS and the acquisitions of EVA Dimensions LLC ("EVA"), oekom research AG ("oekom"), Centre for Australian Ethical Research Pty Ltd ("CAER"), Strategic Insight Holdings Inc. ("SI"), Flowspring, Inc. ("Flowspring"), and Cyber Risk Score ("Cyber Risk"), (See Note 3, "Acquisitions" for further information). The Company's goodwill is not amortized, but rather subject to an impairment test that is performed each year, or more often if conditions indicate impairment may have occurred, pursuant to ASC Topic 350, *Intangibles—Goodwill and Other*.

The Company tests goodwill for impairment on an annual basis on September 30 and on an interim basis when certain events and circumstances exist. The testing for impairment is performed at the reporting unit level. The Company operates as one reporting unit. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective book value. If the estimated fair value exceeds the book value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below book value, however, further analysis is required to determine the amount of impairment. Additionally, if the book value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. As the estimated fair value of its reporting units exceeded their respective book value on the testing date, no impairment of goodwill was recorded during the year ended December 31, 2020.

***Intangible Assets***

Intangible assets consist of finite-lived intangible assets from GCLH's acquisition of VISS that have been recorded by the Company pursuant to "push-down" accounting, the acquisitions of EVA, oekom, CAER, SI, Flowspring, and Cyber Risk, as well as internal use software. The Company amortizes finite-lived intangible assets over their estimated useful lives. Finite-lived intangible assets are tested for impairment when impairment indicators are present, and, if impaired, written down to fair value based on either discounted cash flows or appraised values. No impairment of intangible assets has been identified during the year ended December 31, 2020. The Company has no indefinite-lived intangible assets.

***Impairment of Long-Lived Assets***

In accordance with ASC 360 Topic, *Property, Plant and Equipment*, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its expected estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

***Foreign Currency Translation***

Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at year-end exchange rates, and statement of operations accounts are translated at weighted average exchange rates for the year. Gains or losses resulting from translating foreign currency financial statements, net of related tax effects, are reflected in accumulated other comprehensive income, a separate component of shareholder's equity. Gains or losses resulting from foreign currency transactions incurred in currencies other than the local functional currency are included in "Foreign exchange loss" in the Consolidated Statement of Operations.

***Cash***

Cash consists of demand deposits.



**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Fair Value of Financial Assets and Liabilities***

The Company's financial assets and liabilities include cash and trade receivables.

The Company applies the fair value hierarchy of ASC Subtopic 820-10, *Fair Value Measurement*, to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. A financial asset's or financial liability's level in the fair value hierarchy is based on the lowest level of any input that is significant to its fair value measurement. The three levels of the fair value hierarchy are:

- |         |  |
|---------|--|
| Level 1 | Valuations based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;                        |
| Level 2 | Valuations based on one or more quoted prices in markets that are not considered to be active or for which all significant inputs are observable, either directly or indirectly; and |
| Level 3 | Valuations based on one or more inputs that are both significant to fair value measurement and unobservable.   |

***Property, Equipment and Leasehold Improvements, Net***

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Furniture and fixtures and computer and communications equipment are depreciated using the straight-line method over the estimated useful life of the asset. Estimates of useful lives are as follows: furniture and fixtures – seven years; computer and related equipment – three to five years. Software is depreciated on a straight-line basis over the lesser of three years or the corresponding subscription period associated with the underlying asset. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or, where applicable, the remaining term of the lease.

***Allowance for Doubtful Accounts***

The Company's customers are primarily institutional and corporate organizations headquartered in the United States, Canada, Europe, Asia and Australia. The Company assesses the trade receivable balances for each client for collectability and maintains an allowance for doubtful accounts to estimate losses that may result from the inability of its customers to make required payments. An allowance for doubtful accounts is recorded when it is probable and estimable that a receivable will not be collected.

***Accrued Compensation***

The Company makes significant estimates in determining its accrued non-share based compensation and benefits expenses. A significant portion of the Company's employee incentive compensation programs are discretionary. Each year end, the Company determines the amount of discretionary cash bonus pools. The Company also reviews compensation and benefits expenses throughout the year based on how overall performance compares to management's expectations.

***Acquisition and Separation Charges***

Acquisition and separation related costs represent transaction and integration costs incurred in connection with the acquisitions of FICO and Flowspring. Integration costs primarily include employee travel costs, outside consultants assisting with integration activities, and consolidation of technology infrastructure.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Concentrations***

Financial instruments, which potentially expose the Company to concentration of credit risk, consist primarily of accounts receivable and cash. Concentration of credit risk with respect to accounts receivable is limited due to the large number of customers and their dispersion across many different industries and countries worldwide. However, the Company may be exposed to a declining customer base in periods of unforeseen market downturns, severe competition, or international developments. The Company performs periodic evaluations of the customer base and related receivables and establishes allowances for potential credit losses.

For the year ended December 31, 2020, no single customer accounted for 10.0% or more of the Company's operating revenues.

**2. RECENT ACCOUNTING STANDARDS UPDATE**

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842), or ASU 2016-02. This update requires the recognition of certain lease assets and lease liabilities on the balance sheet as well as the disclosure of key information about leasing arrangements. The amendments in this ASU require the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients which may be elected by the Company.

In July 2018, the FASB issued Accounting Standards Update No. 2018-10, "Codification Improvements to Topic 842, Leases," or ASU 2018-10, and Accounting Standards Update No. 2018-11, "Targeted Improvements," or ASU 2018-11. The amendments in ASU 2018-10 include how an entity should perform the lease classification reassessment, a clarification that a change in a reference index or rate upon which some or all of the variable lease payments in the contract are based does not constitute the resolution of a contingency and a clarification as to whether to recognize a transition adjustment in earnings rather than through equity when an entity initially applies Topic 842 retrospectively to each prior reporting period. The amendments in ASU 2018-11 address comparative reporting requirements for initial adoption as well as separating lease and non-lease components in a contract and allocating the consideration in the contract to the separate components. ASU 2018-11 provides another transition method in addition to the existing transition method by allowing entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. ASU 2018-11 also provides a practical expedient for lessors to elect, by class of underlying asset, to not separate non-lease components from the associated lease component, similar to the expedient provided for lessees.

In March 2019, the FASB issued Accounting Standards Update No. 2019-01, "Codification Improvement to Topic 842, Leases" or ASU 2019-01. ASU 2019-01 provides amendments to clarify transition disclosure requirements and defers the effective date of ASU 2016-02 to fiscal years beginning after December 15, 2019.

In June 2020, the FASB issued Accounting Standards Update No. 2020-05, "Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) – Effective Dates for Certain Entities" or ASU 2020-05. ASU 2020-05 was issued in response to the widespread business disruptions caused by the COVID-19 pandemic and defers the effective date of ASU 2016-02 to fiscal years beginning after December 15, 2021.

The Company is continuing to evaluate the potential impact that ASU 2016-02 and its related amendments will have on its consolidated financial statements and plans to early-adopt the new standard in 2021.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
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In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, or ASU 2017-04. The amendments in ASU 2017-04 simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities. Instead, under the amendments in ASU 2017-04, an entity performs its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, but not more than the total amount of goodwill allocated to the reporting unit. The Company adopted ASU 2017-04 effective January 1, 2020. The adoption did not have a material effect on the Company's consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)," or ASU 2018-15, to help entities evaluate the accounting for costs of implementation activities incurred in a cloud computing arrangement that is a service contract. ASU 2018-15 aligns the requirements for deferring implementation costs incurred in a cloud computing arrangement that is a service contract with those incurred to develop or obtain internal-use software. The Company adopted ASU 2018-15 effective January 1, 2020. The adoption did not have a material effect on the Company's consolidated financial statements.

### 3. ACQUISITIONS

The acquisition method of accounting is based on ASC Subtopic 805-10, *Business Combinations*, and uses fair value concepts defined in ASC Subtopic 820-10, *Fair Value Measurement*. The total purchase price is allocated to the net tangible and intangible assets based upon their fair values as of the acquisition dates. The excess of the purchase price over the fair values of the net tangible assets and intangible assets is recorded as goodwill. The allocation of the purchase price is based upon a valuation and is subject to change within the one-year measurement period following the acquisition. While the Company believes that the purchase price allocation is substantially complete, the Company expects to continue to obtain information to assist it in determining the fair value of the net assets acquired at the acquisition date during the remainder of the measurement period.

#### *Flowspring, Inc.*

On July 31, 2020, the Company completed the acquisition of Flowspring, Inc. ("Flowspring") for a cash payment of \$1.2 million. Flowspring is a leading provider of advanced competitive intelligence for asset managers. Flowspring's web-based platform is powered by cutting-edge data models that help asset managers better understand their competitors, their investors, and the market for their products. The acquisition is another step in the Company's commitment to providing clients with access to a broader set of integrated data.

The purchase price allocation as of July 31, 2020 is as follows:

<b>(in thousands)</b>	
Cash paid	<u>\$ 1,204</u>
Cash	\$ 19
Prepaid and other assets	1
Intangible assets	513
Goodwill	<u>798</u>
Total assets acquired	1,331
Accrued expenses	(55)
Deferred tax liability	<u>(72)</u>
Net assets acquired	<u>\$ 1,204</u>

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table sets forth the components of finite-lived intangible assets acquired in connection with the acquisition:

<b>(in thousands)</b>	<u>Estimated Fair Value</u>	<u>Estimated Useful Life</u>
Developed technology	\$ 513	5 years
Total intangible assets	<u>\$ 513</u>	

ISS incurred approximately \$0.1 million in legal fees related to this acquisition during the year ended December 31, 2020. These costs are reflected in "Acquisition and separation charges" on the Consolidated Statement of Operations.

***EVA License***

On September 11, 2020, the Company paid approximately \$1.8 million in cash to purchase a license agreement that provided the exclusive right to sell EVA products to quantitative asset managers and hedge funds. The customer relationships associated with the license were determined to have a fair value of \$1 million and an estimated useful life of 10 years. The Company recognized \$0.8 million in settlement expenses associated with the transaction, which are reflected in "Other expense, net" on the Consolidated Statement of Operations for the year ended December 31, 2020.

***Cyber Risk Score***

On October 30, 2020, the Company completed the acquisition of substantially all of the assets and liabilities of the cyber risk score business of FICO® ("Cyber Risk"). The FICO® Cyber Risk Score provides a long-term indicator of network security risk based on a diverse set of inputs, global cybersecurity threats, and proprietary analytical methods thereby helping companies to accurately assess, continually monitor, and judiciously benchmark their enterprise cyber risk management programs. Cyber risk scores will be integrated as part of the Company's leading Governance QualityScore ratings to evaluate portfolio company risk, in addition to other ISS offerings such as ESG ratings and relevant indices.

The aggregate purchase price paid for Cyber Risk was \$11.9 million, consisting of an \$8 million cash payment and a \$3.9 million subordinated note payable to the seller. The note payable accrues simple interest at a rate of 2% per annum on \$1.6 million of the principal amount. Outstanding principal and interest will become due on the one-year anniversary of closing. The note payable was recorded net of a \$0.2 million fair value adjustment on the date of acquisition and is presented in "Other accrued liabilities" on the accompanying Consolidated Statement of Financial Condition.

The purchase price allocation as of October 30, 2020 is as follows:

<b>(in thousands)</b>	
Cash paid	\$ 7,972
Note payable, net of fair value adjustment	<u>3,751</u>
Total purchase consideration	<u>\$ 11,723</u>
Receivables	\$ 387
Prepaid and other assets	274
Intangible assets	2,500
Goodwill	<u>9,423</u>
Total assets acquired	12,584
Accrued expenses	(42)
Deferred revenue	(819)

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Net assets acquired	<u>\$ 11,723</u>
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The following table sets forth the components of finite-lived intangible assets acquired in connection with the acquisition:

(in thousands)	Estimated Fair Value	Estimated Useful Life
Trade names	\$ 200	10 years
Developed technology	2,200	10 years
Customer relationships	100	10 years
Total intangible assets	<u>\$ 2,500</u>	

ISS incurred approximately \$0.5 million in transaction and separation related costs related to this acquisition during the year ended December 31, 2020. These costs were predominantly legal and consultant fees incurred in completing the deal. These costs are reflected in "Acquisition and separation charges" on the Consolidated Statement of Operations.

#### **4. RESTRUCTURING**

During the year ended December 31, 2020, the Company's management approved, committed to and initiated a plan (the "Restructuring Plan") to consolidate the workforce by relocating SI employees from their Stamford, CT office to the New York, NY office. The Company accounts for restructuring costs in accordance with ASC Subtopic 420-10, *Exit or Disposal Cost Obligations*. The restructuring costs are recorded to the "Restructuring expense" line item within the Company's Consolidated Statement of Operations as they are recognized.

During the year ended December 31, 2020, the Company recorded \$0.6 million of restructuring expense in connection with the Restructuring Plan, of which \$0.6 million was related to costs associated with the abandonment of the Stamford, CT office lease and a nominal amount was related to severance and other various miscellaneous expenses to close the office.

The table below summarized the accrual and charges incurred with respect to the Company's Restructuring Plan that are included in the line item "Other accrued liabilities" in the Company's Consolidated Statement of Financial Condition as of December 31, 2020:

(in thousands)	Severance	Lease termination	Other	Total
Accrued Balance, December 31, 2019	\$ -	\$ -	\$ -	\$ -
Restructuring costs	33	583	20	636
Cash payments	<u>(33)</u>	<u>(230)</u>	<u>(18)</u>	<u>(281)</u>
Accrued Balance, December 31, 2020	<u>\$ -</u>	<u>\$ 353</u>	<u>\$ 2</u>	<u>\$ 355</u>

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. CONTRACT BALANCES**

Contract assets consist of unbilled receivables, which represent the accrued revenue on auto-renewed subscriptions that have not yet been invoiced to the customer. Contract assets are included within “Trade receivables” in our Consolidated Statement of Financial Condition. Contract liabilities represent deferred revenue, which is the Company’s obligation to provide future services to the customer for a prepaid term. Contract liabilities are included within “Deferred revenue” and “Other non-current liabilities” in our Consolidated Statement of Financial Condition. The beginning and ending balances of receivables, contracts assets, and contract liabilities from contracts with customers for the year ended December 31, 2020:

(in thousands)	Accounts receivable	Contract assets	Contract liabilities
December 31, 2019	31,386	7,084	86,541
Increase (Decrease)	(4,316)	(1,113)	20,613
December 31, 2020	<u>\$ 27,070</u>	<u>\$ 5,971</u>	<u>\$ 107,154</u>

**6. DISAGGREGATION OF REVENUE**

The Company earns revenue by providing services through several product lines. Product lines are the disaggregation of revenue primarily used by management, because it allows evaluation of market trends and because product lines vary in how recurring or non-recurring they are.

The following tables disaggregates revenue by product lines:

(in thousands)	Year Ended December 31, 2020
Governance Solutions	\$ 115,426
Corporate Solutions	71,674
Market Intelligence	66,439
ESG Analytics	34,718
Media	5,789
	<u>\$ 294,046</u>

**7. COMMITMENTS AND CONTINGENCIES**

**Legal Matters.** From time to time, the Company is party to various litigation matters incidental to the conduct of its business. The Company is not presently party to any legal proceedings of which the Company believes the resolution would have a material effect on its business, operating results, financial condition or cash flows.

In October 2019, the Company initiated a lawsuit against the U.S. Securities and Exchange Commission (SEC) challenging “guidance” issued by the SEC in August 2019 and alleging that the SEC inappropriately altered the regulatory regime applicable to the voting advice provided by proxy advisory firms. On July 22, 2020, the SEC issued final regulations regarding proxy advisory firms. On September 18, 2020, the Company filed an amended complaint in the lawsuit continuing its challenge of the August 2019 “guidance” and also challenging the validity of the final regulations issued on July 22, 2020.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.**  
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**Regulation.** Institutional Shareholder Services Inc. (“ISS”) is a registered investment adviser and must comply with the requirements of the Investment Advisers Act of 1940, as amended, as well as applicable SEC regulations. Such requirements relate to, among other things, disclosure obligations, recordkeeping and reporting requirements, marketing restrictions and general anti-fraud prohibitions. ISS, as well as a subsidiary of ISS in England, is registered as a proxy advisor with the Financial Conduct Authority in the United Kingdom. A subsidiary of ISS in Sweden is registered as a proxy advisor with the Swedish Financial Supervisory Authority. A subsidiary of ISS in India is registered as a Research Analyst with the Securities and Exchange Board of India and must comply with its applicable requirements. Two subsidiaries of ISS in Australia are Australian Financial Service licensees with the Australian Securities and Investments Commission and must comply with its applicable requirements. As of December 31, 2020, ISS is in compliance with all material regulatory requirements.

**Operating Leases.** The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on a straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense included in the Consolidated Statement of Operations for the year ended December 31, 2020 was \$15 million.

ISS is party to lease agreements for office space in Ann Arbor, Boston, Chicago, New York, Norman, Rockville, San Diego, San Francisco, Canberra, Melbourne, Sydney, Mumbai, Manila, London, Haar, Munich, Zurich, Stockholm, Paris, Berlin, Brussels, Tokyo, Hong Kong, Singapore, and Toronto. These leases range in terms from 1 to 16 years.

In addition to the facility leases entered into by the Company, certain multi-year commitment agreements have been executed in order to take advantage of advantageous pricing opportunities. These agreements are non-cancelable or require cancellation charges that effectively make the agreement fully enforceable. These agreements are typically for maintenance contracts on equipment and corporate applications hosted on external environments. The Company has accounted for these agreements as operating leases.

Future minimum commitments for the Company’s operating leases in place as of December 31, 2020 are as follows:

(in thousands) Years Ending December 31,	Amount
2021	\$ 16,603
2022	17,830
2023	14,829
2024	9,124
2025	7,212
Thereafter	37,809
Total	<u>\$ 103,407</u>

A deferred rent balance of \$3.6 million is included in “Other non-current liabilities” on the accompanying Consolidated Statement of Financial Condition as of December 31, 2020. In addition, a balance of \$0.3 million of deferred rent is included in “Other accrued liabilities” in the Consolidated Statement of Financial Condition as of December 31, 2020.

**Other.** At December 31, 2020, the Company had outstanding a letter of credit totaling \$1.3 million to provide security deposits for the New York and Boston office space leases. The letter of credit expires annually but can be extended for another annual term unless the Company terminates the letter. The letter of credit was funded and recorded as a security deposit in “Other non-current assets” in the Consolidated Statement of Financial Condition as of December 31, 2020.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.  
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**8. LONG-TERM DEBT**

On March 5, 2019, ISS entered into a secured credit agreement with Antares Capital, as administrative agent, and the other lenders party thereto, which was comprised of (i) a \$505 million seven-year first lien term loan facility (the “First Lien Term Loan”), (ii) a \$40 million five-year revolving credit facility (the “Revolving Credit Facility” and together with the First Lien Term Loan, the “First Lien Credit Facility”), (iii) a \$190 million eight-year second lien term loan facility (the “Second Lien Term Loan” and together with the First Lien Credit Facility, the “2019 Credit Facility”).

For unused credit under the Revolving Credit Facility, the Company pays an annual 0.5% non-usage fee. Commencing on June 30, 2019, the Company is required to pay quarterly installments of an amount equal to 0.25% of the First Lien Term loan. The First Lien Credit Facility also contained a number of mandatory prepayment requirements, including a requirement to repay a specified amount of the First Lien Term Loan annually, beginning with the year ending December 31, 2020, from a portion of the Company’s excess cash flows (as defined in the First Lien Credit Facility). Any remaining principal of the First Lien Term loan is payable on the final maturity date of the facility. The Revolving Credit Facility balance is payable on the revolving termination date (as defined in the First Lien Credit Facility). The Second Lien Term Loan is due and payable in full on the maturity date of the facility.

The Company has taken drawdowns on the Revolving Credit Facility of \$17.5 million and made repayments of \$11.8 million during the year ended December 31, 2020.

The following table sets forth the components of the outstanding principal balance of the 2019 Credit Facility:

<b>(in thousands)</b>	<b>As of December 31, 2020</b>
First Lien Term Loan	\$ 496,163
Revolving Credit Facility	19,000
Second Lien Term Loan	190,000
Gross 2019 Credit Facility Outstanding	705,163
Issuance costs and discounts	(13,685)
Net 2019 Credit Facility Outstanding	691,478
Less current portion of long-term debt	(5,050)
Long-term debt	<u>\$ 686,428</u>

Borrowings under the First Lien Credit Facility bear interest equal to the LIBOR or Base Rate, as the case may be, plus the applicable margin of 4.5% per annum if a LIBOR Rate loan or 3.5% per annum if a Base Rate loan. The Second Lien Term Loan, bears interest equal to LIBOR or Base Rate, as the case may be, plus the applicable margin of 8.5% per annum if a LIBOR Rate loan or 7.5% per annum if a Base Rate loan. Interest on each loan is to be paid quarterly in arrears. Accrued interest on the outstanding loans was \$0.1 million as of December 31, 2020.

The 2019 Credit Facility allows for the option to (i) request that any revolving loan be made as a LIBOR Rate loan, (ii) convert at any time all or any part of the outstanding loans from Base Rate loans to LIBOR Rate loans, (iii) convert any LIBOR Rate loan to a Base Rate loan, or (iv) continue all or any portion of any loan as a LIBOR Rate loan upon expiration of the applicable interest period. At the time of execution of the 2019 Credit Facility, all loans were accruing interest using the LIBOR Rate.

In connection with entering into the 2019 Credit Facility, the Company paid \$17.2 million in lender fees. These financing fees will be amortized into interest expense over the life of the 2019 Credit Facility using the effective interest rate method. As of December 31, 2020, \$13.7 million of the deferred financing fees remain unamortized. These amounts are included in “Long-term debt, net of current maturities” on the Company’s Consolidated Statement of Financial Condition. The Company amortized \$2.5 million of deferred financing fees in interest expense during the year ended December 31, 2020.



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ISS has secured its obligations under the 2019 Credit Facility by granting a pledge of all its assets and capital stock and stock equivalents. In the event of a change in control, the liens, along with all interest, fees and expenses must be paid. The 2019 Credit Facility requires the Company to adhere to certain covenants, including financial covenants. The Company was in compliance with all applicable covenants as of December 31, 2020.

The aggregate amount of all long-term debt principal to be repaid for the years following December 31, 2020, is as follows:

(in thousands)		Amount
For the Years Ending December 31,		
2021	\$	5,050
2022		5,050
2023		5,050
2024		5,050
2025		5,050
Thereafter		679,913
Total minimum principal payments		705,163
Less: Amount representing debt issuance costs		(13,685)
Net minimum payments	\$	691,478

As of December 31, 2020, the fair market value of the Company's debt obligations was \$661.5 million. The fair market value is determined in accordance with accounting standards related to the determination of fair value and represents Level 2 valuations, which are based on one or more quoted prices in markets that are not considered to be active or for which all significant inputs are observable, either directly or indirectly. The Company utilizes the income approach to determine the fair value based on the expected future interest payments.

**Capital Leases.** The Company is party to series of non-cancellable capital leases lasting 3 years in length. In most cases, management expects that in the normal course of business, the leases will be renewed or replaced by other leases as they expire. The underlying equipment has been pledged as collateral in order to secure the leases. Leased property under capital leases consisted of the following:

(in thousands)	As of December 31, 2020
Computer and related equipment	\$ 3,856
Software	527
Subtotal	4,383
Accumulated depreciation	(3,193)
Property and equipment held under capital leases, net	\$ 1,190

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The aggregate amount of all capital leases to be repaid for the years following December 31, 2020, is as follows:

<b>(in thousands)</b>	<b>Amount</b>
<b>For the Years Ending December 31,</b>	
2021	\$ 1,225
2022	587
2023	98
Total minimum lease payments	1,910
Less: Amount representing estimated executory costs	(362)
Net minimum lease payments	1,548
Less: Amount representing interest	(69)
Present value of net minimum lease payments	<u>\$ 1,479</u>

**9. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Property, equipment and leasehold improvements consisted of the following as of December 31, 2020:

<b>(in thousands)</b>	
Computer and related equipment	\$ 12,032
Furniture and fixtures	2,629
Leasehold improvements	10,940
Software	1,107
Construction in progress	1,478
Subtotal	28,186
Accumulated depreciation and amortization	(12,079)
Property, equipment and leasehold improvements, net	<u>\$ 16,107</u>

Depreciation and amortization expense of property, equipment and leasehold improvements was \$5.3 million for the year ended December 31, 2020.

**10. GOODWILL AND INTANGIBLE ASSETS**

***Goodwill***

The carrying amount of the Company's goodwill was \$833.3 million as of December 31, 2020. As the estimated fair value of ISS exceeded its respective book value on the testing dates, no impairment of goodwill was recorded during the year ended December 31, 2020, and there are no accumulated impairment losses as of December 31, 2020.

Changes to the Company's goodwill during the year ended December 31, 2020 were as follows:

<b>(in thousands)</b>	
Goodwill as of January 1	\$ 820,037
Goodwill from acquisitions	10,221
Foreign exchange translation adjustment	3,010
Goodwill as of December 31	<u>\$ 833,268</u>

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Goodwill for certain of the Company's foreign subsidiaries is recorded in their functional currency, which is their local currency, and therefore is subject to foreign currency translation adjustments.

***Intangible Assets***

The gross carrying amounts, accumulated amortization and net intangible asset totals related to the Company's identifiable intangible assets were as follows:

(in thousands)	As of December 31, 2020
<b>Gross Intangible Assets:</b>	
Customer Relationships	\$ 393,038
Trademarks / Trade names	98,354
Technology / Software	36,430
Internal Use Software	16,756
Subtotal	544,578
Foreign exchange translation adjustment	399
Total gross intangible assets	\$ 544,977
<b>Accumulated Amortization:</b>	
Customer Relationships	\$ 57,049
Trademarks / Trade names	13,880
Technology / Software	15,134
Internal Use Software	6,884
Subtotal	92,947
Foreign exchange translation adjustment	197
Total accumulated amortization	\$ 93,144
<b>Net Intangible Assets:</b>	
Customer Relationships	\$ 335,989
Trademarks / Trade names	84,474
Technology / Software	21,296
Internal Use Software	9,872
Subtotal	451,631
Foreign exchange translation adjustment	202
Total net intangible assets	\$ 451,833

The Company's intangible assets for foreign subsidiaries are recorded in their functional currency, which is their local currency, and therefore are subject to foreign currency translation adjustments.

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Amortization expense related to intangible assets for the year ended December 31, 2020 was \$36 million. The Company's estimated amortization expense for succeeding years calculated using foreign currency exchange rates in effect at the balance sheet date, is presented below:

(in thousands) For the Years Ending December 31,	Amortization Expense
2021	\$ 36,767
2022	35,696
2023	34,371
2024	32,004
2025	28,470
Thereafter	284,525
Total	<u>\$ 451,833</u>

**11. EMPLOYEE BENEFITS**

The Company has established defined contribution and defined benefit pension plans to cover substantially all of its non-U.S. employees, in addition to an independent 401(k) plan for eligible U.S. employees. For the year ended December 31, 2020, costs relating to 401(k), pension and post-retirement benefit expenses were \$10.2 million.

**401(k) and Other Defined Contribution Plans.** Eligible employees may participate in the ISS 401(k) plan (or any other regional defined contribution plan) immediately upon hire. Eligible employees receive 401(k) and other defined contribution plan matching contributions, which is subject to vesting and certain other limitations. The Company's expenses associated with the 401(k) plan and other defined contribution plans were \$9.2 million for the year ended December 31, 2020.

**Defined Benefit Plans.** Net periodic benefit expense incurred by the Company related to defined benefit pension plans was \$1 million for the year ended December 31, 2020.

The Company uses a measurement date of December 31 to calculate obligations under its pension and post-retirement plans. As of December 31, 2020, the Company had a \$1.7 million underfunded balance recorded related to the future pension obligations that it sponsors. The fair value of the defined benefit plan assets was \$4.1 million and the total benefit obligations were \$5.8 million as of December 31, 2020.

Pension Plan Participants	As of December 31, 2020
Active employees	960
Vested former employees	1
Retirees and beneficiaries	-
Total plan participants	<u>961</u>

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The actuarial assumptions are used to measure the year-end benefit obligations and pension costs for the subsequent year. The following weighted average actuarial assumptions have been used at December 31, 2020:

**Benefit Obligations**

Discount rate	3.7%
Compensation increases	4.7%

**Pension Costs**

Discount rate	4.6%
Compensation increases	4.6%
Expected return on plan assets	5.5%

The total cost of pension plans was as follows:

<b>(in thousands)</b>	<b>As of December 31, 2020</b>
Service cost for benefits earned	\$ 590
Interest cost on benefit obligations	185
Expected return on plan assets	(199)
Amortization of prior service cost	5
Amortization of net loss	50
Total pension plans cost	<u>\$ 631</u>

Benefit obligations are as follows:

<b>(in thousands)</b>	
Balance at January 1, 2020	\$ 4,085
Service cost for benefits earned	590
Interest cost on benefit obligations	185
Plan amendments	-
Benefits paid	(54)
Actuarial loss	748
Exchange rate adjustments	247
Balance at December 31, 2020	<u>\$ 5,801</u>

The fair value of the plan assets are as follows:

<b>(in thousands)</b>	
Balance at January 1, 2020	\$ 3,265
Actual return on plan assets	157
Employer contributions	580
Benefits paid	(54)
Exchange rate adjustments	195
Balance at December 31, 2020	<u>\$ 4,143</u>

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**12. SHARE-BASED COMPENSATION**

During 2017, GCLH adopted the 2017 Stock Incentive Plan through which certain individuals would be able to acquire an equity interest in GCLH. The Company has treated this share-based compensation expense as part of the consolidated results of operations for the years ended December 31, 2020 and 2019. The components of share-based compensation expense relate to the awards to employees of the Company of restricted stock units and options to purchase shares of GCLH. In conjunction with the acquisition of SI on March 5, 2019, the Company issued replacement options and restricted stock units for outstanding SI awards that were in-the-money on the date of acquisition.

**Restricted Stock.** Restricted stock of GCLH represents shares that were issued to an employee who early-exercised options granted to him under the 2017 Stock Incentive Plan, in exchange for nonrecourse notes payable to GCLH. In accordance with ASC 718, *Compensation – Stock Compensation*, the Company is accounting for these shares as options. The note receivable, accrued interest, and stock will not be recorded until the note is repaid. Half of the shares vest over a period of four years, while the other half vest upon occurrence of an Exit Event, as defined. During 2017 and 2019, approximately 17,594 and 5,378 shares of restricted stock were issued, respectively. The shares had a grant date fair value of \$5.4 million. The Company recognized \$0.8 million of expense related to the vesting of these shares during each the year ended December 31, 2020. Total compensation cost related to all nonvested restricted stock awards not yet recognized was \$0.8 million as of December 31, 2020, which is expected to be recognized over a weighted-average period of 1.1 years.

**Stock Option Awards.** The fair value of the options granted by GCLH were determined using the Black-Scholes pricing model. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The volatility rate is based on the historical volatility of comparable public company stock prices. The following assumptions were utilized in the valuation of options granted during the years ended December 31, 2020:

Risk free rate	0.17%
Expected life	2 years
Volatility rate	39%

During the year ended December 31, 2020, the Company recognized \$0.9 million of expense related to the vesting of stock options. Total compensation cost related to all nonvested options not yet recognized was \$1 million as of December 31, 2020, which is expected to be recognized over a weighted-average period of 1.2 years.

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The following table sets forth activity concerning GCLH restricted stock and stock options previously granted to the Company's employees for the year ended December 31, 2020:

	<b>Number of Options (in thousands)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Aggregated Intrinsic Value (in thousands)</b>
Outstanding at January 1, 2020	51.7	\$ 1,067.81	8.16	\$ 6,221.6
Granted or assumed	1.1	\$ 1,631.05	9.39	\$ 1,550.0
Forfeited	(1.7)	\$ 1,015.62	8.98	\$ 3,349.4
Conversion to common stock	-	\$ -	N/A	N/A
Outstanding at December 31, 2020	<u>51.1</u>	\$ 1,110.68	7.20	\$ 98,776.3
Exercisable at December 31, 2020	<u>15.3</u>	\$ 1,024.69	6.85	\$ 30,742.7

**Restricted Stock Units.** In 2019, the Company granted 1,206 of restricted stock units ("RSUs") to an employee as replacement awards in the SI acquisition. The RSUs vest in equal monthly installments for a period of 24 months on each monthly anniversary of the original award's vesting commencement date. The shares had a grant date fair value of \$1 million which will be recognized over the vesting period. The Company recognized \$0.3 million of expense related to these shares during the year ended December 31, 2020. As of December 31, 2020, all RSUs had vested.

**INSTITUTIONAL SHAREHOLDER SERVICES INC.  
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**13. INCOME TAXES**

The following table presents the components of loss before benefit from income taxes generated by domestic or foreign operations:

<b>(in thousands)</b>	<b>For the Year Ended December 31, 2020</b>
Domestic	\$ (47,382)
Foreign <sup>(1)</sup>	14,828
Total loss before benefit from income taxes	<u>\$ (32,554)</u>

<sup>(1)</sup> Foreign income before provision for income taxes is defined as income generated from operations located outside the U.S.

The benefit from income taxes was as follows:

<b>(in thousands)</b>	<b>For the Year Ended December 31, 2020</b>
Current	
U.S. federal	\$ 744
U.S. state and local	229
Non-U.S.	<u>3,530</u>
	4,503
Deferred	
U.S. federal	(6,616)
U.S. state and local	(4,725)
Non-U.S.	<u>2,218</u>
	(9,123)
Income tax benefit	<u>\$ (4,620)</u>



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The following table reconciles the provision to the U.S. federal statutory income tax rate:

	<b><u>For the Year Ended December 31, 2020</u></b>
Expected federal income tax provision at statutory rate	\$ (6,836)
U.S. state and local income taxes, net of federal benefits	(5,351)
Foreign tax differential for non-U.S. earnings	(350)
Transaction costs	549
Federal permanent differences	60
Permanent differences - GILTI	2,465
Valuation Allowance	3,817
Tax credit	(200)
Uncertain tax positions	1,209
Prior year payable true-up	961
Prior year depreciation true-up	333
Prior year return-to-provision	(227)
Other	<u>(1,050)</u>
Income tax benefit	<u>\$ (4,620)</u>

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Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company's deferred tax assets and liabilities were as follows:

<b>(in thousands)</b>	<b>As of December 31, 2020</b>
Deferred tax assets:	
Employee compensation and benefit plans	\$ 3,848
Deferred revenue	573
Section 163(j)	22,268
Net operating loss carry-forward	29,620
Other accruals and reserves	1,760
Prepaid expenses and other	25
Pension	497
Tax credit	3,284
Other	327
Subtotal	62,202
Less: Valuation allowance	(6,071)
Total deferred tax assets	56,131
Deferred tax liabilities:	
Intangible assets	(100,987)
Depreciation	(327)
Unremitted earnings	(772)
Total deferred tax liabilities	(102,086)
Net deferred tax liabilities	\$ (45,955)

The Company has deferred tax assets of \$33.4 million for unutilized net operating losses. The amount of recorded but unrecognized income tax benefit for net operating losses is \$3.7 million resulting in a net deferred tax asset of \$29.7 million. The net operating losses are comprised of deferred tax assets of \$19.7 million for unutilized U.S. federal net operating loss carry-forwards, which begin to expire in 2022; deferred tax assets of \$5 million recorded for unutilized U.S. state net operating loss carry-forwards, which begin to expire in 2021; and deferred tax assets of \$5 million recorded for unutilized foreign net operating loss carry-forwards, which can be carryforward indefinitely.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. Management makes a regular assessment of the realizability of the Company's deferred tax assets. In making this assessment, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers three year cumulative positive core earnings, the scheduled reversal of deferred tax liabilities, and projected future taxable income of the Company in making this assessment. A valuation allowance is recorded to reduce the total deferred income tax asset to its realizable value. At December 31, 2020, the Company's largest deferred tax assets were \$29.7 million of net operating losses and \$22.3 million of carryover of disallowed interest expense under Section 163(j).

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The Company performed a detailed analysis of its valuation allowance position on a jurisdiction by jurisdiction basis. Based on its analysis, it does not believe that it is more likely than not that it will be able to realize the entirety of its deferred tax assets for its foreign net operating losses at December 31, 2020. Therefore, management has established a \$3.8 million valuation allowance for net deferred tax assets.

The Company conducts business globally and, as a result, files one or more income tax returns in the U.S. and non-U.S. jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in the countries in which there are operations. The open tax years for these jurisdictions span from 2014 through 2020. Further, because of the net operating loss carryforwards, the Company is subject to U.S. federal and state income tax examinations for tax years 2000, and forward.

**14. RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE LOSS**

As required by ASC Subtopic 220-10, *Comprehensive Income – Overall*, the following table presents the amounts reclassified from accumulated other comprehensive loss (“AOCL”) in the Consolidated Statement of Operations:

<b>(in thousands)</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Defined Benefit Pension Plans</b>	<b>Total</b>
Balance at January 1, 2020	\$ (4,817)	\$ (1,342)	\$ (6,159)
Changes during the period:			
Change in AOCL before reclassifications to income	1,468	-	1,468
Reclassifications from AOCL to income during the period	-	(689)	(689)
Other comprehensive loss for the period	1,468	(689)	779
Balance at December 31, 2020	<u>\$ (3,349)</u>	<u>\$ (2,031)</u>	<u>\$ (5,380)</u>

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**15. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS**

During the current year financial reporting process, the Company identified an error in its previously reported consolidated financial statements as of and for the year ended December 31, 2019 (the “2019 financial statements”). In 2019, the Company recorded a \$17.2 million valuation allowance against its Section 163(j) deferred tax asset. As the Company had sufficient future reversals of existing taxable temporary differences for which deferred tax liabilities had been recorded, the valuation allowance was not required. Management has concluded this error is material to the Company’s previously reported 2019 financial statements and corrected the error by reversing the \$17.2 million valuation allowance as of December 31, 2019. The Company also recorded additional corrections to 2019 for other adjustments to equity totaling \$0.9 million. As a result, the opening balance of Accumulated Deficit in the accompanying Consolidated Statement of Changes in Shareholder’s Equity has been restated by \$18.1 million.

**16. SUBSEQUENT EVENTS**

Management of the Company evaluated subsequent events from January 1, 2021 through June 9, 2021, the date on which the consolidated financial statements were available to be issued.

On January 29, 2021, Institutional Shareholder Services Canada Corp. completed the acquisition of ACRE Data, Inc. (“ACRe”) for a purchase price of \$3 million. ACRe is the largest provider of ESG scoring and rankings for the U.S. municipal bond marketplace.

On February 25, 2021, Deutsche Börse AG (“DBAG”) acquired an approximately 81% majority stake in GCLH through a newly formed entity, ISS Holdco Inc. The remaining 19% is held by former GCLH shareholders. The base merger consideration was approximately \$2.3 billion, comprised of cash and rollover equity. Funds in the amount of \$28 million are held in escrow and are to be distributed upon completion of certain conditions. Pursuant to the terms of the 2017 Stock Incentive Plan, all outstanding options, restricted stock, and RSUs were fully vested and either cash settled or rolled into new ownership equity as a result of this change of control transaction. All outstanding debt and accrued interest under the Company’s 2019 Credit Facility was repaid to lenders at closing. The Company has access to a new \$40 million credit facility with DBAG for general working capital needs.

On March 31, 2021, ISS-Ethix AB completed the acquisition of Stockholm-based Nordic Investor Services AB (“NIS”) for a purchase price of \$2.9 million. NIS is a leading regional corporate governance advisory firm, helping institutional investors navigate a variety of complex governance issues across clients’ regional and global portfolios. The firm’s proxy voting service consists of tailor-made proxy voting advice and services to enable timely and informed voting at general meetings around the world.

On May 13, 2021, ISS completed the acquisition of substantially all of the assets, business and operations of Genesys Research, Inc. (“Genesys”) for a cash payment of \$3 million. Genesys provides research to the mutual fund firms, variable annuity sponsors and asset managers.

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