Information Services Group Inc.
Form 10-Q
November 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission File Number 001-33287

INFORMATION SERVICES GROUP, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o

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

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

Class	**Outstanding at October 25, 2013**
Common Stock, $0.001 par value	37,088,639 shares

FORWARD-LOOKING STATEMENTS

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

INFORMATION SERVICES GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 23,577	$ 23,499
Accounts receivable, net of allowance of $304 and $395, respectively	46,846	40,920
Deferred tax asset	378	1,213
Prepaid expense and other current assets	2,454	1,783
Total current assets	73,255	67,415
Restricted cash	53	52
Furniture, fixtures and equipment, net	3,376	3,074
Goodwill	34,691	34,691
Intangible assets, net	23,530	27,920
Other assets	3,190	2,833
Total assets	$ 138,095	$ 135,985
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 7,278	$ 6,072
Current maturities of long-term debt	3,375	10,000
Deferred revenue	3,184	3,652
Accrued expenses	16,876	13,209
Total current liabilities	30,713	32,933
Long-term debt, net of current maturities	55,887	53,063
Deferred tax liability	3,018	5,732
Other liabilities	5,813	5,948
Total liabilities	95,431	97,676
Commitments and contingencies (Note 6)		
Stockholders equity		
Preferred stock, $.001 par value; 10,000 shares authorized; none issued		
Common stock, $.001 par value, 100,000 shares authorized; 37,943 shares issued and 37,060 shares outstanding at September 30, 2013 and 36,675 shares issued and 36,399 outstanding at December 31, 2012	38	37

Additional paid-in-capital		208,517		205,568
Treasury stock (883 and 276 common shares, respectively, at cost)		(2,357)		(324)
Accumulated other comprehensive loss		(2,424)		(2,043)
Accumulated deficit		(161,110)		(164,929)
Total stockholders equity		42,664		38,309
Total liabilities and stockholders equity	$	138,095	$	135,985

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	$ 51,371	$ 46,469	$ 157,542	$ 143,225
Operating expenses				
Direct costs and expenses for advisors	30,733	27,876	92,467	84,672
Selling, general and administrative	16,987	13,957	50,761	47,052
Depreciation and amortization	1,854	2,224	5,600	6,637
Operating income	1,797	2,412	8,714	4,864
Interest income	3	11	15	37
Interest expense	(660)	(790)	(2,108)	(2,501)
Gain on extinguishment of debt			79	
Foreign currency transaction loss	(29)	(76)	(18)	(69)
Income before taxes	1,111	1,557	6,682	2,331
Income tax provision	700	1,347	2,863	1,877
Net income	$ 411	$ 210	$ 3,819	$ 454
Weighted average shares outstanding:				
Basic	36,781	36,159	36,723	36,210
Diluted	38,830	38,082	38,712	37,464
Earnings per share:				
Basic	$ 0.01	$ 0.01	$ 0.10	$ 0.01
Diluted	$ 0.01	$ 0.01	$ 0.10	$ 0.01
Comprehensive income:				
Net income	$ 411	$ 210	$ 3,819	$ 454
Foreign currency translation, net of tax of $(360), $(236), $219 and $(79), respectively	564	349	(381)	(19)
Comprehensive income	$ 975	$ 559	$ 3,438	$ 435

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2013	**2012**
Cash flows from operating activities		
Net income	$ 3,819	$ 454
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,211	1,275
Amortization of intangibles	4,389	5,363
Amortization of deferred financing costs	176	399
Gain on extinguishment of debt	(79)	
Tax benefit from stock issuances	(575)	
Compensation costs related to stock-based awards	3,018	2,191
Change in fair value of contingent consideration	564	(1,918)
Change in allowance for bad debts	(46)	383
Deferred tax benefit	(1,085)	(2,023)
Loss on disposal of furniture, fixtures and equipment	25	21
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(6,813)	(2,544)
Prepaid expense and other current assets	(875)	(1,644)
Accounts payable	1,205	1,229
Deferred revenue	(468)	(1,796)
Accrued liabilities	3,553	(1,279)
Net cash provided by operating activities	8,019	111
Cash flows from investing activities		
Acquisitions, net of cash acquired		(24)
Restricted cash	(1)	1
Purchase of furniture, fixtures and equipment	(1,580)	(1,496)
Net cash used in investing activities	(1,581)	(1,519)
Cash flows from financing activities		
Proceeds from debt	55,000	
Principal payments on borrowings	(58,306)	(5,250)
Payment of contingent consideration		(2,000)
Treasury shares repurchased	(2,954)	(1,216)
Debt issuance costs	(754)	
Tax benefit from stock issuances	575	
Proceeds from issuance of ESPP shares	279	248
Net cash used in financing activities	(6,160)	(8,218)
Effect of exchange rate changes on cash	(200)	144
Net increase (decrease) in cash and cash equivalents	78	(9,482)
Cash and cash equivalents, beginning of period	23,499	24,469
Cash and cash equivalents, end of period	$ 23,577	$ 14,987

Supplemental disclosures of cash flow information:				
Noncash financing activities:				
Issuance of treasury stock for vested restricted stock awards and SARs	$	646	$	657

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

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands, except per share data)

(unaudited)

NOTE 1 DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

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

On January 4, 2011, the Company completed the acquisition of Compass. Compass is a premier independent global provider of business and information technology benchmarking, performance improvement, data and analytics services. It was founded in 1980 and headquartered in the United Kingdom and has 180 employees in 16 countries serving nearly 250 clients worldwide. Compass uses benchmarking to support fact-based decision making, analysis to optimize cost reduction, and tools and techniques to manage business performance. For accounting purposes, the acquisition of Compass has been treated as a business combination.

On February 10, 2011 the Company completed the acquisition of STA Consulting (Salvaggio, Teal & Associates) a premier independent information technology advisor serving the public sector. STA Consulting advises clients on information technology strategic planning and the acquisition and implementation of new Enterprise Resource Planning (ERP) and other enterprise administration and management systems. STA Consulting was founded in 1997 and is based in Austin, Texas with approximately 40 professionals experienced in information systems consulting in public sector areas such as government operations, IT and project management, contract negotiations, financial management, procurement, human resources and payroll. STA Consulting works with such states as Alaska, Kansas, Kentucky, Louisiana, Mississippi and West Virginia. For accounting purposes, the acquisition of STA Consulting has been treated as a business combination.

During the fourth quarter of 2011, we merged our individual corporate brands into one globally integrated business under the ISG brand.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements as of September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial statements and pursuant to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are considered necessary for a fair presentation of the financial position of the Company as of September 30, 2013, the results of operations for the three and nine months ended September 30, 2013 and 2012 and the cash flows for the nine months ended September 30, 2013 and 2012. The condensed consolidated balance sheet as of December 31, 2012 has been derived from the Company s audited consolidated financial statements. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Certain reclassifications have been made to prior years to conform to current period financial statement presentation with no effect on our previously reported consolidated financial position, results of operations, or cash flows.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with GAAP have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2012, which are included in the Company s 2012 Form 10-K filed with the SEC.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

Fair Value

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

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

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

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

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

The Company held investments in cash equivalent money market funds of $20,000 at September 30, 2013 and December 31, 2012. The Company considers the fair value of cash equivalent money market funds to be classified within Level 1 of the fair value hierarchy.

The Company s financial instruments include outstanding borrowings of $59.3 million at September 30, 2013 and $63.1 million at December 31, 2012, which are carried at amortized cost. The fair values of these instruments are classified within Level 3 of the fair value hierarchy. The fair value of the Company s outstanding borrowings is approximately $59.1 million and $62.9 million at September 30, 2013 and December 31, 2012, respectively. The fair values of these instruments have been estimated using a discounted cash flow analysis based on the Company s incremental borrowing rate for similar borrowing arrangements. The incremental borrowing rate used to discount future cash flows ranged from 3.68% to 3.77% at September 30, 2013.

The Company s contingent consideration liability was $3.4 million and $2.8 million at September 30, 2013 and December 31, 2012, respectively. During the quarter ended September 30, 2013, the Company increased the contingent consideration liability by $0.1 million based on the latest estimates of future profit levels for the year ended December 31, 2013. The fair value measurement of this contingent consideration is classified within Level 3 of the fair value hierarchy and reflects the Company s own assumptions in measuring fair values using the income approach. In developing these estimates, the Company considered certain performance projections, historical results, and industry trends. This amount was estimated through a valuation model that incorporated probability-weighted assumptions related to the achievement of these milestones and thus the likelihood of us making payments. These cash outflow projections have been discounted using a rate of 2.3%, which is the after-tax cost of debt financing for market participants.

Recently Issued Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board (FASB) issued new accounting guidance to address implementation issues regarding the scope of disclosures about offsetting assets and liabilities. The amendments only applies to certain derivatives accounted for in accordance with the Derivatives and Hedging topic including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for reporting periods beginning on or after January 1, 2013. The adoption of this standard did not have a material impact on the Company s financial position, results of operations or cash flows.

In February 2013, the FASB issued new accounting guidance that improves the reporting of reclassifications out of accumulated other comprehensive income. This new guidance requires entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income when applicable or to cross-reference the reclassifications with other disclosures that provide additional detail about the reclassifications made when the reclassifications are not made to net income. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2012. The adoption of this standard did not have a material impact on the Company s financial position, results of operations or cash flows.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

In March 2013, the FASB issued new accounting guidance clarifying the accounting for the release of cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. The Company does not anticipate that the adoption of this standard will have a significant impact on the Company s financial position, results of operations or cash flows.

In July 2013, the FASB issued new accounting guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. No new recurring disclosures are required. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2013, and are to be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not anticipate that the adoption of this standard will have a significant impact on the Company s financial position, results of operations or cash flows.

NOTE 4 NET INCOME PER COMMON SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. The 250,000 restricted shares related to the acquisition of STA Consulting were excluded from basic and diluted earnings per share since the contingency has not been met as of the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would share in the net income of the Company. For the three and nine months ended September 30, 2013, the effect of 0.1 million stock appreciation rights (SARs) have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation. In addition, 0.03 million and 0.8 million restricted shares have not been considered in the diluted earnings per share calculation for the three and nine months ended September 30, 2013, respectively, as the effect would be anti-dilutive. For the three and nine months ended September 30, 2012, the effect of 5.0 million warrants and 0.3 million SARs have not been considered in the diluted earnings per share calculation, since the market price of the Company s common stock was less than the exercise price during the period in the computation. In addition, 1.2 million restricted shares have not been considered in the diluted earnings per share calculation for the three and nine months ended September 30, 2012, as the effect would be anti-dilutive.

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

	Three Months	Nine Months

	Ended September 30,		Ended September 30,	
	2013	2012	2013	2012
Basic:				
Net income	$ 411	$ 210	$ 3,819	$ 454
Weighted average common shares	36,781	36,159	36,723	36,210
Basic income per share	$ 0.01	$ 0.01	$ 0.10	$ 0.01
Diluted:				
Net income	$ 411	$ 210	$ 3,819	$ 454
Interest expense of convertible debt, net of tax	19	8	93	35
Net income, as adjusted	$ 430	$ 218	$ 3,912	$ 489
Basic weighted average common shares	36,781	36,159	36,723	36,210
Potential common shares	2,049	1,923	1,989	1,254
Diluted weighted average common shares	38,830	38,082	38,712	37,464
Diluted income per share	$ 0.01	$ 0.01	$ 0.10	$ 0.01

NOTE 5 INCOME TAXES

The Company s effective tax rate for the three and nine months ended September 30, 2013 was 63.0% and 42.8% based on pretax income of $1.1 million and $6.7 million, respectively. Our effective tax rate for the quarter is higher than the statutory rate primarily due to the tax impacts of our foreign operations. This compared to 86.5% and 80.5% for the three and nine months ended September 30, 2012, respectively. The effective tax rate was higher for the three and nine months ended September 30, 2012 primarily due to shortfalls associated with vested restricted stock units.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

As of September 30, 2013, the Company had total unrecognized tax benefits of approximately $2.8 million of which approximately $2.8 million of this benefit would impact the Company s effective tax rate if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax provision in its condensed consolidated statement of operations. As of September 30, 2013, the Company s accrual of interest and penalties amounted to $0.4 million.

NOTE 6 COMMITMENTS AND CONTINGENCIES

The Company is subject to contingencies which arise through the ordinary course of business. All liabilities of which management is aware are properly reflected in the financial statements at September 30, 2013 and December 31, 2012.

STA Consulting Contingent Consideration

As of September 30, 2013, we have recorded a liability of $3.4 million representing the estimated fair value of contingent consideration related to the acquisition of STA Consulting, of which $2.0 million is classified as noncurrent. During the quarter ended September 30, 2013, the Company increased the contingent consideration liability by $0.1 million based on the latest estimates of future profit levels for the year ended December 31, 2013. The Company expects to pay the remaining contingent liability in the first quarter of 2014, the first quarter of 2015 and the first quarter of 2016. No payments were made or anticipated in 2013 related to 2012 performance.

NOTE 7 SEGMENT AND GEOGRAPHICAL INFORMATION

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

Geographical revenue information for the segment is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012

Revenues				
Americas	$ 28,496	$ 26,842	$ 87,532	$ 77,927
Europe	17,605	14,240	53,832	46,008
Asia Pacific	5,270	5,387	16,178	19,290
	$ 51,371	$ 46,469	$ 157,542	$ 143,225

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

NOTE 8 STOCK BASED COMPENSATION

Market-Based Awards

Stock-based compensation for the awards is recognized on a straight-line basis over the requisite service period, primarily four years. The market-based shares vest 100% upon the earlier of (1) the market condition is achieved or (2) the completion of four years of service. All compensation cost related to the market-based awards will be recognized if the requisite service period is fulfilled, even if the market condition is not achieved.

On July 1 and August 1, 2013, the Company granted 804,000 and 75,000 restricted share units (RSU) with grant prices of $1.90 and $2.72, respectively. These RSUs contain a market condition that should the closing price of ISG shares meet or exceed $3.50 for three consecutive trading days, 100% of the RSUs will vest immediately at that time. The Company assessed the fair value of the awards on the grant date utilizing a lattice model. The weighted-average grant date fair value per market-based share for these awards granted was computed using the Monte Carlo pricing model using the following assumptions:

Expected term of award	4 years
Risk-free interest rate	1.10%
Expected volatility	50%

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

The expected term of the awards was based on the requisite service period. The risk-free interest rate was based on the U.S Treasury Bill in effect at the time of grant for four years. The expected volatility was based on our historical volatility.

All RSUs under these grants have vested since the market condition was achieved during the quarter ended September 30, 2013. As a result, the Company recorded $1.7 million of stock compensation expense in selling, general and administrative in the accompanying consolidated statement of comprehensive income (loss).

NOTE 9 FINANCING ARRANGEMENTS AND LONG-TERM DEBT

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

On November 16, 2007, our wholly-owned subsidiary International Consulting Acquisition Corp. (ICAC) entered into a senior secured credit facility comprised of a $95.0 million term loan facility and a $10.0 million revolving credit facility (the 2007 Credit Agreement). On November 16, 2007, ICAC borrowed $95.0 million under the term loan facility to finance the purchase price for our acquisition of TPI and to pay transaction costs. In connection with entering into a new credit facility on May 3, 2013, the Company repaid in full all obligations and liabilities owing under, and terminated, the 2007 Credit Agreement, dated as of November 16, 2007. No early termination penalties were incurred by the Company in connection with the termination of the 2007 Credit Agreement. As a result of this transaction, the Company recognized a loss of $0.4 million in the second quarter of 2013 relating to the write down of unamortized debt financing costs relating to the 2007 Credit Agreement. This amount was recorded in Gain on Extinguishment of Debt in the accompanying consolidated statement of comprehensive income (loss).

On May 3, 2013 (the Closing), the Company entered into a five year senior secured credit facility (the 2013 Credit Agreement) comprised of a $45.0 million term loan facility and a $25.0 million revolving credit facility. On May 3, 2013, the Company borrowed $55.0 million under the 2013 Credit Agreement to refinance our existing debt under the 2007 Credit Agreement and to pay transaction costs. The material terms of the senior secured credit facility under the 2013 Credit Agreement are as follows:

- Each of the term loan facility and revolving credit facility has a maturity date of five years from the Closing.

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

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

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

- The Term Loan is repayable in eight consecutive quarterly installments of $843,750 each, commencing September 30, 2013, followed by eleven consecutive quarterly installments in the amount of $1,125,000 each, commencing September 30, 2015, and a final payment of the outstanding principal amount of the Term Loan on the Maturity Date.

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

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

- The senior secured credit facility contains a number of covenants that, among other things, place restrictions on matters customarily restricted in senior secured credit facilities, including restrictions on indebtedness (including guarantee obligations), liens, fundamental changes, sales or disposition of property or assets, investments (including loans, advances, guarantees and acquisitions), transaction with affiliates, dividends and other payments in respect of capital stock, optional payments and modifications of other material debt instruments, negative pledges and agreements restricting subsidiary distributions and changes in line of business. In addition, the Company is required to comply with a total leverage ratio and fixed charge coverage ratio. As of September 30, 2013, we are in compliance with all covenants contained in the 2013 Credit Agreement.

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

We are required under the 2013 Credit Agreement to establish a fixed or maximum interest rate covering a notional amount of not less than 50% of the aggregate outstanding indebtedness for borrowed money (other than the total revolving outstanding) for a period of three years from the closing date of our 2013 Credit Agreement. Subsequent to May 3, 2013, we entered into an agreement to cap the interest rate at 5% on the LIBOR component of our borrowings under the term loan facility until May 3, 2016. This interest rate cap is not designated for hedging or speculative purposes. The expense related to this interest rate cap was nominal.

On January 4, 2011, as part of the consideration for the acquisition of Compass, we issued an aggregate of $6.3 million in convertible notes to Compass (the Notes). The Notes mature on January 4, 2018 and interest is payable on the outstanding principal amount, computed daily, at the rate of 3.875% per annum on January 31 of each calendar year and on the seventh anniversary of the date of the Notes. The Notes were subject to transfer restrictions until January 31, 2013. If the price of our common stock on the Nasdaq Global Market exceeds $4 per share for 60 consecutive trading days (the Trigger Event), the holder of the Notes may convert all (but not less than all) of the outstanding principal amount of the Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. After the Trigger Event, we may prepay all or any portion of the outstanding principal amount of the Notes by giving the holder 30 days written notice.

On April 26, 2013, the Company settled a portion of the Notes. The payee agreed to accept from the Company an amount equal to $650,000 as satisfaction in full of all indebtedness of $1.1 million owing by the Company to such payee. As a result of this transaction, the Company recognized a gain of $0.5 million in the second quarter of 2013 representing the difference between the fair value of the consideration issued in the settlement transaction and the carrying value of the amounts due to the payee. This amount was recorded in *Gain on Extinguishment of Debt* in the accompanying consolidated statement of comprehensive income (loss).

We anticipate that our current cash and the ongoing cash flows from our operations will be adequate to meet our working capital and capital expenditure needs for at least the next twelve months. The anticipated cash needs of our business could change significantly if we pursue and complete additional business acquisitions, if our business plans change, if economic conditions change from those currently prevailing or from those now anticipated, or if other unexpected circumstances arise that may have a material effect on the cash flow or profitability of our

business. If we require additional capital resources to grow our business, either internally or through acquisition, we may seek to sell additional equity securities or to secure debt financing. The sale of additional equity securities or certain forms of debt financing could result in additional dilution to our stockholders. We may not be able to obtain financing arrangements in amounts or on terms acceptable to us in the future.

As of September 30, 2013, the total principal outstanding under the term loan facility and revolving credit facility was $44.2 million and $10.0 million, respectively. Additional mandatory principal repayments totaling $0.8 million and $3.4 million will be due in 2013 and 2014, respectively.

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

You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as may, should, could, predict, potential, continue, expect, anticipa intend, plan, believe, estimate, forecast and similar expressions (or the negative of such expressions.) Forward-looking statements include statements concerning 2013 revenue growth rates and capital expenditures. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, the volatility of our stock price, and current competitive conditions. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion in our 2012 Form 10-K titled Risk Factors.

BUSINESS OVERVIEW

Information Services Group, Inc. (ISG) (NASDAQ: III) is a leading technology insights, market intelligence and advisory services company serving more than 500 clients around the world to help them achieve operational excellence. We support private and public sector organizations to transform and optimize their operational environments through research, benchmarking, consulting and managed services with a focus on information technology, business process transformation, program management services and enterprise resource planning. Clients look to us for unique insights and innovative solutions for leveraging technology, our deep data source, and more than five decades of experience of global leadership in information and advisory services. Based in Stamford, Connecticut, we have approximately 800 employees and operate in 21 countries.

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

We derive our revenues from fees and reimbursable expenses for professional services. A majority of our revenues are generated under hourly or daily rates billed on a time and expense basis. Clients are typically invoiced on a monthly basis, with revenue recognized as the services are provided. There are also client engagements in which we are paid a fixed amount for our services, often referred to as fixed fee billings. This may be one single amount covering the whole engagement or several amounts for various phases or functions. From time to time, we earn incremental revenues, in addition to hourly or fixed fee billings, which are contingent on the attainment of certain contractual milestones or objectives. Such revenues may cause unusual variations in quarterly revenues and operating results.

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

widely from period to period.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND SEPTEMBER 30, 2012

Revenues

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

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

Geographical revenue information for the segment is as follows:

	Three Months Ended September 30, (in thousands)			
Geographic Area	**2013**	**2012**	**Change**	**Percent Change**
Americas	$ 28,496	$ 26,842	$ 1,654	6%
Europe	17,605	14,240	3,365	24%
Asia Pacific	5,270	5,387	(117)	(2)%
Total revenues	$ 51,371	$ 46,469	$ 4,902	11%

The net increase in revenues of $4.9 million in 2013 was attributable principally to a 6% increase in Americas to $28.5 million and a 24% increase in Europe revenues to $17.6 million. The increase in revenues was primarily due to the higher levels of sourcing activity in the Americas, Europe and Asia Pacific regions in Consulting, Research and Managed Services. These increases were offset by a 2% reduction in Asia Pacific primarily due to the impact of foreign currency translation into US dollars that had a negative impact on performance versus the prior year.

Operating Expenses

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

	Three Months Ended September 30, (in thousands)			
Operating Expenses	**2013**	**2012**	**Change**	**Percent Change**
Direct costs and expenses for advisors	$ 30,733	$ 27,876	$ 2,857	10%

Selling, general and administrative		16,987		13,957		3,030	22%
Depreciation and amortization		1,854		2,224		(370)	(17)%
Total operating expenses	$	49,574	$	44,057	$	5,517	13%

Total operating expenses increased $5.5 million or 13% for the quarter with increases in direct expenses (10%) and increases in selling, general and administrative (SG&A) expenses (22%). Cost increases were primarily driven by higher compensation, travel & entertainment, stock compensation, STA Consulting earn-out and contract labor expenses and were partially offset by lower expenses for marketing and bad debt expenses. The impact of foreign currency translation into US dollars also drove costs higher compared to the same prior 2012 period. We recorded $2.1 million of stock compensation expense, included in selling, general and administrative expense, compared to $0.7 million in the prior year due to the vesting of 879,000 market-based restricted share units with an associated charge of $1.7 million driven by the strong growth in the share price this quarter. During the third quarter of 2012, we recorded a $1.9 million reduction in the contingent liability related to the STA Consulting earn-out based on future projected profit levels compared to an increase in the accrued liability of $0.1 million in the third quarter 2013.

Compensation costs consist of a mix of fixed and variable salaries, annual bonuses, benefits and pension plan contributions. A portion of compensation expenses for certain billable employees are allocated between direct costs and selling, general and administrative costs based on relative time spent between billable and non-billable activities. Bonus compensation is determined based on achievement against Company financial and individual targets, and is accrued monthly throughout the year based on management s estimates of target achievement. Statutory and elective pension plans are offered

to employees as appropriate. Direct costs also include employee taxes, health insurance, workers compensation and disability insurance.

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

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

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

Depreciation and amortization expense in the third quarter of 2013 and 2012 was $1.8 million and $2.2 million, respectively. The decrease of $0.4 million in depreciation and amortization expense was primarily due to decrease in amortization as a result of intangible assets that were fully amortized in 2012. Our fixed assets consist of furniture, fixtures, equipment (mainly personal computers) and leasehold improvements. Depreciation expense is generally computed by applying the straight-line method over the estimated useful lives of assets. We also capitalize some costs associated with the purchase and development of internal-use software, system conversions and website development costs. These costs are amortized over the estimated useful life of the software or system.

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

Other Expense, Net

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

	Three Months Ended September 30, (in thousands)			
	2013	**2012**	**Change**	**Percent Change**
Interest income	$ 3	$ 11	$ (8)	(73)%
Interest expense	(660)	(790)	130	16%

Foreign currency loss		(29)		(76)		47	62%
Total other expense, net	$	(686)	$	(855)	$	169	20%

The decrease of $0.2 million was primarily the result of lower interest expense due to a decrease in debt and debt issuance amortization costs.

Income Tax Expense

Our quarterly effective tax rate varies from period to period based on the level and mix of earnings among the various state and foreign tax jurisdictions in which business is conducted and the level of non-deductible expenses projected to be incurred during the current fiscal year. Our effective tax rate for the three months ended September 30, 2013 was 63.0% compared to 86.5% for the three months ended September 30, 2012. Our three month effective tax rate decreased primarily due to a decrease in shortfalls associated with vested restricted stock units and a decrease in the tax impacts of our foreign operations. Our operations resulted in pre-tax income of $1.1 million and a tax provision of $0.7 million for the three months ended September 30, 2013.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND SEPTEMBER 30, 2012

Revenues

Geographical revenue information for the segment is as follows:

	Nine Months Ended September 30, (in thousands)			
Geographic Area	**2013**	**2012**	**Change**	**Percent Change**
Americas	$ 87,532	$ 77,927	$ 9,605	12%
Europe	53,832	46,008	7,824	17%
Asia Pacific	16,178	19,290	(3,112)	(16)%
Total revenues	$ 157,542	$ 143,225	$ 14,317	10%

The net increase in revenues of $14.3 million or 10% in 2013 was attributable principally to a 12% increase in Americas revenues to $87.5 million and a 17% increase in Europe revenues to $53.8 million. The increase in revenues was primarily due to higher levels of sourcing activity in the Americas and Europe regions, attributable to increases in Consulting, Research and Managed Services. These increases were offset by a 16% reduction in Asia Pacific primarily due to lower volumes in sourcing related engagements which was only partially offset by growth in Managed Services. The translation of foreign currency into US dollars also negatively impacted performance compared to prior year.

Operating Expenses

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

	Nine Months Ended September 30, (in thousands)			
Operating Expenses	**2013**	**2012**	**Change**	**Percent Change**
Direct costs and expenses for advisors	$ 92,467	$ 84,672	$ 7,795	9%
Selling, general and administrative	50,761	47,052	3,709	8%
Depreciation and amortization	5,600	6,637	(1,037)	(16)%
Total operating expenses	$ 148,828	$ 138,361	$ 10,467	8%

Total operating expenses increased $10.5 million or 8% for the first nine months of 2013 with increases in direct expenses (9%) and increases in SG&A expenses (8%) offset by a decrease in depreciation and amortization (16%). The increases are due primarily to higher compensation driven by increases in headcount, contract labor expenses, STA Consulting earn-out and stock compensation. These cost increases were partially offset by lower professional fees, marketing and bad debt expenses. The impact of foreign currency translation into US dollars also drove costs higher compared to the same prior 2012 period. We recorded $3.0 million of stock compensation expense, included in selling, general and administrative expense, compared to $2.2 million in the prior year due to the vesting of 879,000 market-based restricted share units with an associated charge of $1.7 million in the third quarter driven by the strong growth in the share price this quarter. During the nine months ended September 30, 2013, we increased the contingent consideration liability for the STA Consulting earn-out by $0.5 million based on the

latest estimates of future profit levels compared to a reduction of $1.9 million recorded in the same prior 2012 period.

Depreciation and amortization expense in the first nine months of 2013 and 2012 was $5.6 million and $6.6 million, respectively. The decrease of $1.0 million in depreciation and amortization expense was primarily due to decrease in amortization as a result of intangible assets that were fully amortized in 2012.

Gain on Extinguishment of Debt

On April 26, 2013, the Company settled a portion of the Compass Notes. The payee agreed to accept from the Company an amount equal to $650,000 as satisfaction in full of all indebtedness of $1.1 million owing by the Company to such payee. As a result of this transaction, the Company recognized a gain of $0.5 million in the second quarter of 2013 representing the difference between the fair value of the consideration issued in the settlement transaction and the carrying value of the amounts due to the payee.

On May 3, 2013, the Company entered into a five year senior secured credit facility (the 2013 Credit Agreement) comprised of a $45.0 million term loan facility and a $25.0 million revolving credit facility. In connection with entering into

the 2013 Credit Agreement, the Company repaid in full all obligations and liabilities owing under, and terminated, the 2007 Credit Agreement, dated as of November 16, 2007. As a result of this transaction, the Company realized a loss of $0.4 million in the second quarter of 2013 relating to the write down of unamortized debt financing costs relating to the 2007 Credit Agreement.

Other Expense, Net

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

	Nine Months Ended September 30, (in thousands)			
	2013	2012	Change	Percent Change
Interest income	$ 15	$ 37	$ (22)	(59)%
Interest expense	(2,108)	(2,501)	393	16%
Foreign currency loss	(18)	(69)	51	74%
Total other expense, net	$ (2,111)	$ (2,533)	$ 422	17%

The decrease of $0.4 million was primarily the result of lower interest expense due to a decrease in debt and debt issuance amortization costs.

Income Tax Expense

Our effective tax rate for the nine months ended September 30, 2013 was 42.8% compared to 80.5% for the nine months ended September 30, 2012. Our effective tax rate is higher than the statutory rate primarily due to state taxes and an increase in the valuation allowance. Our effective tax rate decreased from the nine months ended September 30, 2012 primarily due to increases in pre-tax book income and a decrease in shortfalls associated with vested restricted stock units, and a decrease in the tax impacts of our foreign operations. Our operations resulted in a pre-tax income of $6.7 million and a tax provision of $2.9 million for the nine months ended September 30, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

As of September 30, 2013, our cash and cash equivalents were $23.6 million, an increase of $0.1 million from December 31, 2012, which was primarily attributable to the following:

- net cash provided by operating activities of $8.0 million;
- payments of principal amounts due on the debt of $58.3 million.
- proceeds of debt of $55.0 million.
- capital expenditures for furniture, fixtures and equipment of $1.6 million; and
- equity repurchases of $3.0 million;

Capital Resources

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

On November 16, 2007, our wholly-owned subsidiary International Consulting Acquisition Corp. (ICAC) entered into a senior secured credit facility comprised of a $95.0 million term loan facility and a $10.0 million revolving credit facility (the 2007 Credit Agreement). On November 16, 2007, ICAC borrowed $95.0 million under the term loan facility to finance the purchase price for our acquisition of TPI and to pay transaction costs. In connection with entering into a new credit facility on May 3, 2013, the Company repaid in full all obligations and liabilities owing under, and terminated, the 2007 Credit Agreement, dated as of November 16, 2007. No early termination penalties were incurred by the Company in

connection with the termination of the 2007 Credit Agreement. As a result of this transaction, the Company recognized a loss of $0.4 million in the second quarter of 2013 relating to the write down of unamortized debt financing costs relating to the 2007 Credit Agreement. This amount was recorded in Gain on Extinguishment of Debt in the accompanying consolidated statement of comprehensive income (loss).

On May 3, 2013 (the Closing), the Company entered into a five year senior secured credit facility (the 2013 Credit Agreement) comprised of a $45.0 million term loan facility and a $25.0 million revolving credit facility. On May 3, 2013, the Company borrowed $55.0 million under the 2013 Credit Agreement to refinance our existing debt under the 2007 Credit Agreement and to pay transaction costs. The material terms of the senior secured credit facility under the 2013 Credit Agreement are as follows:

- Each of the term loan facility and revolving credit facility has a maturity date of five years from the Closing.

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

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

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

- The Term Loan is repayable in eight consecutive quarterly installments of $843,750 each, commencing September 30, 2013, followed by eleven consecutive quarterly installments in the amount of $1,125,000 each, commencing September 30, 2015, and a final payment of the outstanding principal amount of the Term Loan on the Maturity Date.

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

- The senior secured credit facility contains a number of covenants that, among other things, place restrictions on matters customarily restricted in senior secured credit facilities, including restrictions on indebtedness (including guarantee obligations), liens, fundamental changes, sales or disposition of property or assets, investments (including loans, advances, guarantees and acquisitions), transaction with affiliates, dividends and other payments in respect of capital stock, optional payments and modifications of other material debt instruments, negative

pledges and agreements restricting subsidiary distributions and changes in line of business. In addition, the Company is required to comply with a total leverage ratio and fixed charge coverage ratio. As of September 30, 2013, we are in compliance with all covenants contained in the 2013 Credit Agreement.

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

We are required under the 2013 Credit Agreement to establish a fixed or maximum interest rate covering a notional amount of not less than 50% of the aggregate outstanding indebtedness for borrowed money (other than the total revolving outstanding) for a period of three years from the closing date of our 2013 Credit Agreement. Subsequent to May 3, 2013, we entered into an agreement to cap the interest rate at 5% on the LIBOR component of our borrowings under the term loan facility until May 3, 2016. This interest rate cap is not designated for hedging or speculative purposes. The expense related to this interest rate cap was nominal.

On January 4, 2011, as part of the consideration for the acquisition of Compass, we issued an aggregate of $6.3 million in convertible notes to Compass (the Notes). The Notes mature on January 4, 2018 and interest is payable on the outstanding principal amount, computed daily, at the rate of 3.875% per annum on January 31 of each calendar year and on the seventh anniversary of the date of the Notes. The Notes were subject to transfer restrictions until January 31, 2013. If the price of our common stock on the Nasdaq Global Market exceeds $4 per share for 60 consecutive trading days (the Trigger

Event), the holder of the Notes may convert all (but not less than all) of the outstanding principal amount of the Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. After the Trigger Event, we may prepay all or any portion of the outstanding principal amount of the Notes by giving the holder 30 days written notice.

On April 26, 2013, the Company settled a portion of the Notes. The payee agreed to accept from the Company an amount equal to $650,000 as satisfaction in full of all indebtedness of $1.1 million owing by the Company to such payee. As a result of this transaction, the Company recognized a gain of $0.5 million in the second quarter of 2013 representing the difference between the fair value of the consideration issued in the settlement transaction and the carrying value of the amounts due to the payee. This amount was recorded in *Gain on Extinguishment of Debt* in the accompanying consolidated statement of comprehensive income (loss).

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

As of September 30, 2013, the total principal outstanding under the term loan facility and revolving credit facility was $44.2 million and $10.0 million, respectively. Additional mandatory principal repayments totaling $0.8 million and $3.4 million will be due in 2013 and 2014, respectively.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

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

Critical Accounting Policies and Accounting Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. We prepare these financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and

various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates; however, actual results may differ from these estimates under different assumptions or conditions. There have been no material changes or developments in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K, for the year ended December 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to financial market risks primarily related to changes in interest rates. A 100 basis point change in interest rates would result in an annual change in the results of operations of $0.5 million pre-tax.

We operate in a number of international areas which exposes us to significant foreign currency exchange rate risk. We have significant international revenue, which is generally collected in local currency. As of September 30, 2013, we have no outstanding forward exchange contracts or other derivative instruments for hedging or speculative purposes. It is expected that our international revenues will continue to grow as European, Asian and other markets adopt sourcing solutions and as a result of our acquisition of Compass. We recorded a foreign exchange transaction loss of $18 thousand for the nine months ended September 30, 2013. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

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

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

Our 20 largest clients accounted for approximately 40% of revenue in 2012 and 33% in 2011. If one or more of our large clients terminate or significantly reduce their engagements or fail to remain a viable business, then our revenues could be materially and adversely affected. In addition, our large clients generally maintain sizable receivable balances at any given time and our ability to collect such receivables could be jeopardized if such client fails to remain a viable business.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2013, as required by the Rule 13a-15(b) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of September 30, 2013.

Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

The risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 have not materially changed.

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

Issuer Purchases of Equity Securities

The following table details the repurchases that were made during the three months ended September 30, 2013.

Period	Total Number of Securities Purchased (In thousands)	Average Price per Securities	Total Numbers of Securities Purchased as Part of Publicly Announced Plan (In thousands)	Approximate Dollar Value of Securities That May Yet Be Purchased Under The Plan (In thousands)
July 1 July 31	168 shares	$ 2.27	168	$ 5,751
August 1 August 31	290 shares	$ 3.42	290	$ 4,759
September 1 September 30	81 shares	$ 3.75	81	$ 4,455

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

Exhibit Number		Description
31.1	*	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a).
31.2	*	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a).
32.1	*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	*	The following materials from ISG s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Condensed Statements of Operations for the three and nine months ended September 30, 2013 and 2012, (ii) the Consolidated Condensed Balance Sheets at September 30, 2013 and December 31, 2012, (iii) Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2013 and 2012, and (iv) Notes to Consolidated Condensed Financial Statements for the nine months ended September 30, 2013. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

* Filed herewith.

SIGNATURES

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

INFORMATION SERVICES GROUP, INC.

Date: November 8, 2013

/s/ Michael P. Connors
Michael P. Connors, Chairman of the
Board and Chief Executive Officer

Date: November 8, 2013

/s/ David E. Berger
David E. Berger, Executive Vice
President and Chief Financial Officer