

Information Services Group Inc.
Form 10-Q
August 06, 2010

**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 June 30, 2010

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
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes 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 July 30, 2010 |
|---------------------------------|------------------------------|
| Common Stock, \$0.001 par value | 32,027,585 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)**

| | June 30, 2010 | December 31, 2009 |
|---|--------------------------|------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 40,446 | \$ 42,786 |
| Accounts receivable, net of allowance of \$207 and \$206, respectively | 26,160 | 26,273 |
| Deferred tax asset | 3,341 | 2,137 |
| Prepaid expense and other current assets | 1,280 | 1,424 |
| Total current assets | 71,227 | 72,620 |
| Furniture, fixtures and equipment, net | 2,302 | 2,586 |
| Goodwill | 95,065 | 95,065 |
| Intangible assets, net | 66,116 | 70,072 |
| Other assets | 1,446 | 1,630 |
| Total assets | \$ 236,156 | \$ 241,973 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 1,668 | \$ 1,859 |
| Current maturities of long-term debt | | 2,000 |
| Deferred revenue | 1,994 | 1,672 |
| Accrued expenses | 5,877 | 9,392 |
| Total current liabilities | 9,539 | 14,923 |
| Long-term debt, net of current maturities | 69,813 | 69,813 |
| Deferred tax liability | 23,762 | 25,411 |
| Other liabilities | 82 | 201 |
| Total liabilities | 103,196 | 110,348 |
| Commitments and contingencies (Note 5) | | |
| Stockholders equity | | |
| Preferred stock, \$.001 par value; 10,000 shares authorized; none issued | | |
| Common stock, \$.001 par value, 100,000 shares authorized; 32,001 shares issued and 31,985 shares outstanding at June 30, 2010 and 31,816 shares issued and 31,800 outstanding at December 31, 2009 | 32 | 32 |
| Additional paid-in-capital | 191,436 | 189,601 |
| Treasury stock (16 shares, at cost) | (57) | (57) |

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| | | |
|--|------------|------------|
| Accumulated other comprehensive loss | (2,666) | (1,521) |
| Accumulated deficit | (55,785) | (56,430) |
| Total stockholders' equity | 132,960 | 131,625 |
| Total liabilities and stockholders' equity | \$ 236,156 | \$ 241,973 |

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | \$ 33,372 | \$ 31,518 | \$ 68,216 | \$ 65,817 |
| Operating expenses | | | | |
| Direct costs and expenses for advisors | 17,779 | 17,614 | 36,260 | 32,479 |
| Selling, general and administrative | 12,224 | 10,106 | 24,562 | 25,115 |
| Depreciation and amortization | 2,342 | 2,422 | 4,701 | 4,794 |
| Operating income | 1,027 | 1,376 | 2,693 | 3,429 |
| Interest income | 51 | 52 | 86 | 215 |
| Interest expense | (794) | (1,226) | (1,588) | (2,529) |
| Foreign currency transaction gain (loss) | 33 | (32) | (72) | (44) |
| Income before taxes | 317 | 170 | 1,119 | 1,071 |
| Income tax provision | 131 | 72 | 473 | 432 |
| Net income | \$ 186 | \$ 98 | \$ 646 | \$ 639 |
| Weighted average shares outstanding: | | | | |
| Basic | 31,981 | 31,471 | 31,951 | 31,445 |
| Diluted | 32,219 | 31,559 | 32,176 | 31,512 |
| Earnings per share: | | | | |
| Basic | \$ 0.01 | \$ 0.00 | \$ 0.02 | \$ 0.02 |
| Diluted | \$ 0.01 | \$ 0.00 | \$ 0.02 | \$ 0.02 |

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)

| | 2010 | Six Months Ended June 30, | 2009 |
|---|------------------|------------------------------|------------------|
| Cash flows from operating activities | | | |
| Net income | \$ 646 | | \$ 639 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation expense | 745 | | 722 |
| Amortization of intangibles | 3,956 | | 4,072 |
| Amortization of deferred financing costs | 182 | | 393 |
| Compensation costs related to stock-based awards | 1,677 | | 1,310 |
| Bad debt expense | 50 | | 409 |
| Deferred tax benefit | (1,898) | | (1,986) |
| Loss on disposal of furniture, fixtures and equipment | 14 | | 4 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (1,005) | | 4,484 |
| Prepaid expense and other current assets | 146 | | (13) |
| Accounts payable | (190) | | (698) |
| Deferred revenue | 322 | | (403) |
| Accrued expenses | (3,887) | | (11,859) |
| Net cash provided by (used in) operating activities | 758 | | (2,926) |
| Cash flows from investing activities | | | |
| Purchase of furniture, fixtures and equipment | (475) | | (616) |
| Net cash used in investing activities | (475) | | (616) |
| Cash flows from financing activities | | | |
| Principal payments on borrowings | (2,000) | | (12,238) |
| Proceeds from issuance of ESPP shares | 157 | | |
| Issuance of treasury shares | | | 82 |
| Equity securities repurchased | | | (86) |
| Net cash used in financing activities | (1,843) | | (12,242) |
| Effect of exchange rate changes on cash | (780) | | 444 |
| Net decrease in cash and cash equivalents | (2,340) | | (15,340) |
| Cash and cash equivalents, beginning of period | 42,786 | | 61,146 |
| Cash and cash equivalents, end of period | \$ 40,446 | | \$ 45,806 |

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 incorporated in Delaware on July 20, 2006. The Company was formed to acquire, through a merger, capital stock exchange, asset or stock acquisition or other similar business combination, one or more domestic or international operating businesses.

On November 16, 2007 (the Acquisition Date), the Company consummated the acquisition of TPI Advisory Services Americas, Inc., (the Acquisition) a Texas corporation (TPI), pursuant to a Purchase Agreement (the Purchase Agreement) dated April 24, 2007, as amended on September 30, 2007, by and between MCP-TPI Holdings, LLC, a Texas limited liability company, and the Company.

The Company operates as a fact-based sourcing advisory firm specializing in the assessment, evaluation, negotiation and management of service contracts between our clients and those clients' outside service providers and their internal shared service organizations. These service contracts typically involve the clients' information technology (IT) infrastructure or software applications development, data and voice communications, or IT-enabled business processes such as the clients' internal finance and accounting functions, human resources, call center operations, or supply chain procurement. The majority of our clients are Forbes Global 2000 corporations in the United States, Canada, Western Europe, Asia and Australia who are seeking to enter into or streamline their third-party outsourcing contracts. Clients are primarily charged on an hourly basis plus expenses. We also enter into a number of fixed fee arrangements. Services are rendered by our consultants who are primarily based throughout the Americas, Europe, and Asia Pacific.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009, 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 June 30, 2010 and the results of operations and cash flows for the six months ended June 30, 2010 and 2009. The condensed consolidated balance sheet as of December 31, 2009 has been derived from the Company's audited consolidated financial statements. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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

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fiscal year ended December 31, 2009, which are included in the Company's 2009 Form 10-K filed with the SEC.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Derivative Instruments

We may enter into derivative financial transactions to hedge existing or projected transactional exposures due to changing foreign currency exchange rates. We do not enter into derivative transactions for speculative or trading purposes. We recognize all derivative transactions on the balance sheet at fair value which are reflected through the results of operations and included in foreign currency gain (loss) in our consolidated statements of operations. While derivative instruments are subject to fluctuations in value, the fluctuations are generally offset by the value of the underlying transactional exposures being managed. The use of some derivative transactions may limit our ability to benefit from favorable fluctuations in foreign exchange rates. Our derivatives are not designated as hedges for accounting purposes. There were no derivative transactions outstanding as of June 30, 2010.

Earnings Per Common Share

Basic earnings 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. 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 six months ended June 30, 2010, the effect of 35.6 million warrants, 0.5 million stock appreciation rights (SARs) and 1.4 million Units (each

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

Unit comprising one common share and one warrant) associated with the Company's IPO underwriters purchase option 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, 0.7 million restricted shares have not been considered in the diluted earnings per share calculation for the three and six months ended June 30, 2010, as the effect would be anti-dilutive. For the three and six months ended June 30, 2009, the effect of 35.6 million warrants, 0.7 million stock appreciation rights and 1.4 million Units associated with the Company's IPO underwriters purchase option 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 six months ended June 30, 2009, as the effect would be anti-dilutive.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Numerator: | | | | |
| Net income | \$ 186 | \$ 98 | \$ 646 | \$ 639 |
| Denominator: | | | | |
| Basic weighted average common shares outstanding | 31,981 | 31,471 | 31,951 | 31,445 |
| Diluted effects of SARs, restricted shares, Employee Stock Purchase Plan shares and warrants | 238 | 88 | 225 | 67 |
| | 32,219 | 31,559 | 32,176 | 31,512 |
| Earnings per share: | | | | |
| Basic | \$ 0.01 | \$ 0.00 | \$ 0.02 | \$ 0.02 |
| Diluted | \$ 0.01 | \$ 0.00 | \$ 0.02 | \$ 0.02 |

Recently Issued Accounting Pronouncements

In March 2010, the Financial Accounting Standards Board (FASB) issued guidance related to revenue recognition for multiple element deliverables which eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the consideration that is attributable to items that already have been delivered. Under the new guidance, the relative selling price method is required to be used in allocating consideration between deliverables and the residual value method will no longer be permitted. This guidance is effective prospectively for revenue arrangements entered into or materially modified in 2011 although early adoption is permitted. A company may elect, but will not be required, to adopt the amendments retrospectively for all prior periods. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

NOTE 4 INCOME TAXES

The Company's effective tax rate for the three and six months ended June 30, 2010 was 41.4% and 42.3% based on pre-tax income of \$0.3 million and \$1.1 million, respectively. This compared to 42.2% and 40.3% for the three and six months ended June 30, 2009, respectively.

As of June 30, 2010, the Company had total unrecognized tax benefits of approximately \$0.4 million of which approximately \$0.2 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 consolidated statement of operations. As of June 30, 2010, the Company's accrual for interest and penalties was immaterial.

NOTE 5 COMMITMENTS AND CONTINGENCIES

The Company is subject to contingencies, various claims and legal actions which arise through the ordinary course of business. In the opinion of management, the outcome of such claims and legal actions, if decided adversely, is not expected

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

to have a material adverse effect on our business, financial condition and results of operations. All liabilities of which management is aware are properly reflected in the financial statements at June 30, 2010 and December 31, 2009.

NOTE 6 COMPREHENSIVE INCOME

The following table presents the components of comprehensive income for the periods presented.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | \$ 186 | \$ 98 | \$ 646 | \$ 639 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments, net of tax of \$(438), \$664, \$(702) and \$386, respectively | (712) | 1,083 | (1,145) | 629 |
| Comprehensive income | \$ (526) | \$ 1,181 | \$ (499) | \$ 1,268 |

NOTE 7 SEGMENT AND GEOGRAPHICAL INFORMATION

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

Geographical information for the segment is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------|--------------------------------|-----------|------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | | | | |
| Americas | \$ 19,981 | \$ 18,063 | \$ 41,138 | \$ 38,219 |

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| | | | | |
|--------------|-----------|-----------|-----------|-----------|
| Europe | 9,433 | 10,858 | 19,688 | 22,160 |
| Asia Pacific | 3,958 | 2,597 | 7,390 | 5,438 |
| | \$ 33,372 | \$ 31,518 | \$ 68,216 | \$ 65,817 |

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

NOTE 8 FINANCING ARRANGEMENTS AND LONG-TERM DEBT

On November 16, 2007, in connection with the Acquisition of TPI, International Consulting Acquisition Corp., a wholly-owned indirect subsidiary of ISG (the Borrower), entered into a senior secured credit facility comprised of a \$95.0 million term loan facility and a \$10.0 million revolving credit facility (collectively referred to as the 2007 Credit Agreement). On November 16, 2007, the Borrower borrowed \$95.0 million under the term loan facility to finance the purchase of TPI. In accordance with the terms of the amended 2007 Credit Agreement, the Company made a \$2.0 million principal repayment on March 31, 2010 to reduce the outstanding term loan balance to \$69.8 million. The remaining mandatory term loan principal repayment will be due on November 16, 2014, which is the maturity date for the term loan. There were no borrowings under the revolving credit facility during the second quarter of 2010. The carrying amount of long-term debt owed to banks approximates fair value based on interest rates that are currently available to the Company for issuance of debt with similar terms and maturities.

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

You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as may, should, could, predict, potential, continue, expect, anticipate, intend, plan, believe, estimate, forecast and similar expressions (or the negative of such expressions.) Forward-looking statements include statements concerning 2010 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 2009 Form 10-K titled "Risk Factors."

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND JUNE 30, 2009

Revenues

Revenues are generally derived from engagements priced on a time and materials basis, 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. Generally, invoices are issued to clients at least monthly.

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

Geographical information for the segment is as follows:

| Geographic Area | Three Months Ended June 30, (in thousands) | | | | Percent Change |
|-----------------|---|-----------|----------|-------|-------------------|
| | 2010 | 2009 | Change | | |
| Americas | \$ 19,981 | \$ 18,063 | \$ 1,918 | 11% | |
| Europe | 9,433 | 10,858 | (1,425) | (13)% | |
| Asia Pacific | 3,958 | 2,597 | 1,361 | 52% | |
| Total revenues | \$ 33,372 | \$ 31,518 | \$ 1,854 | 6% | |

The net increase in revenues of \$1.9 million or 6% in 2010 was attributable principally to a 11% increase in Americas revenues to \$20.0 million and a 52% increase in Asia Pacific revenues to \$4.0 million. The increase in revenues is primarily due to higher levels of sourcing activity, particularly in the U.S. and Asia Pacific, attributable to increases in information technology, business process services and post contract governance services. These increases were partially offset by a 13% reduction in Europe primarily due to lower volumes in sourcing related

engagements and the unfavorable impact of foreign currency translation into US dollars.

Operating Expenses

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

| Operating Expenses | Three Months Ended June 30, (in thousands) | | | | Percent Change |
|--|---|-----------|----------|------|-------------------|
| | 2010 | 2009 | Change | | |
| Direct costs and expenses for advisors | \$ 17,779 | \$ 17,614 | \$ 165 | 1% | |
| Selling, general and administrative | 12,224 | 10,106 | 2,118 | 21% | |
| Depreciation and amortization | 2,342 | 2,422 | (80) | (3)% | |
| Total operating expenses | \$ 32,345 | \$ 30,142 | \$ 2,203 | 7% | |

Total operating expenses increased \$2.2 million or 7% for the quarter driven by an increase in selling, general and administrative (SG&A) expenses which were up 21% due primarily to increases in outside professional services, share-based compensation and annual client related industry events in the US and Asia Pacific region which were not held in the prior year due to pressures relating to the global economic crisis. These increases were partially offset by the reversal of bonus accruals that were recorded in the first quarter of 2010 and a decrease in restructuring charges. The increase in direct costs was primarily due to the greater use of outside contractors to meet skill set and language requirements of various engagements that were offset by lower levels of compensation and the reversal of variable compensation accruals. The favorable impact of foreign currency translation into US dollars drove costs lower compared to the same prior 2009 period.

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.

The Company maintains 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 second quarter of 2010 was \$2.3 million compared with \$2.4 million in the second quarter of 2009. The Company's 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. The Company also capitalizes 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.

The Company amortizes its intangible assets (e.g. client relationships and databases) over their estimated useful lives. Goodwill, trademark and trade names related to acquisitions are not amortized but are subject to annual impairment testing.

Other (Expense), Net

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

| | Three Months Ended June 30, (in thousands) | | | | | |
|------------------------------|---|-------|------|---------|--------|----------------|
| | 2010 | | 2009 | | Change | Percent Change |
| Interest income | \$ | 51 | \$ | 52 | \$ (1) | (2)% |
| Interest expense | | (794) | | (1,226) | 432 | 35% |
| Foreign currency gain (loss) | | 33 | | (32) | 65 | 203% |
| Total other expense, net | \$ | (710) | \$ | (1,206) | \$ 496 | 41% |

The decrease of \$0.5 million was primarily the result of lower interest expense given reduced debt levels, lower interest rates and a foreign currency related gain.

Income Tax Expense

The Company's effective tax rate varies from period to period based on the mix of earnings among the various state and foreign tax jurisdictions in which business is conducted and the level of non-deductible expenses incurred in any given period. The Company's effective tax rate for the three months ended June 30, 2010 was 41.4% compared to 42.2% for the three months ended June 30, 2009. The Company's operations resulted in a pre-tax income of \$0.3 million and a tax expense of \$0.1 million at the 41.4% effective tax rate for the three months ended June 30, 2010.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND JUNE 30, 2009**Revenues**

Geographical information for the segment is as follows:

| Geographic Area | Six Months Ended June 30, (in thousands) | | | | | |
|-----------------|---|--------|------|--------|----------|----------------|
| | 2010 | | 2009 | | Change | Percent Change |
| Americas | \$ | 41,138 | \$ | 38,219 | \$ 2,919 | 8% |
| Europe | | 19,688 | | 22,160 | (2,472) | (11)% |
| Asia Pacific | | 7,390 | | 5,438 | 1,952 | 36% |
| Total revenues | \$ | 68,216 | \$ | 65,817 | \$ 2,399 | 4% |

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The net increase in revenues of \$2.4 million or 4% in 2010 was attributable principally to a 8% increase in Americas revenues to \$41.1 million and a 36% increase in Asia Pacific revenues to \$7.4 million. The increase in revenues is primarily due to higher levels of sourcing activity, particularly in the U.S. and Asia Pacific, attributable to increases in information technology, business process services and post contract governance services. These increases were partially offset by a 11% reduction in Europe primarily due to lower volumes in sourcing related engagements. The translation of foreign currency revenues into US dollars also favorably impacted performance compared to prior year.

Operating Expenses

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

| Operating Expenses | Six Months Ended June 30, (in thousands) | | | | Percent Change |
|--|---|-----------|----------|------|-------------------|
| | 2010 | 2009 | Change | | |
| Direct costs and expenses for advisors | \$ 36,260 | \$ 32,479 | \$ 3,781 | 12% | |
| Selling, general and administrative | 24,562 | 25,115 | (553) | (2)% | |
| Depreciation and amortization | 4,701 | 4,794 | (93) | (2)% | |
| Total operating expenses | \$ 65,523 | \$ 62,388 | \$ 3,135 | 5% | |

Total operating expenses increased \$3.1 million or 5% for the first six months of 2010 with increases in direct costs of 12% partially offset by reduction in selling, general and administrative (SG&A) (2%). The increase in direct costs was

driven by the greater percentage of advisor time that was spent on billable activities in the first quarter which are charged to direct costs versus non-billable activities that are charged as SG&A costs compared to prior year as well as the greater use of outside contractors to address skill set and language requirements. The decrease in SG&A costs was primarily due to a decrease in restructuring charges, lower compensation and a reduction in bad debt reserves. These costs were offset by increases in outside professional services, share-based compensation and conference expenses for client related industry events in the US and Asia Pacific regions which were not held in the prior year due to the impacts from the global economic crisis. Costs were also driven higher by the translation of foreign currency into US dollars.

Depreciation and amortization expense in the first six months of 2010 was \$4.7 million compared with \$4.8 million in the first six months of 2009.

Other (Expense), Net

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

| | Six Months Ended June 30, (in thousands) | | | | | | |
|--------------------------|---|---------|------|---------|--------|----------------|-------|
| | 2010 | | 2009 | | Change | Percent Change | |
| Interest income | \$ | 86 | \$ | 215 | \$ | (129) | (60)% |
| Interest expense | | (1,588) | | (2,529) | | 941 | 37% |
| Foreign currency loss | | (72) | | (44) | | (28) | (64)% |
| Total other expense, net | \$ | (1,574) | \$ | (2,358) | \$ | 784 | 33% |

The decrease of \$0.8 million was primarily the result of lower interest expense given reduced debt levels and lower interest rates which was partially offset by foreign currency related losses and lower interest income.

Income Tax Expense

The Company's effective tax rate for the six months ended June 30, 2010 was 42.3% compared to 40.3% for the six months ended June 30, 2009. The Company's operations resulted in a pre-tax income of \$1.1 million and a tax expense of \$0.5 million at the 42.3% effective tax rate for the six months ended June 30, 2010.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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The Company's primary sources of liquidity are cash flows from operations, existing cash and cash equivalents and the Company's 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 June 30, 2010, our cash and cash equivalents were \$40.4 million, a net decrease of \$2.3 million from December 31, 2009, which was primarily attributable to the following:

- net cash inflows from operating activities of \$0.8 million that included payments related to estimated income tax and the payout of bonuses earned during 2009;
- capital expenditures for furniture, fixtures and equipment of \$0.5 million; and
- payment of principal amounts due on long-term debt of \$2.0 million.

Capital Resources

On November 16, 2007, in connection with the Acquisition of TPI, International Consulting Acquisition Corp., a wholly-owned indirect subsidiary of ISG (the Borrower), entered into a senior secured credit facility comprised of a \$95.0 million term loan facility and a \$10.0 million revolving credit facility (collectively referred to as the 2007 Credit Agreement). On November 16, 2007, the Borrower borrowed \$95.0 million under the term loan facility to finance the purchase of TPI. In accordance with the terms of the amended 2007 Credit Agreement, the Company made a \$2.0 million principal repayment on March 31, 2010 to reduce the outstanding term loan balance to \$69.8 million. The remaining mandatory term loan principal repayment will be due on November 16, 2014, which is the maturity date for the term loan. There were no borrowings under the revolving credit facility during the first six months of 2010. The carrying amount of long-term debt owed to banks

approximates fair value based on interest rates that are currently available to the Company for issuance of debt with similar terms and maturities.

Off-Balance Sheet Arrangements

The Company does 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, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to financial market risks primarily related to changes in interest rates and manages these risks by employing a variety of debt instruments. Although we do not believe a change in interest rates will materially affect our financial position or results of financial operations, we have purchased an interest rate cap to limit our exposure for forty percent of the total term loan value to an increase in LIBOR rates beyond seven percent. A 100 basis point change in interest rates would result in an annual change in the results of operations of \$0.7 million pre-tax.

The Company operates in a number of international areas which exposes us to significant foreign currency exchange rate risk. The Company has significant international revenue, which is generally collected in local currency. As of June 30, 2010, the Company had no outstanding forward exchange contracts or other derivative instruments for hedging or speculative purposes. The percentage of total revenues generated outside the U.S. increased from 22% in 2004 to 42% in 2009. It is expected that the Company's international revenues will continue to grow as European, Asian and other markets adopt sourcing solutions. The Company recorded a foreign exchange transaction loss of \$0.1 million for the six months ended June 30, 2010. 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.

The Company has 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.

The Company's 20 largest clients accounted for approximately 44% of revenue in 2009 and 48% in 2008. In particular, revenues from clients in the automotive sector collectively accounted for approximately 15% of our 2009 annual revenue. Although only General Motors Corporation accounted for more than 10% of our revenues in 2009, 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 any 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 June 30, 2010, 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 June 30, 2010.

Internal Control Over Financial Reporting

There have not been any changes in the Company's 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, the Company's 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, 2009 have not materially changed.

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

Issuer Purchases of Equity Securities

There were no repurchases that were made during the three months ended June 30, 2010.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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The 2010 Annual Meeting of Shareholders of the Company was held on May 11, 2010. The following matters were submitted to a vote of the Company's shareholders:

1. Election of Directors. The following directors were elected to hold office until the 2013 Annual Meeting and until their successors have been elected and have qualified to hold such office. The results of the election for each director are as follows:

| Directors | Votes For | Votes Withheld |
|--------------------|------------------|-----------------------|
| Michael P. Connors | 28,655,120 | 69,448 |
| Robert E. Weissman | 28,569,262 | 155,306 |

2. Ratification of the appointment of PricewaterhouseCoopers LLP as Independent Registered Public Accounting Firm for 2010. The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2010 was approved. The voting results are as follows:

| In Favor Of | Against | Abstain |
|--------------------|----------------|----------------|
| 30,997,882 | 292,484 | 41,007 |

3. Amend the 2007 Equity Incentive Plan. The amendment of the 2007 Equity Incentive Plan was approved. The voting results are as follows:

| In Favor Of | Against | Abstain |
|--------------------|----------------|----------------|
| 27,826,240 | 893,048 | 5,280 |

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. |

* 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: August 6, 2010

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

Date: August 6, 2010

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