Information Services Group Inc.
Form 10-Q
May 09, 2014

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 March 31, 2014

OR

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

For the transition period from to

Commission File Number 001-33287

INFORMATION SERVICES GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**20-5261587**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

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

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

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

Class	**Outstanding at April 25, 2014**
Common Stock, $0.001 par value	37,306,658 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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 26,185	$ 35,085
Accounts receivable, net of allowance of $254 and $352, respectively	44,591	38,688
Deferred tax asset	424	825
Prepaid expense and other current assets	3,234	2,116
Total current assets	74,434	76,714
Restricted cash	206	54
Furniture, fixtures and equipment, net	3,518	3,213
Goodwill	34,727	34,691
Intangible assets, net	21,300	22,093
Other assets	3,013	3,109
Total assets	$ 137,198	$ 139,874
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 7,112	$ 6,024
Current maturities of long-term debt	3,375	3,375
Deferred revenue	4,508	3,944
Accrued expenses	17,013	21,189
Total current liabilities	32,008	34,532
Long-term debt, net of current maturities	52,528	53,371
Deferred tax liability	2,182	2,432
Other liabilities	6,256	6,296
Total liabilities	92,974	96,631
Commitments and contingencies (Note 7)		
Redeemable noncontrolling interest	702	
Stockholders equity		

Preferred stock, $.001 par value; 10,000 shares authorized; none issued				
Common stock, $.001 par value, 100,000 shares authorized; 37,943 shares issued and 37,375 shares outstanding at March 31, 2014 and 37,943 shares issued and 37,122 outstanding at December 31, 2013		38		38
Additional paid-in-capital		208,304		208,602
Treasury stock (568 and 821 common shares, respectively, at cost)		(2,385)		(2,796)
Accumulated other comprehensive loss		(2,345)		(2,448)
Accumulated deficit		(160,090)		(160,153)
Total stockholders equity		43,522		43,243
Total liabilities, redeemable noncontrolling interest and stockholders equity	$	137,198	$	139,874

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2014	**2013**
Revenues	$ 48,241	$ 50,588
Operating expenses		
Direct costs and expenses for advisors	29,812	30,032
Selling, general and administrative	15,655	16,033
Depreciation and amortization	1,738	1,913
Operating income	1,036	2,610
Interest income	2	5
Interest expense	(518)	(727)
Foreign currency transaction (loss) gain	(14)	48
Income before taxes	506	1,936
Income tax provision	418	967
Net income	88	969
Net income attributable to noncontrolling interest	25	
Net income attributable to ISG	$ 63	$ 969
Weighted average shares outstanding:		
Basic	37,383	36,632
Diluted	38,861	38,794
Earnings per share attributable to ISG:		
Basic	$ 0.00	$ 0.03
Diluted	$ 0.00	$ 0.03
Comprehensive income:		
Net income	63	969
Foreign currency translation, net of tax benefit (expense) of $65 and $(282)	103	(460)
Comprehensive income	166	509
Comprehensive income attributable to noncontrolling interest	25	
Comprehensive income attributable to ISG	$ 141	$ 509

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)

	Three Months Ended March 31,	
	2014	**2013**
Cash flows from operating activities		
Net income	$ 88	$ 969
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	440	397
Amortization of intangibles	1,298	1,515
Tax benefit from stock issuances	(415)	
Amortization of deferred financing costs	38	83
Compensation costs related to stock-based awards	601	498
Changes in accounts receivable allowance	(81)	(202)
Deferred tax provision (benefit)	368	(176)
Loss on disposal of furniture, fixtures and equipment	5	16
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(5,579)	(3,715)
Prepaid expense and other current assets	(945)	(970)
Accounts payable	1,024	1,571
Deferred revenue	564	(219)
Accrued liabilities	(4,222)	(1,577)
Net cash used in operating activities	(6,816)	(1,810)
Cash flows from investing activities		
Acquisition of CTP s shares, net of cash acquired	37	
Restricted cash	(152)	1
Purchase of furniture, fixtures and equipment	(693)	(426)
Net cash used in investing activities	(808)	(425)
Cash flows from financing activities		
Principal payments on borrowings	(844)	(2,500)
Equity securities repurchased	(1,012)	(326)
Tax benefit from stock issuances	415	
Proceeds from issuance of ESPP shares	109	86
Net cash used in financing activities	(1,332)	(2,740)
Effect of exchange rate changes on cash	56	(313)
Net decrease in cash and cash equivalents	(8,900)	(5,288)
Cash and cash equivalents, beginning of period	35,085	23,499
Cash and cash equivalents, end of period	$ 26,185	$ 18,211
Supplemental disclosures of cash flow information:		
Noncash financing activities:		

Issuance of treasury stock for vested restricted stock awards	$	1,320	$	411

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

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands, except per share data)

(unaudited)

NOTE 1 DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

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

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements as of March 31, 2014 and for the three months ended March 31, 2014 and 2013, 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 statement of the financial position of the Company as of March 31, 2014 and the results of operations and cash flows for the three months ended March 31, 2014 and 2013. The condensed consolidated balance sheet as of December 31, 2013 has been derived from the Company s audited consolidated financial statements. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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, 2013, which are included in the Company s 2013 Form 10-K filed with the SEC.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the proportional performance method of accounting affect the amounts of revenues, expenses, unbilled receivables and deferred revenue.

Numerous internal and external factors can affect estimates. Estimates are also used for but not limited to: allowance for doubtful accounts, useful lives of furniture, fixtures and equipment, depreciation expense, fair value assumptions in business acquisitions and analyzing goodwill and intangible asset impairments, income taxes and deferred tax asset valuation, and the valuation of stock based compensation.

Fair Value

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

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

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

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

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

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

The Company held investments in cash equivalent money market funds of $20,000 at March 31, 2014 and December 31, 2013. The Company considers the fair value of cash equivalent money market funds to be classified within Level 1 of the fair value hierarchy.

The Company s financial instruments include outstanding borrowings of $55.9 million at March 31, 2014 and $56.7 million at December 31, 2013, which are carried at amortized cost. The fair values of these instruments are classified within Level 3 of the fair value hierarchy. The fair value of the Company s outstanding borrowings is approximately $55.8 million and $56.8 million at March 31, 2014 and December 31, 2013, respectively. The fair values of these instruments have been estimated using a discounted cash flow analysis based on the Company s incremental borrowing rate for similar borrowing arrangements. The incremental borrowing rate used to discount future cash flows ranged from 2.65% to 2.74%. The Company also considered recent transactions of peer group companies for similar instruments with comparable terms and maturities as well as an analysis of current market conditions.

The Company s contingent consideration liability related to the STA acquisition was $4.1 million at March 31, 2014 and December 31, 2013. The fair value measurement of this contingent consideration is classified within Level 3 of the fair value hierarchy and reflects the Company s own assumptions in measuring fair values using the income approach. There was no material adjustment during the three months ended March 31, 2014. In developing these estimates, the Company considered certain performance projections, historical results, and industry trends. This amount was estimated through a valuation model that incorporated probability-weighted assumptions related to the achievement of these milestones and thus the likelihood of us making payments. These cash outflow projections have been discounted using a rate of 2.3%, which is the after-tax cost of debt financing for market participants.

Recently Issued Accounting Pronouncements

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

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

Retrospective application is permitted. The adoption of this standard did not have a material impact on the Company s financial position, results of operations or cash flows.

NOTE 4 ACQUISITION

On March 17, 2014, Compass Holding BV, a wholly-owned subsidiary of ISG entered into an Agreement with Convergent Technologies Partners S.p.A. (CTP) whereby Compass Holding BV acquired 51% of CTP s share capital for $1.0 million, which included $0.7 million of cash acquired, providing Company control over CTP. CTP became a subsidiary of the Company on the date of acquisition. In the framework that the parties have reached, at the same time CTP has acquired 100% interest of Compass Management Consulting Italy Compass Italy , a subsidiary of Compass Holding BV for $0.3 million. The selling of Compass Italy and acquisition of CTP are treated as linked transaction and accordingly recorded on a net basis. CTP is a leading management consulting firm providing specialized IT and operational strategies and solutions to Italy s public sector. The agreement with CTP extends our global penetration into the public sector, building on our successful public sector businesses in North America, Australia and the UK. It also provides new growth opportunities for the Company to serve both public and private sector organizations in Italy with our combined resources.

They entered into in the future a put and call option agreement for the transfer to ISG of all of the outstanding CTP s share capital that it does not own, to be exercised upon certain conditions. The remaining 49% ownership in CTP is held by a

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

third party. The third party representing the redeemable non-controlling interest in the subsidiary holds put rights for the remaining interest in CTP. The put right provides the redeemable non-controlling interest an option to sell its ownership interest to the Company after December 31, 2016 at a price based on four times the average of 2015 Earning Before Interests, Taxes, Depreciation and Amortization (EBITDA) and 2016 EBITDA, as resulting from CTP s approved financial statements for the year 2015 and year 2016 at the time of the exercise. Since the redeemable non-controlling interest in CTP has a redemption feature, as a result of the put option, the Company has classified the redeemable non-controlling interest in CTP in the mezzanine section of the Condensed Consolidated Balance Sheet. The redeemable non-controlling interest will be accreted to the redemption value by recording a corresponding adjustment to accumulated deficit at the end of each reporting period.

The following table summarizes the consideration transferred to acquire CTP and the amounts of identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the redeemable noncontrolling interest in CTP at the acquisition date:

Fair value of consideration transferred

Cash	$	691
Redeemable noncontrolling interest*		677
Total fair value transferred	$	1,368

* Equivalent to 49% of CTP s share capital. The noncontrolling interest is calculated based on 4 times the average of 2015 and 2016 EBITDA. We employed a discount rate of 13.5% to discount future excess cash flows.

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	$	728
Accounts receivable		560
Other assets		157
Intangible assets		505
Accounts payable		(64)
Accrued expenses and other		(554)
Net assets acquired	$	1,332
Goodwill(1)	$	36

(1) Goodwill of approximately $36,000 acquired in the acquisition is deductible for tax purposes.

Costs associated with this acquisition are included in the selling, general and administrative expenses in the condensed consolidated statement of comprehensive income and totaled $0.2 million during the three months ended March 31, 2014. This business combination was accounted for under the acquisition method of accounting, and as such, the aggregate purchase price was allocated on a preliminary basis to the assets acquired and liabilities assumed based on estimated fair values as of the closing dates. The purchase price allocations will be finalized after the completion of the valuation of certain intangible assets and any adjustments to the preliminary purchase price allocations are not expected to have a material impact on the Company s results of operations. 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	$	487	10 years
Certified Methodology (patent)		18	2 years
Total intangible assets	$	505	

The Condensed Consolidated Financial Statements include the results of the CTP acquisition subsequent to the closing. Had the acquisition occurred as of January 1, 2013, the impact on the Company s results of operations would not have been material.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

NOTE 5 NET INCOME (LOSS) PER COMMON SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. 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. At March 31, 2014, the effect of 0.1 million stock appreciation rights (SARs) have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation. At March 31, 2013, the effect of 0.2 million SARs have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation. The 0.8 million restricted shares have not been considered in the diluted earnings per share calculation for the three months ended March 31, 2013, as the effect would be anti-dilutive. In addition, 250,000 contingent restricted shares related to the acquisition of STA were excluded from basic and diluted earnings per share as the contingency was not met as of the reporting period.

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

	Three Months Ended March 31,	
	2014	2013
Basic:		
Net income attributable to ISG	$ 63	$ 969
Weighted average common shares	37,383	36,632
Earnings per share attributable to ISG	$ 0.00	$ 0.03
Diluted:		
Net income attributable to ISG	$ 63	$ 969
Interest expense of convertible debt, net of tax	6	30
Net income , attributable to ISG, as adjusted	$ 69	$ 999
Basic weighted average common shares	37,383	36,632
Potential common shares	1,478	2,162
Diluted weighted average common shares	38,861	38,794
Diluted earnings per share attributable to ISG	$ 0.00	$ 0.03

NOTE 6 INCOME TAXES

The Company s effective tax rate for the three months ended March 31, 2014 is 82.6% compared to 49.9% for the three months ended March 31, 2013. The difference is primarily due to changes in pre-tax income by jurisdiction for the three months ended March 31, 2014 compared to the three months ended March 31, 2013. The Company s operations resulted in a pre-tax income of $0.5 million and a tax provision of $0.4 million,

yielding an 82.6% effective tax rate for the three months ended March 31, 2014.

As of March 31, 2014, the Company had total unrecognized tax benefits of approximately $2.4 million of which approximately $2.4 million of this benefit would impact the Company s effective tax rate if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax provision in its consolidated statement of operations. As of March 31, 2014, the Company s accrual of interest and penalties was $0.5 million.

NOTE 7 COMMITMENTS AND CONTINGENCIES

The Company is subject to contingencies which arise through the ordinary course of business. All liabilities of which management is aware are properly reflected in the financial statements at March 31, 2014 and December 31, 2013.

STA Consulting Contingent Consideration

As of March 31, 2014, the Company has recorded a liability of $4.1 million representing the estimated fair value of contingent consideration related to the acquisition of STA Consulting, of which $1.6 million is classified as current and included in accrued expenses on the consolidated balance sheet. The Company paid $1.6 million in April of 2014 related to 2013 performance and the remaining contingent liability is expected to be paid in the first quarter of 2015 and the first quarter of 2016.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

NOTE 8 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 March 31,	
	2014	2013
Revenues		
Americas	$ 24,433	$ 28,845
Europe	19,781	16,488
Asia Pacific	4,027	5,255
	$ 48,241	$ 50,588

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 9 FINANCING ARRANGEMENTS AND LONG-TERM DEBT

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

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

senior secured credit facility under the 2013 Credit Agreement are as follows:

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

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

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

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

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

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

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

- The senior secured credit facility contains a number of covenants that, among other things, place restrictions on matters customarily restricted in senior secured credit facilities, including restrictions on indebtedness (including guarantee obligations), liens, fundamental changes, sales or disposition of property or assets, investments (including loans, advances, guarantees and acquisitions), transaction with affiliates, dividends and other payments in respect of capital stock, optional payments and modifications of other material debt instruments, negative pledges and agreements restricting subsidiary distributions and changes in line of business. In addition, the Company is required to comply with a total leverage ratio and fixed charge coverage ratio. As of March 31, 2014, our maximum total leverage ratio was 3.50 to 1.00 and we were in compliance with all covenants contained in the 2013 Credit Agreement.

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

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

On March 18, 2014, the Company s lenders agreed to amend the 2013 Credit Agreement to allow the Company to complete the acquisition of CCI Consulting Pty Ltd (CCI). In addition, the Company s lenders agreed to allow the Company to exclude the acquisition from its $5 million fiscal year permitted acquisition basket and from the calculation of its Consolidated Fixed Charge Coverage ratio. Lastly, the Company s lenders agreed to increase its permitted acquisition baskets during any fiscal year from $5 million to $10 million and the term of our Credit Agreement from $15 million to $40 million. On April 17, 2014, the acquisition of CCI was completed.

As of March 31, 2014, the total principal outstanding under the term loan facility and revolving credit facility was $42.5 million and $10.0 million, respectively. Additional mandatory principal repayments totaling $2.5 million and $3.9 million will be due in 2014 and 2015, respectively.

Compass Convertible Notes

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

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

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

On November 14, 2013, the Company s lenders agreed to amend the 2013 Credit Agreement to allow the Company to prepay the entire outstanding principal amount of the CPIV S.A. Convertible Note (CPIV Note) plus accrued interest and exclude the CPIV Note prepayment from the calculation of our consolidated fixed charge coverage ratio. On November 25, 2013, the Company settled a portion of the Notes and prepaid the CPIV Note and the payee agreed to accept from the Company an amount equal to the principal of $1.7 million plus accrued interest as satisfaction in full of all indebtedness owing by the Company to such payee. Therefore, there was no gain or loss recorded as a result of this transaction.

On March 21, 2014, the Trigger Event occurred. As a result, a holder of the Notes may convert all (but not less than all) of the outstanding principal amount of the Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. In addition, ISG may elect to prepay all or any portion of the outstanding principal amount of the Notes by giving a holder 30 days written notice; however, such holder shall be given the opportunity to convert the outstanding principal amount into shares as described above. The holder of the Notes does not have the option to require cash payment as a result of the Trigger Event, hence the Notes are classified as non-current.

NOTE 10 SUBSEQUENT EVENT

On April 17, 2014, the Company executed an Asset Purchase Agreement (the CCI Agreement) with CCI Consulting Pty Ltd (CCI) and Technology Partners International, Inc., a wholly-owned subsidiary of ISG, and consummated the acquisition of substantially all of the assets and assumption of the operating liabilities of CCI.

Under the terms of the CCI Agreement, ISG acquired the specified assets for cash consideration of AU$1.9 million, of which AU$1.0 million was paid at closing and AU$0.9 million will be paid in April 2015. In addition, the sellers under the CCI Agreement (the CCI Sellers) are eligible to receive a minimum of AU$0 and a maximum up to AU$3.0 million of earn-out payments for fiscal years 2014-2016 if certain earnings targets are met. Finally, the CCI Sellers were granted 50,000 ISG Restricted Shares that will vest if the target revenue of ISG and its affiliates is met. This business combination was accounted for under the acquisition method of accounting. We have not finalized our assessment of the fair values as there has been insufficient time between the acquisition date and the issuance of this Form 10-Q to complete our review of individual contracts, agreements, and accounting records of CCI.

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

You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as may, should, could, predict, potential, continue, expect, anticipa intend, plan, believe, estimate, forecast and similar expressions (or the negative of such expressions.) Forward-looking statements include statements concerning 2014 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 2013 Form 10-K titled Risk Factors.

BUSINESS OVERVIEW

Information Services Group, Inc. (ISG) (NASDAQ: III) is a leading technology insights, market intelligence and advisory services company serving more than 500 clients around the world to help them achieve operational excellence. We support private and public sector organizations to transform and optimize their operational environments through research, benchmarking, consulting and managed services with a focus on information technology, business process transformation, program management services and enterprise resource planning. Clients look to us for unique insights and innovative solutions for leveraging technology, our deep data source, and more than five decades of experience of global leadership in information and advisory services. Based in Stamford, Connecticut, the Company has approximately 850 employees and operates in 21 countries.

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

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

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

predictability as to performance in future periods. Unexpected changes in the demand for our services can result in significant variations in utilization and revenues and present a challenge to optimal hiring and staffing. The volume of work performed for any particular client can vary widely from period to period.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND MARCH 31, 2013

Revenues

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

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

Geographical revenue information for the segment is as follows:

	Three Months Ended March 31, (in thousands)			
Geographic Area	**2014**	**2013**	**Change**	**Percent Change**
Americas	$ 24,433	$ 28,845	$ (4,412)	(15.3)%
Europe	19,781	16,488	3,293	20.0%
Asia Pacific	4,027	5,255	(1,228)	(23.4)%
Total revenues	$ 48,241	$ 50,588	$ (2,347)	(4.6)%

The net decrease in revenues of $2.3 million or 5% in 2014 was attributable principally to a 15% decrease in Americas revenues to $24.4 million and a 23% decrease in Asia Pacific revenues to $4.0 million. The decrease in revenues in the Americas and Asia Pacific regions were primarily attributable to lower levels of sourcing activity. The decrease was partially offset by a 20% increase in higher levels of sourcing activity in the Europe region, attributable to increases in Consulting Services. The translation of foreign currency into US dollars also positively impacted performance compared to prior year.

Operating Expenses

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

	Three Months Ended March 31, (in thousands)			
Operating Expenses	**2014**	**2013**	**Change**	**Percent Change**
Direct costs and expenses for advisors	$ 29,812	$ 30,032	$ (220)	(0.7)%
Selling, general and administrative	15,655	16,033	(378)	(2.4)%

Depreciation and amortization		1,738		1,913		(175)	(9.1)%
Total operating expenses	$	47,205	$	47,978	$	(773)	(1.6)%

Total operating expenses decreased $0.8 million for the quarter with decreases in direct expenses (1%) and decreases in selling, general and administrative (SG&A) expenses (2%) and depreciation and amortization (9%). The decreases were due primarily to compensation, benefits, conferences and travel expenses. These cost decreases were partially offset by increases in professional fees, bad debt and stock compensation expense. The impact of foreign currency translation into US dollars also drove costs higher compared to the same prior 2013 period.

Compensation costs consist of a mix of fixed and variable salaries, annual bonuses, benefits and pension plan contributions. A portion of compensation expenses for certain billable employees are allocated between direct costs and selling, general and administrative costs based on relative time spent between billable and non-billable activities. Bonus compensation is determined based on achievement against our 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. We maintain a dedicated global

marketing function responsible for developing and managing sales campaigns, brand promotion, the TPI Index and assembling proposals.

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

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

Depreciation and Amortization Expense

Depreciation and amortization expense in the first quarter of 2014 and 2013 was $1.7 million and $1.9 million, respectively. The decrease of $0.2 million in depreciation and amortization expense was primarily due to a decrease in amortization as a result of intangible assets that were fully amortized in 2013. Our fixed assets consist of furniture, fixtures, equipment (mainly personal computers) and leasehold improvements. Depreciation expense is generally computed by applying the straight-line method over the estimated useful lives of assets. We also capitalize certain costs associated with the purchase and development of internal-use software, system conversions and website development costs. These costs are amortized over the estimated useful life of the software or system.

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

Other (Expense), Net

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

	Three Months Ended March 31, (in thousands)			
	2014	2013	Change	Percent Change
Interest income	$ 2	$ 5	$ (3)	(60.0)%
Interest expense	(518)	(727)	209	28.7%
Foreign currency (loss) gain	(14)	48	(62)	(129.2)%
Total other expense, net	$ (530)	$ (674)	$ 144	21.4%

The decrease of $0.1 million was primarily the result of lower interest expense due to a decrease in debt and debt issuance amortization costs.

Income Tax Expense

Our quarterly effective tax rate varies from period to period based on the mix of earnings among the various state and foreign tax jurisdictions in which business is conducted and the level of non-deductible expenses projected to be incurred during the current fiscal year. Our effective tax rate for the three months ended March 31, 2014 was 82.6% compared to 49.9% for the three months ended March 31, 2013. The difference is primarily due to changes in pre-tax income by jurisdiction for the three months ended March 31, 2014 compared to the three months ended March 31, 2013. Our operations resulted in a pre-tax income of $0.5 million and a tax provision of $0.4 million, yielding an 82.6% effective tax rate for the three months ended March 31, 2014.

Noncontrolling Interest

On March 17, 2014, Compass Holding BV, a wholly-owned subsidiary of ISG entered into an Agreement with Convergent Technologies Partners S.p.A. (CTP) whereby Compass Holding BV acquired 51% of CTP s share capital for $1.0 million, which included $0.7 million of cash acquired, providing Company control over CTP. CTP became a subsidiary of the Company on the date of acquisition. In the framework that the parties have reached, at the same time CTP has acquired 100% interest of Compass Management Consulting Italy (Compass Italy), a subsidiary of Compass Holding BV for $0.3 million. The selling of Compass Italy and acquisition of CTP are treated as linked transaction and accordingly recorded on a net basis. The Company is consolidating the financial results of CTP in its consolidated financial statements and accordingly,

reported revenues, costs and expenses, assets and liabilities, and cash flows include 100% of CTP, with the 49% noncontrolling interest share reported as net income attributable to noncontrolling interest in the consolidated statements of operations, and redeemable noncontrolling interest on the consolidated balance sheets. The results of operations for the period ended March 31, 2014 include the operations of CTP from the acquisition closing date of March 17, 2014 through March 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

As of March 31, 2014, our cash and cash equivalents were $26.2 million, a net decrease of $8.9 million from December 31, 2013, which was primarily attributable to the following:

- net cash outflows from operating activities of $6.8 million;
- equity repurchases of $1.0 million;
- capital expenditures for furniture, fixtures and equipment of $0.7 million; and
- payment of principal amounts due on the debt of $0.8 million.

Capital Resources

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

This amount was recorded in Gain on Extinguishment of Debt in the accompanying consolidated statement of comprehensive income (loss).

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

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

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

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

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

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

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

- The senior secured credit facility contains a number of covenants that, among other things, place restrictions on matters customarily restricted in senior secured credit facilities, including restrictions on indebtedness (including guarantee obligations), liens, fundamental changes, sales or disposition of property or assets, investments (including loans, advances, guarantees and acquisitions), transaction with affiliates, dividends and other payments in respect of capital stock, optional payments and modifications of other material debt instruments, negative pledges and agreements restricting subsidiary distributions and changes in line of business. In addition, the Company is required to comply with a total leverage ratio and fixed charge coverage ratio. As of March 31, 2014, our maximum total leverage ratio was 3.50 to 1.00 and we were in compliance with all covenants contained in the 2013 Credit Agreement.

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

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

On March 18, 2014, the Company s lenders agreed to amend the 2013 Credit Agreement to allow the Company to complete the acquisition of CCI Consulting Pty Ltd (CCI). In addition, the Company s lenders agreed to allow the Company to exclude the acquisition from its $5 million fiscal year permitted acquisition basket and from the calculation of its Consolidated Fixed Charge Coverage ratio. Lastly, the Company s lenders agreed to increase its permitted acquisition baskets during any fiscal year from $5 million to $10 million and the term of our Credit Agreement from $15 million to $40 million. On April 17, 2014, the acquisition of CCI was completed.

As of March 31, 2014, the total principal outstanding under the term loan facility and revolving credit facility was $42.5 million and $10.0 million, respectively. Additional mandatory principal repayments totaling $2.5 million and $3.9 million will be due in 2014 and 2015, respectively.

Compass Convertible Notes

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

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

On November 14, 2013, the Company s lenders agreed to amend the 2013 Credit Agreement to allow the Company to prepay the entire outstanding principal amount of the CPIV S.A. Convertible Note (CPIV Note) plus accrued interest and exclude the CPIV Note prepayment from the calculation of our consolidated fixed charge coverage ratio. On November 25, 2013, the Company settled a portion of the Notes and prepaid the CPIV Note and the payee agreed to accept from the

Company an amount equal to the principal of $1.7 million plus accrued interest as satisfaction in full of all indebtedness owing by the Company to such payee. Therefore, there was no gain or loss recorded as a result of this transaction.

On March 21, 2014, the Trigger Event occurred. As a result, a holder of the Notes may convert all (but not less than all) of the outstanding principal amount of the Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. In addition, ISG may elect to prepay all or any portion of the outstanding principal amount of the Notes by giving a holder 30 days written notice; however, such holder shall be given the opportunity to convert the outstanding principal amount into shares as described above. The holder of the Notes does not have the option to require cash payment as a result of the Trigger Event, hence the Notes are classified as non-current.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

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

Critical Accounting Policies and Accounting Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. We prepare these financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates; however, actual results may differ from these estimates under different assumptions or conditions. There have been no material changes or developments in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K, for the year ended December 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

We operate in a number of international areas which exposes us to significant foreign currency exchange rate risk. We have significant international revenue, which is generally collected in local currency. As of March 31, 2014, we have no outstanding forward exchange contracts or other derivative instruments for hedging or speculative purposes. It is expected that our international revenues will continue to grow as European, Asian and other markets adopt sourcing solutions and as a result of our acquisition of Compass. We recorded a foreign exchange transaction loss of $14,000 for the three months ended March 31, 2014. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

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

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

Our 20 largest clients accounted for approximately 43% of revenue in 2013 and 40% in 2012. If one or more of our large clients terminate or significantly reduce their engagements or fail to remain a viable business, then our revenues could be materially and adversely affected. In addition, our large clients generally maintain sizable receivable balances at any given time and our ability to collect such receivables could be jeopardized if such client fails to remain a viable business.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our

management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2014, 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 March 31, 2014.

Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

The risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 have not materially changed.

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

Issuer Purchases of Equity Securities

The following table details the repurchases that were made during the three months ended March 31, 2014.

	Total Number of Securities Purchased	Average Price per	Total Numbers of Securities Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Securities That May Yet Be Purchased Under

Period	(In thousands)		Securities	(In thousands)		The Plan (In thousands)
January 1 January 31	119 shares	$	4.23	119	$	2,849
February 1 February 28	8 shares	$	4.93	8	$	2,807
March 1 March 31	95 shares	$	4.90	95	$	2,341

On May 6, 2014, the Company s Board of Directors approved a new share repurchase authorization of up to $20 million. The new share repurchase program will take effect upon completion of the Company s current program, which has approximately $1 million remaining out of a previously authorized $15 million. The repurchase program is expected to be executed over time. The shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions, pursuant to a Rule 10b5-1 repurchase plan or by other means in accordance with federal securities laws. The timing and the amount of any repurchases will be determined by the Company s management based on its evaluation of market conditions, capital allocation alternatives, and other factors. There is no guarantee as to the number of shares that will be repurchased, and the repurchase program may be extended, suspended or discontinued at any time without notice at the Company s discretion.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

Exhibit Number		Description
10.1	*	Second Amendment to the 2013 Credit Agreement dated March 18, 2014.
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 March 31, 2014 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows and (iv) the Notes to Consolidated Financial Statements.

* 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: May 9, 2014

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

Date: May 9, 2014

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