

Information Services Group Inc.
Form 10-Q
November 07, 2011

**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, 2011

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

20-5261587
(I.R.S. Employer

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incorporation or organization)

Identification No.)

**Two Stamford Plaza
281 Tresser Boulevard
Stamford, CT 06901**

(Address of principal executive offices and zip code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer 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
Common Stock, \$0.001 par value

Outstanding at October 27, 2011
36,163,423 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, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 17,117	\$ 40,301
Accounts receivable, net of allowance of \$886 and \$195, respectively	49,693	26,603
Deferred tax asset	4,134	2,852
Prepaid expense and other current assets	2,617	1,281
Total current assets	73,561	71,037
Restricted cash		5,750
Furniture, fixtures and equipment, net	3,162	2,113
Goodwill	69,523	48,474
Intangible assets, net	64,705	55,746
Other assets	1,146	1,444
Total assets	\$ 212,097	\$ 184,564
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 5,389	\$ 1,656
Current maturities of long-term debt	6,250	
Deferred revenue	3,570	1,175
Accrued expenses	21,329	10,701
Total current liabilities	36,538	13,532
Long-term debt, net of current maturities	64,813	69,813
Deferred tax liability	18,027	19,336
Other liabilities	4,871	66
Total liabilities	124,249	102,747
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; 36,499 shares issued and 35,987 shares outstanding at September 30, 2011 and 32,617 shares issued and 32,601 outstanding at December 31, 2010	37	33

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Additional paid-in-capital	204,071	192,989
Treasury stock (512 and 16 shares, at cost)	(695)	(57)
Accumulated other comprehensive loss	(2,019)	(1,553)
Accumulated deficit	(113,546)	(109,595)
Total stockholders' equity	87,848	81,817
Total liabilities and stockholders' equity	\$ 212,097	\$ 184,564

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	\$ 48,901	\$ 32,190	\$ 139,812	\$ 100,406
Operating expenses				
Direct costs and expenses for advisors	28,005	18,642	79,953	54,902
Selling, general and administrative	16,237	10,632	52,304	35,194
Goodwill impairment charge		46,591		46,591
Intangible assets impairment charge		5,900		5,900
Depreciation and amortization	2,882	2,340	8,452	7,041
Operating income (loss)	1,777	(51,915)	(897)	(49,222)
Interest income	23	39	58	125
Interest expense	(812)	(814)	(2,487)	(2,402)
Foreign currency transaction (loss) gain	(191)	(116)	9	(188)
Income (loss) before taxes	797	(52,806)	(3,317)	(51,687)
Income tax provision (benefit)	3,390	(1,059)	634	(586)
Net loss	\$ (2,593)	\$ (51,747)	\$ (3,951)	\$ (51,101)
Weighted average shares outstanding:				
Basic	36,337	32,044	36,272	31,982
Diluted	36,337	32,044	36,272	31,982
Loss per share:				
Basic	\$ (0.07)	\$ (1.61)	\$ (0.11)	\$ (1.60)
Diluted	\$ (0.07)	\$ (1.61)	\$ (0.11)	\$ (1.60)

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,	
	2011	2010
Cash flows from operating activities		
Net loss	\$ (3,951)	\$ (51,101)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation expense	1,115	1,107
Goodwill impairment charge		46,591
Intangible assets impairment charge		5,900
Amortization of intangibles	7,337	5,934
Amortization of deferred financing costs	265	271
Compensation costs related to stock-based awards	2,397	2,360
Bad debt expense	685	80
Deferred tax benefit	(4,294)	(5,067)
(Gain) loss on disposal of furniture, fixtures and equipment	(13)	11
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(13,389)	(1,917)
Prepaid expense and other current assets	796	(825)
Accounts payable	1,063	(458)
Deferred revenue	(441)	(273)
Accrued liabilities	(247)	(2,077)
Net cash (used in) provided by operating activities	(8,677)	536
Cash flows from investing activities		
Acquisitions, net of cash acquired	(13,684)	
Restricted cash	5,750	
Proceeds from sale of furniture, fixtures and equipment	21	
Purchase of furniture, fixtures and equipment	(1,102)	(741)
Net cash used in investing activities	(9,015)	(741)
Cash flows from financing activities		
Principal payments on borrowings	(5,000)	(2,000)
Proceeds from issuance of ESPP shares	232	234
Equity securities repurchased	(638)	
Net cash used in financing activities	(5,406)	(1,766)
Effect of exchange rate changes on cash	(86)	69
Net decrease in cash and cash equivalents	(23,184)	(1,902)
Cash and cash equivalents, beginning of period	40,301	42,786
Cash and cash equivalents, end of period	\$ 17,117	\$ 40,884

Supplemental disclosures of cash flow information:

Noncash financing activities:

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Issuance of common stock for acquisition	7,980
Issuance of convertible debt for acquisition	6,250

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 or ISG) (Nasdaq: III) is a leading technology insights, market intelligence and advisory services company. We support private and public sector clients in transforming and optimizing their operational environments through strategic consulting, benchmarking and analytics, managed services and research with a focus on information technology, business process transformation and enterprise resource planning.

Our company was founded in 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. In 2007, ISG consummated its initial public offering and completed the acquisition of TPI Advisory Services Americas, Inc. (TPI). TPI 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.

In the first quarter of 2011, ISG completed the acquisitions of the entire issued share capital CCGH Limited, an English corporation (Compass) and Salvaggio, Teal & Associates (STA Consulting or STA). Including our most recent acquisitions, we now operate in 21 countries and employ nearly 700 professionals globally, delivering advisory, benchmarking and analytical insight to large, multinational corporations and governments in North America, Europe and Asia Pacific. We deliver these services through three go-to market brands: TPI, Compass and STA Consulting.

On January 4, 2011, ISG completed the acquisition of Compass. Compass is an 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.

On February 10, 2011 ISG completed the acquisition of STA, an 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 and other enterprise administration and management systems. STA 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.

NOTE 2 BASIS OF PRESENTATION

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The accompanying unaudited condensed consolidated financial statements as of September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010, 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, 2011, the results of operations for the three and nine months ended September 30, 2011 and 2010 and the cash flows for the nine months ended September 30, 2011 and 2010. The condensed consolidated balance sheet as of December 31, 2010 has been derived from the Company's audited consolidated financial statements. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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, 2010, which are included in the Company's 2010 Form 10-K filed with the SEC.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted Cash

Restricted cash consists of cash and cash equivalents which the Company has pledged to fulfill certain obligations and are not available for general corporate purposes.

At December 31, 2010 the \$5.8 million was held in escrow to satisfy the cash consideration component of the Compass acquisition. This amount was paid in January 2011 and no longer held in escrow.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

Derivative Instruments

During 2011 and 2010, we entered 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 condensed 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. As of September 30, 2011 and September 30, 2010, we have no outstanding forward exchange contracts or other derivative instruments for hedging or speculative purposes.

Loss Per Common Share

Basic earnings (loss) per share is computed by dividing net (loss) income available to common stockholders by the weighted average number of common shares outstanding for the period. The 250,000 restricted shares of ISG common stock (the "ISG Restricted Shares") 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. As of September 30, 2011, the 30.6 million warrants and the 1.4 million Units (each Unit comprising one common share and one warrant) have expired. For the three and nine months ended September 30, 2011, the effect of 1.6 million shares related to the Company's convertible debt, 5.0 million warrants, 0.4 million stock appreciation rights ("SARs") and 3.2 million restricted shares have not been considered in the diluted earnings per share calculation for the three and nine months ended September 30, 2011, as the effect would be anti-dilutive. For the three and nine months ended September 30, 2010, the effect of 35.6 million warrants, 0.5 million SARs 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, 2.3 million restricted shares have not been considered in the diluted earnings per share calculation for the three and nine months ended September 30, 2010, as the effect would be anti-dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic:				
Net loss	\$	(2,593)	\$	(51,747)
			\$	(3,951)
				\$
				(51,101)

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Weighted average common shares		36,337		32,044		36,272		31,982
Basic loss per share	\$	(0.07)	\$	(1.61)	\$	(0.11)	\$	(1.60)
Diluted:								
Net loss	\$	(2,593)	\$	(51,747)	\$	(3,951)	\$	(51,101)
Interest expense of convertible debt, net of tax								
Net loss, as adjusted	\$	(2,593)	\$	(51,747)	\$	(3,951)	\$	(51,101)
Basic weighted average common shares		36,337		32,044		36,272		31,982
Potential common shares								
Diluted weighted average common shares		36,337		32,044		36,272		31,982
Diluted loss per share	\$	(0.07)	\$	(1.61)	\$	(0.11)	\$	(1.60)

Recently Issued Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued accounting guidance that clarifies which debt restructurings are considered troubled debt restructurings. Debt, which includes receivables, restructured in a troubled debt

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

restructuring is classified as impaired for calculation of the allowance for doubtful accounts and is subject to additional disclosures detailing the modifications of the debt. The guidance is effective for interim or annual periods beginning on or after June 15, 2011. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued accounting guidance related to the presentation of comprehensive income. This guidance presents an entity with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance relates only to the presentation of comprehensive income. The provisions of this new guidance are effective for fiscal years and interim periods beginning after December 15, 2011 and are applied retrospectively for all periods presented. We do not anticipate the adoption of this guidance will materially impact the Company's consolidated financial statements.

In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. We do not anticipate the adoption of this guidance will materially impact the Company's consolidated financial statements.

NOTE 4 ACQUISITIONS

Compass Acquisition

On January 4, 2011 (the Compass Acquisition Date), the Company executed an Agreement for the Sale and Purchase of the entire issued share capital of Compass (the Agreement) and consummated the acquisition of the entire issued share capital of Compass.

Under the terms of the Agreement, each of the holders of the issued share capital of Compass agreed to sell and transfer, and the Company agreed to buy, the entire share capital of Compass (the Share Purchase). The Share Purchase was consummated on January 4, 2011.

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The final allocable purchase price consists of the following:

Cash	\$	5,750
Common Stock*		7,980
Convertible Notes**		6,250
Stamp Tax		98
Total allocable purchase price	\$	20,078

* 3,500,000 shares issued at \$2.28 per share, the closing stock price of the Company on January 4, 2011.

** The Convertible 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 are subject to transfer restrictions until January 31, 2013. If the price of the Company's 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 the Company's common stock at the rate of 1 share for every \$4 in principal amount outstanding. After the Trigger Event, the Company may prepay all or any portion of the outstanding principal amount of the Notes by giving the holder 30 days written notice.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

The purchase price has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of the Compass Acquisition Date. The purchase price allocation was based upon a valuation completed by third-party valuation specialists using an income approach and estimates and assumptions provided by management. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The goodwill recognized is primarily attributable to expected synergies that will result from combining the operations of ISG and Compass as well as intangible assets that do not qualify for separate recognition. Goodwill of \$16.6 million acquired in the acquisition is not deductible for tax purposes.

The following table summarizes the final allocation of the aggregate purchase price to the fair value of the assets acquired and liabilities assumed as of the Compass Acquisition Date:

Allocation of Purchase Price:		
Cash	\$	1,091
Accounts receivable		9,449
Prepaid expenses and other assets		2,042
Furniture, fixtures and equipment		685
Goodwill		16,566
Intangible assets		5,045
Accounts payable		(1,603)
Accrued expenses and other (1)		(11,280)
Deferred income tax liability		(1,917)
Net assets acquired	\$	20,078

(1) The fair value of contingent liabilities related to uncertain tax positions recognized at the acquisition date is \$1.5 million.

The intangible assets acquired include database, trademark and trade name, customer relationships, covenant not-to-compete and goodwill. Some of these assets, such as goodwill and the trademark and trade name are not subject to amortization but rather an annual test for possible impairment; other intangible assets that are amortized over their useful lives are reviewed when events or changes or circumstances indicate the carrying amount of the asset may not be recoverable.

Under the purchase method of accounting, the total purchase price of approximately \$20.1 million was allocated to Compass's net tangible and intangible assets based on their estimated fair values as of the Compass Acquisition Date. Intangible assets are amortized utilizing the estimated pattern of the consumption of the economic benefit over their estimated lives, ranging from one to ten weighted average years. Based on the valuation and other factors as described above, the purchase price assigned to intangible assets and the amortization period were as follows:

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	Purchase Price Allocation	Asset Life
Amortizable intangible assets:		
Customer relationships	\$ 1,150	10 years
Covenants not-to-compete	15	2 years
Databases-Financial Data Repository	1,840	7 years
Non-amortizable intangible assets:		
Trademark and trade name	2,040	Indefinite
Total intangible assets	\$ 5,045	

STA Acquisition

On February 10, 2011 (the STA Acquisition Date), the Company executed an Asset Purchase Agreement (the STA Agreement) with Salvaggio & Teal Ltd. (d/b/a Salvaggio, Teal & Associates, STA), Salvaggio & Teal II, LLC, Mitt Salvaggio, Kirk Teal, Nathan Frey and International Consulting Acquisition Corp., a wholly-owned subsidiary of ISG, and consummated the acquisition of substantially all of the assets and assumption of certain specified liabilities of STA (collectively, the Asset Purchase).

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

Under the terms of the STA Agreement, ISG acquired the specified assets for cash consideration of \$9.0 million subject to certain adjustments. In addition, the sellers under the Agreement (the STA Sellers) are eligible to receive a minimum of \$0 and a maximum up to \$7.75 million of earn-out payments for fiscal years 2011-2015 if certain revenue and earnings targets are met. Finally, the STA Sellers were granted 250,000 ISG Restricted Shares that will vest if the commercial enterprise resource planning revenue of ISG and its affiliates are met.

As of the STA Acquisition Date, we have recorded a liability of \$6.7 million representing the fair value of the contingent consideration. This amount was estimated through a valuation model that incorporated industry-based, 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 cost of debt financing for market participants.

The final allocable purchase price consists of the following:

Cash	\$	8,928
Contingent consideration*		7,217
Total allocable purchase price	\$	16,145

* Included cash earn-out of \$6.7 million and 250,000 shares of equity contingent consideration at \$1.91 per share, the closing stock price of the Company on February 10, 2011.

The following table summarizes the final allocation of the aggregate purchase price to the fair value of the assets acquired and liabilities assumed as of the STA Acquisition Date:

Allocation of Purchase Price:		
Accounts receivable	\$	2,093
Other assets		57
Goodwill(1)		4,347
Intangible assets		11,210
Accounts payable		(1,067)
Accrued expenses and other		(495)

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Net assets acquired	\$	16,145
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- (1) Goodwill of \$4.3 million acquired in the acquisition is deductible for tax purposes.

The acquisition of STA is being treated as a business combination for accounting purposes while it is legally an asset purchase. Based on the valuation and other factors as described above, the purchase price assigned to intangible assets and the amortization period were as follows:

	Purchase Price Allocation	Asset Life
Amortizable intangible assets:		
Customer relationships	\$ 8,490	10 years
Backlog	1,880	2 years
Covenants not-to-compete	150	5 years
Non-amortizable intangible assets:		
Trademark and trade name	690	Indefinite
Total intangible assets	\$ 11,210	

Compass' results of operations have been included in the Company's financial statement for periods subsequent to the effective date of the acquisition. Compass contributed revenues of \$32.4 million and net loss of \$0.3 million for the period from January 4, 2011 through September 30, 2011. STA's results of operations have been included in the Company's financial statement for periods subsequent to the effective date of the acquisition. STA contributed revenues of \$8.7 million and net income of \$0.0 million for the period from February 10, 2011 through September 30, 2011.

The following unaudited pro forma financial information for the three and nine months ended September 30, 2011 and 2010, assumes that the acquisitions of Compass and STA occurred at the beginning of the period presented. The unaudited

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

proforma financial information is presented for information purposes only. Such information is based upon the stand alone historical results of each company and does not reflect the actual results that would have been reported had the acquisitions been completed when assumed, nor is it indicative of the future results of operations for the combined enterprise.

Proforma	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	\$ 48,901	\$ 45,695	\$ 141,334	\$ 140,909
Direct costs and expenses for advisors	28,005	27,536	81,386	81,696
Selling, general and administrative	16,237	14,451	52,349	47,699
Depreciation and amortization	2,882	2,505	8,604	8,017
Impairment of intangible assets		52,491		52,491
Operating income (loss)	1,777	(51,288)	(1,005)	(48,994)
Other expense, net	(980)	(1,507)	(2,419)	(4,081)
Net income (loss) before taxes	797	(52,795)	(3,424)	(53,075)
Income tax provision (benefit)	3,390	(1,062)	563	(1,149)
Net loss	\$ (2,593)	\$ (51,733)	\$ (3,987)	\$ (51,926)
Basic loss per share	\$ (0.07)	\$ (1.46)	\$ (0.11)	\$ (1.46)
Diluted loss per share	\$ (0.07)	\$ (1.46)	\$ (0.11)	\$ (1.46)

NOTE 5 INCOME TAXES

The Company's effective tax rate for the three and nine months ended September 30, 2011 was 425% and (19.1%) based on income before taxes of \$0.8 million and loss before taxes of \$3.3 million, respectively. This compared to 2.0% and 1.1% for the three and nine months ended September 30, 2010, respectively. The change in the effective tax rate for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 is primarily related to the goodwill and intangible assets impairment charge of \$52.5 million in 2010. The change in the effective tax rate for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 is primarily attributable to revisions to our annual estimated effective tax rate due to changes in our projected estimated income (loss) before taxes expected for the full year.

As of September 30, 2011, the Company had total unrecognized tax benefits of approximately \$2.3 million of which approximately \$0.5 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, 2011, the Company's accrual of interest and penalties were \$0.3 million.

NOTE 6 COMMITMENTS AND CONTINGENCIES

We are not involved in any material litigation nor, to our knowledge, is any material litigation pending or threatened against us. We are subject to contingencies that arise in the normal course of business. The potential liability, if any, in excess of amounts already accrued from all proceedings, claims and litigation will not have a material effect on our financial position or results of operations when resolved in a future period. All liabilities of which management is aware are properly reflected in the condensed consolidated financial statements at September 30, 2011 and December 31, 2010.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

NOTE 7 GOODWILL

The changes in the carrying amount of goodwill for the nine months ended September 30, 2011 is as follows:

Balance as of December 31, 2010		
Goodwill	\$	144,428
Accumulated impairment losses		(95,954)
		48,474
Increase in goodwill related to acquisitions		20,913
Effect of foreign exchange rate changes		136
Balance as September 30, 2011		
Goodwill		165,477
Accumulated impairment losses		(95,954)
	\$	69,523

During the third quarter of 2010, as a result of declining revenue, driven by a global recession which has impacted and reduced sourcing industry activity, the Company determined a triggering event had occurred requiring a goodwill impairment test be performed. As a result of this testing, the Company recorded a pre-tax non-cash impairment charge of \$46.6 million associated with goodwill.

NOTE 8 COMPREHENSIVE (LOSS) INCOME

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss	\$	(2,593)	\$	(51,747)
			\$	(3,951)
			\$	(51,101)
Other comprehensive (loss) income:				
Foreign currency translation adjustments, net of tax of \$(1,037), \$655, \$(285) and \$(47),		(1,692)		1,068
				(466)
				(77)

respectively

Comprehensive loss	\$	(4,285)	\$	(50,679)	\$	(4,417)	\$	(51,178)
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NOTE 9 RESTRUCTURING ACCRUAL

Concurrent with the closing of the Compass acquisition, the Company initiated a workforce reduction focused on implementing selected cost savings and productivity improvements. The workforce reduction is focused on integration-related cost synergies including selling, general and administrative support, elimination of unnecessary sales and advisory positions and real estate consolidations.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

A summary of the activity affecting the Company's accrued contractual termination benefit liability for the nine months ended September 30, 2011 is as follows:

		Workforce Reductions
Balance at December 31, 2010	\$	
Amounts accrued		2,299
Amounts paid/incurred		(1,356)
Adjustments		(179)
Balance at September 30, 2011	\$	764

The \$2.1 million of net restructuring charges was primarily related to contractual termination benefits, and was recorded in selling, general and administrative expenses. We expect that the remaining actions of our workforce reduction will be completed over the next three months.

NOTE 10 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 revenue information for the segment is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues				
Americas	\$	24,006	\$	19,011
Europe		18,341		9,056
Asia Pacific		6,554		4,123
	\$	48,901	\$	32,190
			\$	139,812
			\$	60,149
				56,298
				17,508
				11,513
				100,406

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 11 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.

On March 16, 2011, our lenders agreed to amend the total leverage ratio (as defined in the 2007 Credit Agreement) for the remaining life of the 2007 Credit Agreement to provide the Company with greater financing flexibility in return for additional quarterly term loan principal repayments. In accordance with the terms of the amended 2007 Credit Agreement, the Company made mandatory principal repayments of \$3.0 million on March 31, 2011, \$1.0 million on June 30, 2011, \$1.0 million on September 30, 2011 and will make additional payments of \$1.0 million on December 31, 2011, to reduce the outstanding term loan balance to \$63.8 million. The principal repayments will be made from cash generated through the Company's normal business operations.

Additional mandatory principal repayments totaling \$7.0 million and \$10.0 million will be due in 2012 and 2013, respectively, with the remaining principal repayments due in 2014. The final mandatory term loan principal repayment will be due on November 16, 2014, which is the maturity date for the term loan.

Our Credit Agreement includes quarterly financial covenants that require us to maintain a maximum leverage ratio as defined in the Credit Agreement. As of September 30, 2011, we were in compliance with our maximum leverage ratio of 3.85 to 1.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

There were no borrowings under the revolving credit facility during 2011. 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.

On January 4, 2011, as part of the consideration for the Share Purchase, the Company issued an aggregate of \$6.3 million in convertible notes to Compass. 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 are subject to transfer restrictions until January 31, 2013. If the price of the Company's 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 the Company's common stock at the rate of 1 share for every \$4 in principal amount outstanding. After the Trigger Event, the Company may prepay all or any portion of the outstanding principal amount of the Notes by giving the holder 30 days written notice.

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 2011 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 2010 Form 10-K titled "Risk Factors."

BUSINESS OVERVIEW

We are a leading technology insights, market intelligence and advisory services company. We support private and public sector clients in transforming and optimizing their operational environments through strategic consulting, benchmarking and analytics, managed services and research with a focus on information technology, business process transformation and enterprise resource planning.

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 acquisition. Although we don't 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 quarterly 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, 2011 AND SEPTEMBER 30, 2010

On January 4, 2011, ISG completed the acquisition of Compass. Compass is a premier independent global provider of business and information technology benchmarking, performance improvement, data and analytics services. The company pioneered the aggregation and application of sophisticated metrics to understand root causes of organizational performance issues. In addition, their Fact-Based Consulting unit generates tangible improvements in client businesses through sourcing advisory programs, recommendations in operational excellence and support in implementing transformational change in business operations. Compass uses benchmarking to support fact-based decision making, analysis to optimize cost reduction, and tools and techniques to manage business performance.

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On February 10, 2011 ISG completed the acquisition of STA Consulting, 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 and other enterprise administration and management systems.

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.

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 revenue information for the segment is as follows:

Geographic Area	Three Months Ended September 30, (in thousands)				Percent Change
	2011	2010	Change		
Americas	\$ 24,006	\$ 19,011	\$ 4,995		26%
Europe	18,341	9,056	9,285		103%
Asia Pacific	6,554	4,123	2,431		59%
Total revenues	\$ 48,901	\$ 32,190	\$ 16,711		52%

The net increase in revenues of \$16.7 million or 52% in 2011 was attributable principally to a 103% increase in Europe revenues to \$18.3 million, a 26% increase in Americas to \$24.0 million and a 59% increase in Asia Pacific revenues to \$6.6 million. The increase in revenues is primarily due to the acquisitions of Compass and STA Consulting and higher levels of sourcing activity in Asia Pacific and Americas region, attributable to increases in post contract governance services. The translation of foreign currency into US dollars also favorably impacted performance compared to the prior year.

Operating Expenses

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

**Three Months Ended September 30,
(in thousands)**

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Operating Expenses	2011	2010	Change	Percent Change
Direct costs and expenses for advisors	\$ 28,005	\$ 18,642	\$ 9,363	50%
Selling, general and administrative	16,237	10,632	5,605	53%
Depreciation and amortization	2,882	2,340	542	23%
Total operating expenses	\$ 47,124	\$ 31,614	\$ 15,510	49%

Total operating expenses increased \$15.5 million or 49% for the quarter with increases in direct expenses (50%) and selling, general and administrative (SG&A) expenses (53%) due primarily to the acquisitions of Compass and STA Consulting, higher compensation, contract labor, travel and bad debt expenses. These cost increases were only partially offset by lower marketing expenses. The impact of foreign currency translation into US dollars drove costs higher compared to the same prior 2010 period.

In the third quarter of fiscal 2011, the Company recorded restructuring costs of \$0.6 million associated with a workforce reduction focused on implementing selected cost savings and productivity improvements. The program is focused on integration-related cost synergies including selling, general and administrative support, elimination of unnecessary sales and advisory positions and real estate consolidations. Restructuring costs primarily related to employee severance and benefit costs. The \$0.6 million of restructuring costs was recorded in selling, general and administrative expenses. We expect that the remaining actions in our workforce reduction will be completed over the next three months.

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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 third quarter of 2011 and 2010 was \$2.9 and \$2.3 million, respectively. The increase was primarily due to the acquisitions of Compass and STA. 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 September 30,
(in thousands)**

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	2011		2010		Change	Percent Change
Interest income	\$	23	\$	39	\$ (16)	(41)%
Interest expense		(812)		(814)	2	%
Foreign currency loss		(191)		(116)	(75)	(65)%
Total other expense, net	\$	(980)	\$	(891)	\$ (89)	(10)%

The increase was primarily the result of foreign currency related loss and lower interest income.

Income Tax Expense

The Company's quarterly effective tax rate varies from period to period based on the mix of earnings among the various state and foreign tax jurisdictions in which business is conducted and the level of non-deductible expenses projected to be incurred during the current fiscal year.

The Company's effective tax rate for the three months ended September 30, 2011 was 425% compared to 2.0% for the three months ended September 30, 2010. The change in the effective tax rate for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 is primarily attributable to revisions to our annual estimated effective tax rate due to changes in our projected estimated income (loss) before taxes expected for the full year.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010

The results for the nine months ended September 30, 2011 discussed below include the operations of Compass from January 4, 2011 to September 30, 2011 and STA Consulting from February 10, 2011 to September 30, 2011.

Revenues

Geographical revenue information for the segment is as follows:

Geographic Area	Nine Months Ended September 30, (in thousands)			Percent Change
	2011	2010	Change	
Americas	\$ 66,006	\$ 60,149	\$ 5,857	10%
Europe	56,298	28,744	27,554	96%
Asia Pacific	17,508	11,513	5,995	52%
Total revenues	\$ 139,812	\$ 100,406	\$ 39,406	39%

The net increase in revenues of \$39.4 million or 39% in 2011 was attributable principally to a 96% increase in Europe revenues to \$56.3 million and a 52% increase in Asia Pacific revenues to \$17.5 million. The increase in revenues is primarily due to the acquisitions of Compass and STA Consulting and higher levels of sourcing activity in Asia Pacific and Americas region, attributable to increases in post contract governance services. The translation of foreign currency 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	Nine Months Ended September 30, (in thousands)			Percent Change
	2011	2010	Change	
Direct costs and expenses for advisors	\$ 79,953	\$ 54,902	\$ 25,051	46%
Selling, general and administrative	52,304	35,194	17,110	49%
Depreciation and amortization	8,452	7,041	1,411	20%
Total operating expenses	\$ 140,709	\$ 97,137	\$ 43,572	45%

Total operating expenses increased \$43.6 million or 45% for the first nine months of 2011 with increases in direct expenses (46%) and selling, general and administrative (SG&A) expenses (49%) due primarily to the acquisitions of Compass and STA Consulting, one-time, deal-related costs, higher compensation, contract labor, conferences and travel expenses. These cost increases were only partially offset by lower professional fees and computer expenses. The impact of foreign currency translation into US dollars drove costs higher compared to the same

prior 2010 period.

In the first nine months of 2011, the Company recorded restructuring costs of \$2.1 million associated with a program focused on implementing selected cost savings and productivity improvements. The workforce reduction is focused on integration-related cost synergies including selling, general and administrative support, elimination of unnecessary sales and advisory positions and real estate consolidations. Restructuring costs primarily related to employee severance and benefit costs. The \$2.1 million of restructuring costs was recorded in selling, general and administrative expenses. We expect that the remaining actions in our workforce reduction will be completed over the next three months.

Depreciation and amortization expense in the first nine months of 2011 and 2010 was \$8.5 and \$7.0 million, respectively. The increase was primarily due to the acquisitions of Compass and STA.

Other (Expense), Net

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

	Nine Months Ended September 30, (in thousands)					Percent Change
	2011	2010	Change			
Interest income	\$ 58	\$ 125	\$ (67)		(54)%	
Interest expense	(2,487)	(2,402)	(85)		(4)%	
Foreign currency gain (loss)	9	(188)	197		105%	
Total other expense, net	\$ (2,420)	\$ (2,465)	\$ 45		2%	

The decrease was primarily the result of foreign currency related gain offset by lower interest income and higher interest expense as a result of the convertible notes issued in connection with the acquisition of Compass.

Income Tax Expense

The Company's effective tax rate for the nine months ended September 30, 2011 was (19.1%) compared to 1.1% for the nine months ended September 30, 2010. The change in the effective tax rate for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 is primarily related to the goodwill and intangible assets impairment charge of \$52.5 million in 2010. The Company's operations resulted in a pre-tax loss of \$3.3 million and a tax expense of \$0.6 million at the (19.1%) effective tax rate for the nine months ended September 30, 2011.

LIQUIDITY AND CAPITAL RESOURCES**Liquidity**

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 September 30, 2011, our cash and cash equivalents were \$17.1 million, a net decrease of \$23.2 million from December 31, 2010, which was primarily attributable to the following:

- net cash outflows from operating activities of \$8.7 million;

- acquisitions, net of cash acquired of \$13.7 million;
- capital expenditures for furniture, fixtures and equipment of \$1.1 million; and
- payment of principal amounts due on the debt of \$5.0 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.

On March 16, 2011, our lenders agreed to amend the total leverage ratio (as defined in the 2007 Credit Agreement) for the remaining life of the 2007 Credit Agreement to provide the Company with greater financing flexibility in return for additional quarterly term loan principal repayments. In accordance with the terms of the amended 2007 Credit Agreement, the Company made mandatory principal repayments of \$3.0 million on March 31, 2011, \$1.0 million on June 30, 2011, \$1.0 million on September 30, 2011 and will make additional payments of \$1.0 million on December 31, 2011 to reduce the outstanding term loan balance to \$63.8 million. The principal repayments will be made from cash generated through the Company's normal business operations.

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Additional mandatory principal repayments totaling \$7.0 million and \$10.0 million will be due in 2012 and 2013, respectively, with the remaining principal repayments due in 2014. The final 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 nine months of 2011. 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.

On January 4, 2011, as part of the consideration for the Share Purchase, the Company issued an aggregate of \$6.3 million in convertible notes to Compass. 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 are subject to transfer restrictions until January 31, 2013. If the price of the Company's 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 the Company's common stock at the rate of 1 share for every \$4 in principal amount outstanding. After the Trigger Event, the Company may prepay all or any portion of the outstanding principal amount of the Notes by giving the holder 30 days written notice.

The 2007 Credit Agreement includes quarterly financial covenants that require us to maintain a maximum total leverage ratio (as defined in the 2007 Credit Agreement). As of September 30, 2011, our maximum total leverage ratio was 3.85 to 1.00 and we were in compliance with all covenants contained in the 2007 Credit Agreement. The maximum total leverage ratio will continue to decline over the life of the 2007 Credit Agreement. We currently expect to be in compliance with the covenants contained within the 2007 Credit Agreement. In the event we are unable to remain in compliance with the debt covenants associated with the 2007 Credit Agreement we have alternative options available to us including, but not limited to, the ability to make a prepayment on our debt without penalty to bring the actual leverage ratio into compliance. During 2012, we intend to use our surplus operating cash flows to make required principal payments on our outstanding debt. If, in future filings, it becomes reasonably likely that we may not comply with any material covenant, we intend to disclose additional information describing the impact on our financial condition.

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.

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, 2010.

Goodwill and Intangible Assets

The Company's goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired at the date of acquisition. The primary other identifiable intangible assets of the Company with indefinite lives are trademarks of the business acquired. These assets are not amortized but rather tested for impairment at least annually by applying a fair-value based test in accordance with accounting and disclosure requirements for goodwill and other indefinite-lived intangible assets.

During the third quarter of 2011, the market value of the Company's common stock declined such that it began trading below book value per share. The Company determined that this decline in market value below book value as of September 30, 2011 did not result in a triggering event which would require that goodwill and other indefinite-lived intangible asset impairment test be performed. This determination was based on a review of each of the assumptions used in the annual impairment test performed as of October 31, 2010, which we found still to be appropriate, as well as a review of the projections utilized in the discounted cash flow model for the income approach. The annual impairment test is performed by the Company during its fourth fiscal quarter. Future downturns in our business, continued deterioration of economic conditions, or continuation of our stock trading below book value per share may result in an impairment charge in future periods, which could adversely affect our results of operations for those periods.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is 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 \$0.7 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, 2011, 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 Americas increased from 22% in 2004 to 42% in 2010. 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 gain of nine thousand for the nine months ended September 30, 2011. 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 45% of revenue in 2010 and 44% in 2009. In particular, revenues from clients in the automobile sector collectively accounted for approximately 15% of our 2010 annual revenue. 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, 2011, 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, 2011.

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, 2010 has 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, 2011.

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		\$		\$ 10,146
August 1 August 31	217 shares	\$ 1.18	217	\$ 9,890
September 1 September 30	279 shares	\$ 1.37	279	\$ 9,508

ITEM 4. (REMOVED AND RESERVED)**ITEM 6. EXHIBITS**

The following exhibits are filed as part of this report:

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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, 2011 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Condensed Statements of Operations for the three and nine months ended September 30, 2011 and 2010, (ii) the Consolidated Condensed Balance Sheets at September 30, 2011 and December 31, 2010, (iii) Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2011 and 2010, and (iv) Notes to Consolidated Condensed Financial Statements for the nine months ended September 30, 2011. 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 7, 2011

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

Date: November 7, 2011

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