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	**20-5261587**
(State or other jurisdiction of	(I.R.S. Employer

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 x No o

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

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

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

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

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

Class	**Outstanding at October 27, 2011**
Common Stock, $0.001 par value	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

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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 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:		

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

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

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.

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:

		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)

Net assets acquired	$	16,145

(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, 2011**	**Three Months Ended September 30, 2010**	**Nine Months Ended September 30, 2011**	**Nine Months Ended September 30, 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)

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	$	66,006	$	60,149
Europe		18,341		9,056		56,298		28,744
Asia Pacific		6,554		4,123		17,508		11,513
	$	48,901	$	32,190	$	139,812	$	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