

Information Services Group Inc.
Form 10-K
March 13, 2013

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

Or

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

For the transition period from _____ to _____
Commission File Number 001-33287

Information Services Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

20-5261587
(I.R.S. Employer Identification Number)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Shares of Common Stock, \$0.001 par value

Name of each exchange on which registered
The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting common stock, par value \$0.001 per share, held by non-affiliates of the registrant computed by reference to the closing sales price for the registrant's common stock on June 30, 2012, as reported on the NASDAQ Stock Market was approximately \$41,146,927.

In determining the market value of the voting stock held by any non-affiliates, shares of common stock of the registrant beneficially owned by directors, officers and other holders of non-publicly traded shares of common stock of the registrant have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 22, 2013, the registrant had outstanding 36,630,551 shares of common stock, par value \$0.001 per share.

Documents Incorporated by Reference

Document Description	10-K Part
Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended December 31, 2012, are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.	III (Items 10, 11, 12, 13, 14)

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SAFE HARBOR STATEMENT

Information Services Group ("ISG") believes that some of the information in this Annual Report on Form 10-K constitutes forward-looking statements. You can identify these statements by forward-looking words such as "may," "expect," "anticipate," "contemplate," "believe," "estimate," "intends" and "continue" or similar words. You should read statements that contain these words carefully because they:

discuss future expectations;

contain projections of future results of operations or financial condition; or

state other "forward-looking" information.

These forward-looking statements include, but are not limited to, statements relating to:

ability to retain existing clients and contracts;

ability to win new clients and engagements;

ability to implement cost reductions and productivity improvements;

beliefs about future trends in the sourcing industry;

expected spending on sourcing services by clients;

foreign currency exchange rates;

effective tax rate; and

competition in the sourcing industry.

ISG believes it is important to communicate its expectations to its stockholders. However, there may be events in the future that ISG is not able to predict accurately or over which it has no control. The risk factors and cautionary language discussed in this Annual Report provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations in such forward-looking statements, including among other things:

the amount of cash on hand;

business strategy;

cost reductions and productivity improvements may not be fully realized or realized within the expected time frame;

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continued compliance with government regulations;

legislation or regulatory environments, requirements or changes adversely affecting the business in which ISG is engaged;

fluctuations in client demand;

management of growth;

ability to grow the business and effectively manage growth and international operations while maintaining effective internal controls;

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ISG's relative dependence on clients which operate in the financial services, manufacturing, automotive and public services sectors;

ability to hire and retain enough qualified employees to support operations;

increases in wages in locations in which ISG has operations;

ability to retain senior management;

fluctuations in exchange rates between the U.S. dollar and foreign currencies;

ability to attract and retain clients and the ability to develop and maintain client relationships based on attractive terms;

legislation in the United States or elsewhere that adversely affects the performance of sourcing services offshore;

increased competition;

telecommunications or technology disruptions or breaches, or natural or other disasters;

ability to protect ISG intellectual property and the intellectual property of others;

the international nature of ISG's business;

political or economic instability in countries where ISG has operations;

worldwide political, economic and business conditions; and

ability to successfully consummate or integrate strategic acquisitions.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report.

All forward-looking statements included herein attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. This Annual Report also contains forward-looking statements attributed to estimates of the growth of our markets. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except to the extent required by applicable laws and regulations, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events.

You should, however, review the risks and uncertainties we describe in the reports we will file from time to time with the SEC after the date of this Annual Report.

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PART I

Item 1. Business

As used herein, unless the context otherwise requires, ISG, the registrant, is referred to in this Form 10-K annual report ("Form 10-K") as the "Company," "we," "us" and "our."

Our Company

Information Services Group, Inc. (ISG) (NASDAQ: III) is a leading technology insights, market intelligence and advisory services company serving more than 450 clients around the world to help them achieve operational excellence. ISG supports 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 ISG 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 800 employees and operates in 21 countries.

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

On January 4, 2011, we acquired Compass, a premier independent global provider of business and information technology benchmarking, performance improvement, data and analytics services. It was founded in 1980 and headquartered in the United Kingdom and had approximately 180 employees in 16 countries serving nearly 250 clients.

On February 10, 2011, we acquired Austin, Texas-based STA Consulting, a premier independent information technology advisor serving the public sector. STA Consulting advises clients on information technology strategic planning and the acquisition and implementation of new Enterprise Resource Planning (ERP) and other enterprise administration and management systems. STA Consulting was founded in 1997 and had approximately 40 professionals.

On January 10, 2012, we announced the merger of our individual corporate brands into one globally integrated go-to-market business under the ISG brand. TPI, the world's leading independent sourcing data and advisory firm; Compass, a premier independent provider of business and IT benchmarking; and STA Consulting, a premier independent technology advisory serving the North America public sector, have combined under the ISG brand. This merger offers clients one source of support to drive operational excellence in their organizations. The legacy brands of TPI and Compass remain as product and service descriptors, such as "TPI Sourcing" and "Compass Benchmarks".

We continue to believe that our vision will be realized through the acquisition, integration, and successful operation of market-leading brands within the data, analytics and advisory industry. Including our most recent acquisitions, we operate in 21 countries and employ approximately 800 professionals globally, delivering advisory, benchmarking and analytical insight to large, multinational corporations and governments in North America, Europe and Asia Pacific.

There are important cyclical and secular challenges faced by our private and public sector clients which will continue to fuel demand for the professional services we provide. In the private sector, for

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example, we believe that companies will continue to face significant challenges associated with globalization, including the need to decrease operating costs, increase efficiencies and deal with increasing numbers of emerging and transformational technologies such as cloud computing. Similarly, public sector organizations at the national, regional and local levels increasingly must deal with the complex and converging issues of outdated technology systems, significantly impaired revenue sources and an aging workforce.

Overall, we believe that the environmental dynamics at work in both the private and public sectors mitigate decisively in favor of the professional services, analytics and advice ISG can provide. In this dynamic environment, the strength of our client relationships greatly depends on the quality of our advice and insight, the independence of our thought leadership and the effectiveness of our people in assisting our clients to implement strategies that successfully address their most pressing operational challenges.

We are organized as a corporation under the laws of the State of Delaware. The current mailing address of the Company's principal executive office is: Information Services Group, Inc., Two Stamford Plaza, 281 Tresser Boulevard, Stamford, CT 06901. Our telephone number is (203) 517-3100.

Our Services

During periods of expansion or contraction, for enterprises large or small, public or private, in North America, Europe or Asia Pacific, our services have helped organizations address their most complex operational issues. The functional domain experience of our experts and deep empirical data help clients better understand their strategic options. We provide four key lines of service:

Research. We utilize our extensive experience and proprietary data assets to provide subscription and custom research services to both buyers and service providers active in the outsourcing and managed services industries. Our views into the buying behaviors, needs and objectives of global corporations examining transformation of their operations provide unique insight for industry participants.

Benchmarking and Analytics. Our combined data sources, compiled over 30 years of servicing global corporations, provide a rich source of benchmark data into the comparative cost and quality of operational alternatives. We use these data sources to provide clients with in-depth analysis into the implications of different service strategies allowing them to compare and contrast and make informed decisions regarding strategic change.

Strategic Consulting. We assist clients with envisioning, designing and implementing change in their operational environments. We evaluate existing practices and operating costs of public and private enterprises, identifying potential improvement opportunities to enhance service delivery, optimize operations or reduce costs. Solutions are customized by a client situation and may include internal transformation, the adoption of external strategies, or some combination of both. In all cases, we assist with the selection, implementation and ongoing support for these strategic initiatives.

Managed Services. Our managed service offerings provide best in class operational governance services and bring these to our clients as a seamless end-to-end service. This offering assists clients with monitoring and managing their supplier relationships, providing them with real-time

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accurate market intelligence and insights into all aspects of provider performance and cost, allowing them to focus on the more strategic aspects of supplier management.

Our Competitive Advantages

We believe that the following strengths differentiate us from our competition:

Independence and Objectivity. We are not a service provider. We are an independent, fact-based data, analytics and advisory firm with no material conflicting financial or other interests. This enables us to maintain a trusted advisor relationship with our clients through our unbiased focus and ability to align our interests with those of our clients.

Domain Expertise. Averaging over 20 years of experience, our strategic consulting teams bring a wealth of industry and domain-specific knowledge and expertise to address our clients' most complex transformational needs.

Strong Brand Recognition. We transitioned to the ISG brand with TPI, Compass and STA Consulting positioned as product and service descriptors which have legally registered trademarks in certain appropriate jurisdictions. ISG now offers a complete product and service offering for our clients via the acquisitions of TPI, Compass and STA Consulting. We have retained our legacy brands to identify specific products and services we are known for including "The TPI Index", "TPI Sourcing" and "Compass benchmarks".

Proprietary Data Assets and Market Intelligence. We have assembled a comprehensive and unique set of data, analytics and market intelligence built through thirty years of data collection and analysis, providing insight into the comparative cost and quality of a variety of operational alternatives.

Global Reach. We possess practical experience in global business operations, and we understand the significance of interconnected economies and companies. Our resources in the Americas, Europe, Asia Pacific, China and India make us a truly global advisory firm able to consistently serve the strategic and implementation needs of our clients.

We believe that the strengths disclosed above are central to our ability to deal successfully with the challenges that we face.

Our Strategy

We intend to use our competitive strengths to develop new services and products, sustain our growth and strengthen our existing market position by pursuing the following strategies:

Preserve and Expand Our Market Share Positions. We expect the trend toward globalization and greater operating efficiency and technological innovation to play an increasing role in the growth of demand for our services. We plan to leverage our combined operating platform to serve the growing number of private and public enterprises utilizing outside advisors when undertaking transformational projects. In addition, we will seek to continue to expand our products and services and the geographic markets we serve opportunistically as global competition spurs demand for cost savings and value creation.

Strengthen Our Industry Expertise. We have strengthened our market facing organization to drive increased revenue around five key areas BFSI (Banking, Financial Services and Insurance);

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Manufacturing/Auto; Energy, Life Sciences and Healthcare; Technology, Retail and Enterprise Businesses; and Public Sector/Government.

Expand Geographically. Historically, we generated the majority of our revenues in North America. Over the past several years, we have made significant investments in Europe and Asia Pacific to capitalize on emerging demand for advisory, benchmarking and analytical insight in these geographic regions. We intend to continue to expand in Europe and Asia Pacific and maintain our revenue growth and market leading positions in those markets. The acquisition of Compass expanded our geographic reach, particularly in Europe, and increased the amount of our revenues we generated internationally versus in North America.

Aggressively Expand Our Market Focus. We are seeking to drive our service portfolio and relationships with clients further into white spaces Business Advisory Services, Cloud Solutions, Project Management Services, Strategy, Assess, Transition and Organization & Operations are all areas where we are investing additional focus to drive increased revenues and expanded relationships with clients.

Expand "Recurring Revenue Streams". This includes Managed Services, Research and the U.S. Public Sector. As companies begin to recognize the importance of managing the post-sourcing-transaction period, managed services has emerged as a potential revenue driver for us where our offerings are delivered through multi-year managed services contracts. We believe that our experience with outsourcing transactions and software implementation initiatives make us uniquely equipped to provide research insights and direct support to help our clients manage their transformational projects or act as a third-party administrator. We will continue to pursue opportunities to leverage our experience to make research and managed services an even greater revenue generator for us.

Consider Acquisition and Other Growth Opportunities. The business services, information and advisory market is highly fragmented. We believe we are well-positioned to leverage our leading market positions and strong brand recognition to expand through acquisitions. Acquiring firms with complementary services and products will allow us to further develop and broaden our service offerings and domain expertise. We will consider and may pursue opportunities to enter into joint ventures and to buy or combine with other businesses.

Retool our Resource and Delivery Model. The goal is to evolve our workforce to achieve a more efficient distribution of resources globally and a more flexible staffing model. This will provide ISG clients with better value for money while also improving ISG margins.

Our Proprietary Data Assets and Market Intelligence

One of our core assets is the information, data, analytics, methodologies and other intellectual capital the Company possesses. This intellectual property underpins the independent nature of our operational assessments, strategy development, deal-structuring, negotiation and other consulting services we provide to our clients.

With each engagement we conduct, we enhance both the quantity and quality of the intellectual property we employ on behalf of our clients, thus providing a continuous, evolving and unique source of information, data and analytics.

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This intellectual property is proprietary and we rely on multiple legal and contractual provisions and devices to protect our intellectual property rights. We recognize the value of our intellectual property and vigorously defend it. As a result, the Company maintains strict policies and procedures regarding ownership, use and protection with all parties, including our employees.

Clients

We operate in 21 countries and across numerous industries. Our private sector clients operate in the financial services, telecommunications, healthcare and pharmaceuticals, manufacturing, transportation and travel and energy and utilities industries. Our private sector clients are primarily large businesses ranked in the Forbes Global 2000 companies annually. Our public sector clients are primarily state and local governments (cities and counties) and authorities (airport and transit) in the United States and national and provincial government units in the United Kingdom, Canada and Australia.

Competition

Competition in the sourcing, data, information and advisory market is primarily driven by independence and objectivity, expertise, possession of relevant benchmarking data, breadth of service capabilities, reputation and price. We compete with other sourcing advisors, research firms, strategy consultants and sourcing service providers. A significant number of independent sourcing and advisory firms offer similar services. In our view, however, these firms generally lack the benchmarking data, scale and diversity of expertise that we possess. In addition, most research firms do not possess the data repository of recent, comparable transactions and benchmarking data. Strategy consultants bring strategy services capabilities to the sourcing and advisory market. However, since they do not focus exclusively on the sourcing market, they lack the depth of experience that sourcing, data and advisory firms such as ISG possess. In addition, strategy consultants do not possess the sourcing and technology implementation expertise or the benchmarking data capabilities that are critical to implementing and managing successful transformational projects for businesses and governments. Other service providers often lack the depth of experience, competitive benchmarking data and independence critical to playing the role of "trusted advisor" to clients.

Employees

As of December 31, 2012, we employed 812 people worldwide.

Our employee base includes executive management, service leads, partners, directors, advisors, analysts, technical specialists and functional support staff.

We recruit advisors from service providers, consulting firms and clients with direct operational experience. These advisors leverage extensive practical expertise derived from experiences in corporate leadership, consulting, research, financial analysis, contract negotiations and operational service delivery.

All employees are required to execute confidentiality, conflict of interest and intellectual property agreements as a condition of employment. There are no collective bargaining agreements covering any of our employees.

Our voluntary advisor turnover rate ranged between 14% and 17% over the last three years.

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Available Information

Our Internet address is www.isg-one.com. The content on our website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K. We make available through our Internet website under the heading "Investor Relations," our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K after we electronically file any such materials with the Securities and Exchange Commission. Copies of our key corporate governance documents, including our Code of Ethics and Business Conduct for Directors, Officers and Employees and charters for our Audit Committee, our Nominating and Corporate Governance Committee and our Compensation Committee are also on our website. Stockholders may request free copies of these documents including our Annual Report to Stockholders by writing to Information Services Group, Inc., Two Stamford Plaza, 281 Tresser Boulevard, Stamford CT 06901, Attention: David E. Berger, or by calling (203) 517-3100.

Our annual and quarterly reports and other information statements are available to the public through the SEC's website at www.sec.gov. In addition, the Notice of Annual Meeting of Stockholders, Proxy Statement and 2012 Annual Report to Stockholders are available free of charge at www.isg-one.com.

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Item 1A. Risk Factors

The loss of key executives could adversely affect our business.

The success of our business is dependent upon the continued service of a relatively small group of key executives, including Mr. Connors, Chairman and Chief Executive Officer; Mr. Berger, Executive Vice President, Chief Financial Officer; Mr. Somerdyk, Executive Vice President and Chief Human Resources and Communications Officer, and Mr. Whitmore, Vice Chairman and President, ISG Americas, among others.

Although we currently intend to retain our existing management, we cannot assure you that such individuals will remain with us for the immediate or foreseeable future. The unexpected loss of the services of one or more of these executives could adversely affect our business.

We have outstanding a substantial amount of debt, which may limit our ability to fund general corporate requirements and obtain additional financing, limit our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic and industry conditions.

We incurred a substantial amount of indebtedness to finance the acquisition of TPI, including transaction costs and deferred underwriting fees. 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. On November 16, 2007, ICAC borrowed \$95.0 million under the term loan facility to finance the purchase price for our acquisition of TPI and to pay transaction costs. As a result of the substantial fixed costs associated with the debt obligations, we expect that:

a decrease in revenues will result in a disproportionately greater percentage decrease in earnings;

we may not have sufficient liquidity to fund all of these fixed costs if our revenues decline or costs increase;

we may have to use our working capital to fund these fixed costs instead of funding general corporate requirements, including capital expenditures;

we may not have sufficient liquidity to respond to business opportunities, competitive developments and adverse economic conditions; and

our results of operations will be adversely affected if interest rates increase because, based on our current outstanding term loan borrowings in the amount of \$56.8 million, a 1% increase in interest rates would result in a pre-tax impact on earnings of approximately \$0.6 million per year.

These debt obligations may also impair our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business. Our indebtedness under the senior secured revolving credit facility is secured by substantially all of our assets, leaving us with limited collateral for additional financing. Moreover, the terms of our indebtedness under the senior secured revolving credit facility restrict our ability to take certain actions, including the incurrence of additional indebtedness, mergers and acquisitions, investments and asset sales. Our ability to pay the fixed costs associated with our debt obligations will depend on our operating performance and cash flow, which in turn depend on general economic conditions and the advisory services market. A failure to pay interest or indebtedness when

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due could result in a variety of adverse consequences, including the acceleration of our indebtedness. In such a situation, it is unlikely that we would be able to fulfill our obligations under or repay the accelerated indebtedness or otherwise cover our fixed costs. As of December 31, 2012, the total principal outstanding under the term loan facility was \$56.8 million. There were no borrowings under the revolving credit facility during fiscal 2012.

Failure to maintain effective internal controls over financial reporting could adversely affect our business and the market price of our Common Stock.

Pursuant to rules adopted by the SEC implementing Section 404 of the Sarbanes-Oxley Act of 2002, we are required to assess the effectiveness of our internal controls over financial reporting and provide a management report on our internal controls over financial reporting in all annual reports. This report contains, among other matters, a statement as to whether or not our internal controls over financial reporting are effective and the disclosure of any material weaknesses in our internal controls over financial reporting identified by management.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework for companies to assess and improve their internal control systems. Management's assessment of internal controls over financial reporting requires management to make subjective judgments and, some of the judgments will be in areas that are subject to interpretation.

While we currently believe our internal controls over financial reporting are effective, if in the future, we identify one or more material weaknesses in our internal controls over financial reporting during this continuous evaluation process, our management will be unable to assert such internal controls are effective. Although we currently anticipate being able to continue to satisfy the requirements of Section 404 in a timely fashion, we cannot be certain as to the timing of completion for our future evaluation, testing and any required remediation due in large part to the fact that there are limited precedents available by which to measure compliance with these requirements. Therefore, if we are unable to assert that our internal controls over financial reporting are effective in the future, our investors could lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our business and the market price of our Common Stock.

The market price of our common stock may fluctuate widely.

The market price of our common stock could fluctuate substantially due to:

future announcements concerning us or our competitors;

quarterly fluctuations in operating results;

announcements of acquisitions or technological innovations;

changes in earnings estimates or recommendations by analysts; or

current market volatility.

In addition, the stock prices of many business and technology services companies fluctuate widely for reasons which may be unrelated to operating results. Fluctuation in the market price of our common stock may impact our ability to finance our operations and retain personnel.

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Our operating results have been, and may in the future be, adversely impacted by the worldwide economic crisis and credit tightening.

Our results of operations are affected by the level of business activity of our clients, which in turn is affected by the level of economic activity in the industries and markets that they serve. A decline in the level of business activity of our clients could have a material adverse effect on our revenue and profit margin. In particular, our exposure to certain industries currently experiencing financial difficulties, including the transportation and financial services industries, could have an adverse effect on our results of operations. Future economic conditions could cause some clients to reduce or defer their expenditures for consulting services. We have implemented and will continue to implement cost-savings initiatives to manage our expenses as a percentage of revenue. However, current and future cost-management initiatives may not be sufficient to maintain our margins if the economic environment should weaken for a prolonged period.

The rate of growth in the broadly defined business information services & advisory sector and/or the use of technology in business may fall significantly below the levels that we currently anticipate.

Our business is dependent upon continued growth in sourcing activity, the use of technology in business by our clients and prospective clients and the continued trend towards sourcing of complex information technology and business process tasks by large and small organizations. If sourcing diminishes as a management and operational tool, the growth in the use of technology slows down or the cost of sourcing alternatives rises, our business could suffer. Companies that have already invested substantial resources in developing in-house information technology and business process functions may be particularly reluctant or slow to move to a sourcing solution that may make some of their existing personnel and infrastructure obsolete.

Our engagements may be terminated, delayed or reduced in scope by clients at any time.

Our clients may decide at any time to abandon, postpone and/or to reduce our involvement in an engagement. Our engagements can therefore terminate, or the scope of our responsibilities may diminish, with limited advance notice. If an engagement is terminated, delayed or reduced unexpectedly, the professionals working on the engagement could be underutilized until we assign them to other projects. Accordingly, the termination or significant reduction in the scope of a single large engagement, or multiple smaller engagements, could harm our business results.

Our operating results may fluctuate significantly from period to period as a result of factors outside of our control.

We expect our revenues and operating results to vary significantly from accounting period to accounting period due to factors including:

fluctuations in revenues earned on contracts;

commencement, completion or termination of contracts during any particular period;

additions and departures of key advisors;

transitioning of advisors from completed projects to new engagements;

seasonal trends;

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introduction of new services by us or our competitors;

changes in fees, pricing policies or compensation arrangements by us or our competitors;

strategic decisions by us, our clients or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;

global economic and political conditions and related risks, including acts of terrorism; and

conditions in the travel industry that could prevent our advisors from traveling to client sites.

We depend on project-based advisory engagements, and our failure to secure new engagements could lead to a decrease in our revenues.

Advisory engagements typically are project-based. Our ability to attract advisory engagements is subject to numerous factors, including the following:

delivering consistent, high-quality advisory services to our clients;

tailoring our advisory services to the changing needs of our clients;

matching the skills and competencies of our advisory staff to the skills required for the fulfillment of existing or potential advisory engagements; and

maintaining a global business operation.

Any material decline in our ability to secure new advisory arrangements could have an adverse impact on our revenues and financial condition.

We may not be able to maintain our existing services and products.

We operate in a rapidly evolving market, and our success depends upon our ability to deliver high quality advice and analysis to our clients. Any failure to continue to provide credible and reliable information and advice that is useful to our clients could have a significant adverse effect on future business and operating results. Further, if our advice proves to be materially incorrect and the quality of service is diminished, our reputation may suffer and demand for our services and products may decline. In addition, we must continue to improve our methods for delivering our products and services in a cost-effective manner.

We may not have the ability to develop and offer the new services and products that we need to remain competitive.

Our future success will depend in part on our ability to offer new services and products. To maintain our competitive position, we must continue to enhance and improve our services and products, develop or acquire new services and products in a timely manner, and appropriately position and price new services and products relative to the marketplace and our costs of producing them. These new services and products must successfully gain market acceptance by addressing specific industry and business sectors and by anticipating and identifying changes in client requirements. The process of researching, developing, launching and gaining client acceptance of a new service or product, or assimilating and marketing an acquired service or product is risky and costly. We may not be able to introduce new, or assimilate acquired, services and products successfully. Any failure to achieve

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successful client acceptance of new services and products could have an adverse effect on our business results.

We have risks associated with potential acquisitions or investments.

Since our inception, we have expanded through acquisitions. In the future, we plan to pursue additional acquisitions as opportunities arise. We may not be able to successfully integrate businesses which we may acquire in the future without substantial expense, delays or other operational or financial problems. We may not be able to identify, acquire or profitably manage additional businesses.

Difficulties in integrating businesses we acquire in the future may demand time and attention from our senior management.

Integrating businesses we acquire in the future may involve unanticipated delays, costs and/or other operational and financial problems. In integrating acquired businesses, we may not achieve expected economies of scale or profitability, or realize sufficient revenue to justify our investment. If we encounter unexpected problems as we try to integrate an acquired firm into our business, our management may be required to expend time and attention to address the problems, which would divert their time and attention from other aspects of our business.

We may fail to anticipate and respond to market trends.

Our success depends in part upon our ability to anticipate rapidly changing technologies and market trends and to adapt our advice, services and products to meet the changing sourcing advisory needs of our clients. Our clients regularly undergo frequent and often dramatic changes. That environment of rapid and continuous change presents significant challenges to our ability to provide our clients with current and timely analysis, strategies and advice on issues of importance to them. Meeting these challenges requires the commitment of substantial resources. Any failure to continue to respond to developments, technologies, and trends in a manner that meets market needs could have an adverse effect on our business results.

We may be unable to protect important intellectual property rights.

We rely on copyright and trademark laws, as well as nondisclosure and confidentiality arrangements, to protect our proprietary rights in our methods of performing our services and our tools for analyzing financial and other information. There can be no assurance that the steps we have taken to protect our intellectual property rights will be adequate to deter misappropriation of our rights or that we will be able to detect unauthorized use and take timely and effective steps to enforce our rights. If substantial and material unauthorized uses of our proprietary methodologies and analytical tools were to occur, we may be required to engage in costly and time-consuming litigation to enforce our rights. There can be no assurance that we would prevail in such litigation. If others were able to use our intellectual property or were to independently develop our methodologies or analytical tools, our ability to compete effectively and to charge appropriate fees for our services may be adversely affected.

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We face competition and our failure to compete successfully could materially adversely affect our results of operations and financial condition.

The business information services and advisory sector is competitive, highly fragmented and subject to rapid change. We face competition from many other providers ranging from large organizations to small firms and independent contractors that provide specialized services. Our competitors include any firm that provides sourcing or benchmarking advisory services, IT strategy or business process consulting, which may include a variety of consulting firms, service providers, niche advisors and, potentially, advisors currently or formerly employed by us. Some of our competitors have significantly more financial and marketing resources, larger professional staffs, closer client relationships, broader geographic presence or more widespread recognition than us.

In addition, limited barriers to entry exist in the markets in which we do business. As a result, additional new competitors may emerge and existing competitors may start to provide additional or complementary services. Additionally, technological advances may provide increased competition from a variety of sources. There can be no assurance that we will be able to successfully compete against current and future competitors and our failure to do so could result in loss of market share, diminished value in our products and services, reduced pricing and increased marketing expenditures. Furthermore, we may not be successful if we cannot compete effectively on quality of advice and analysis, timely delivery of information, client service or the ability to offer services and products to meet changing market needs for information, analysis or price.

We rely heavily on key members of our management team.

We are dependent on our management team. We have entered into subscription and non-competition agreements with a number of these key management personnel. If any of the covenants contained in the subscription and non-competition agreements are violated, the key management personnel will forfeit their shares (or the after-tax proceeds if the shares have been sold). We issue restricted stock units ("RSUs") and stock appreciation rights ("SARs") from time to time to key employees. Vesting rights in the RSUs and SARs are subject to compliance with restrictive covenant agreements. Vested and unvested RSUs and SARs will be forfeited upon any violation of the restrictive covenant agreements. Despite the non-competition and restrictive covenant agreements, we may not be able to retain these managers and may not be able to enforce the non-competition and restrictive covenants. If we were to lose a number of key members of our management team and were unable to replace these people quickly, we could have difficulty maintaining our growth and certain key relationships with large clients.

We depend upon our ability to attract, retain and train skilled advisors and other professionals.

Our business involves the delivery of advisory and consulting services. Therefore, our continued success depends in large part upon our ability to attract, develop, motivate, retain and train skilled advisors and other professionals who have advanced information technology and business processing domain expertise, financial analysis skills, project management experience and other similar abilities. We do not have non-competition agreements with many non-executive advisors. Consequently, these advisors could resign and join one of our competitors or provide sourcing advisory services to our clients through their own ventures.

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We must also recruit staff globally to support our services and products. We face competition for the limited pool of these qualified professionals from, among others, technology companies, market research firms, consulting firms, financial services companies and electronic and print media companies, some of which have a greater ability to attract and compensate these professionals. Some of the personnel that we attempt to hire may be subject to non-compete agreements that could impede our short-term recruitment efforts. Any failure to retain key personnel or hire and train additional qualified personnel as required supporting the evolving needs of clients or growth in our business could adversely affect the quality of our products and services, and our future business and operating results.

We may have agreements with certain clients that limit the ability of particular advisors to work on some engagements for a period of time.

We provide services primarily in connection with significant or complex sourcing transactions and other matters that provide potential competitive advantage and/or involve sensitive client information. Our engagement by a client occasionally precludes us from staffing certain advisors on new engagements because the advisors have received confidential information from a client who is a competitor of the new client. Furthermore, it is possible that our engagement by a client could preclude us from accepting engagements with such client's competitors because of confidentiality concerns.

In many industries in which we provide advisory services, there has been a trend toward business consolidations and strategic alliances that could limit the pool of potential clients.

Consolidations and alliances reduce the number of potential clients for our services and products and may increase the chances that we will be unable to continue some of our ongoing engagements or secure new engagements.

We derive a significant portion of our revenues from our largest clients and could be materially and adversely affected if we lose one or more of our large clients.

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

Our international operations expose us to a variety of risks that could negatively impact our future revenue and growth.

Approximately 46% and 53% of our revenues for 2012 and 2011 were derived from sales outside of the Americas, respectively. Our operating results are subject to the risks inherent in international business activities, including:

tariffs and trade barriers;

regulations related to customs and import/export matters;

restrictions on entry visas required for our advisors to travel and provide services;

tax issues, such as tax law changes and variations in tax laws as compared to the United States;

cultural and language differences;

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an inadequate banking system;

foreign exchange controls;

restrictions on the repatriation of profits or payment of dividends;

crime, strikes, riots, civil disturbances, terrorist attacks and wars;

nationalization or expropriation of property;

law enforcement authorities and courts that are inexperienced in commercial matters; and

deterioration of political relations with the United States.

Air travel, telecommunications and entry through international borders are all vital components of our business. If a terrorist attack similar to 9/11 were to occur, our business could be disproportionately impacted because of the disruption a terrorist attack causes on these vital components.

We intend to continue to expand our global footprint in order to meet our clients' needs. This may involve expanding into countries beyond those in which we currently operate. We may involve expanding into less developed countries, which may have less political, social or economic stability and less developed infrastructure and legal systems. As we expand our business into new countries, regulatory, personnel, technological and other difficulties may increase our expenses or delay our ability to start up operations or become profitable in such countries. This may affect our relationships with our clients and could have an adverse effect on our business.

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. We currently hold or issue forward exchange contracts for hedging purposes. We do enter into forward contracts for hedging of specific transactions. All are settled prior to quarter end. It is expected that our international revenues will continue to grow as European and Asian markets adopt sourcing solutions and through the acquisition of Compass. 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 may be subject to claims for substantial damages by our clients arising out of disruptions to their businesses or inadequate service and our insurance coverage may be inadequate.

Most of our service contracts with clients contain service level and performance requirements, including requirements relating to the quality of our services. Failure to consistently meet service requirements of a client or errors made by our employees in the course of delivering services to our clients could disrupt the client's business and result in a reduction in revenues or a claim for damages against us. Additionally, we could incur liability if a process we manage for a client were to result in internal control failures or impair our client's ability to comply with our own internal control requirements.

Under our service agreements with our clients, our liability for breach of our obligations is generally limited to actual damages suffered by the client and is typically capped at the greater of an agreed amount or the fees paid or payable to us under the relevant agreement. These limitations and

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caps on liability may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients or liability for breaches of confidentiality, are generally not limited under those agreements. Although we have general commercial liability insurance coverage, the coverage may not continue to be available on acceptable terms or in sufficient amounts to cover one or more large claims. The successful assertion of one or more large claims against us that exceed available insurance coverage or changes in our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements) could have a material adverse effect on our business.

We could be liable to our clients for damages and subject to liability and our reputation could be damaged if our client data is compromised.

We may be liable to our clients for damages caused by disclosure of confidential information. We are often required to collect and store sensitive or confidential client data in order to perform the services we provide under our contracts. Many of our contracts do not limit our potential liability for breaches of confidentiality. If any person, including any of our current or former employees, penetrates our network security or misappropriates sensitive data or if we do not adapt to changes in data protection legislation, we could be subject to significant liabilities to our clients or to our clients' customers for breaching contractual confidentiality provisions or privacy laws. Unauthorized disclosure of sensitive or confidential client data, whether through breach of our processes, systems or otherwise, could also damage our reputation and cause us to lose existing and potential clients. We may also be subject to civil actions and criminal prosecution by government or government agencies for breaches relating to such data. Our insurance coverage for breaches or mismanagement of such data may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims against us.

Client restrictions on the use of client data could adversely affect our activities.

The majority of the data we use to populate our databases comes from our client engagements. The insight sought by clients from us relates to the contractual data and terms, including pricing and costs, to which we have access in the course of assisting our clients in the negotiation of our sourcing agreements. Data is obtained through the course of our engagements with clients who agree to contractual provisions permitting us to consolidate and utilize on an aggregate basis such information. If we were unable to utilize key data from previous client engagements, our business, financial condition and results of operations could be adversely affected.

We may not be able to maintain the equity in our brand name.

We transitioned to the ISG brand with TPI, Compass and STA Consulting positioned as product and service descriptors which have legally registered trademarks in certain appropriate jurisdictions. There may be other entities providing similar services that use these names for their business. There can be no assurance that the resulting confusion and lack of brand-recognition in the marketplace created by this transition will not adversely affect our business.

We believe that the ISG brand and the related subsidiary brands including "TPI", "Compass" and "STA Consulting" remain critical to our efforts to attract and retain clients and staff and that the importance of brand recognition will increase as competition increases. We may expand our marketing activities to promote and strengthen our brands and may need to increase our marketing budget, hire

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additional marketing and public relations personnel, expend additional sums to protect the brands and otherwise increase expenditures to create and maintain client brand loyalty. If we fail to effectively promote and maintain the brands or incur excessive expenses in doing so, our future business and operating results could be adversely impacted.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We maintain our executive offices in Stamford, Connecticut. The majority of our business activities are performed on client sites. We do not own offices or properties. We have leased offices in the United States, Australia, Canada, China, France, Germany, India, Italy, Japan, Netherlands, Singapore, Spain, Sweden and the United Kingdom.

Item 3. Legal Proceedings

We are not aware of any asserted or unasserted legal proceedings or claims that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The following table sets forth the high and low closing sales price of our common stock, as reported on The Nasdaq Stock Market LLC under the symbol "III" for the periods shown:

Quarter Ending	Common Stock	
	High	Low
March 31, 2012	\$ 1.38	\$ 1.03
June 30, 2012	1.45	1.21
September 30, 2012	1.36	1.20
December 31, 2012	1.28	0.99

Quarter Ending	Common Stock	
	High	Low
March 31, 2011	\$ 2.40	\$ 1.90
June 30, 2011	2.37	1.68
September 30, 2011	1.77	0.95
December 31, 2011	1.32	0.95

On February 22, 2013, the last reported sale price for our common stock on The Nasdaq Stock Market was \$1.43 per share.

As of December 31, 2012, there were 376 holders of record of ISG common stock.

Dividend Policy

We have not paid any dividends on our common stock to date. It is the current intention of our Board of Directors to retain all earnings, if any, for use in our business operations and, accordingly, our board does not anticipate declaring any dividends in the foreseeable future. Moreover, our Credit Agreement restricts our ability to pay dividends. The payment of dividends in the future will be within the discretion of our then Board of Directors and will be contingent upon our revenues and earnings, if any, capital requirements and general financial condition.

Issuer Purchases of Equity Securities

The Company's Board Of Directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company's financial position, earnings, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, share price, catastrophe losses, funding of the Company's qualified pension plan, other investment opportunities (including mergers and acquisitions), market conditions and other factors.

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The following table details the repurchases that were made during the three months ended December 31, 2012.

Period		Total Number of Securities Purchased (In thousands)	Average Price per Securities	Total Numbers of Securities Purchased as Part of Publicly Announced Plan (In thousands)	Approximate Dollar Value of Securities That May Yet Be Purchased Under The Plan (In thousands)
October 1	October 31	115 shares	\$ 1.25	115	\$ 7,561
November 1	November 30	52 shares	\$ 1.13	52	\$ 7,502
December 1	December 31	87 shares	\$ 1.08	87	\$ 7,408

Securities Authorized for Issuance under Equity Compensation Plan

At the special meeting of stockholders held on November 13, 2007, the 2007 Equity Incentive Plan was approved by our stockholders. On May 11, 2010, our stockholders approved an amendment for an additional 4.5 million shares authorized for issuance under the 2007 Equity Incentive Plan, except that each share of our common stock issued under a "full value" award (awards other than stock options or stock appreciation rights) will reduce the number of shares available for issuance by 1.44 shares. The following table lists information regarding outstanding options and shares reserved for future issuance under our Amended and Restated 2007 Equity Incentive Plan as of December 31, 2012. We have not issued any shares of our common stock to employees as compensation under a plan that has not been approved by our stockholders.

Plan Category	Number of Shares of Common Stock to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights(1)	Number of Shares of Common Stock Remaining Available for Future Issuance under our Stock Option Plans (Excluding Shares Reflected in Column 1)(2)
Approved by Stockholders	2,613,250	\$ 4.92	2,031,132
Not Approved by Stockholders			
Total	2,613,250	\$ 4.92	2,031,132

(1) The weighted-average exercise price does not take into account the shares issuable upon vesting of outstanding restricted stock units which have no exercise price.

(2) Includes 300,481 shares available for future issuance under our Employee Stock Purchase Plan.

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The following graph compares the cumulative 5 years total stockholder return on our Common Stock from December 31, 2007 through December 31, 2012, with the cumulative total return for the same period of (i) the NASDAQ Composite Index, (ii) the Russell 2000 Index and (iii) the Peer Group described below. The comparison assumes for the same period the investment of \$100 on December 31, 2007 in our Common Stock and in each of the indices and, in each case, assumes reinvestment of all dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Information Services Group Inc, the NASDAQ Composite Index,
the Russell 2000 Index, and a Peer Group

*
\$100 invested on 12/31/07 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Measurement Periods	ISG	NASDAQ	Russell 2000	Peer Group(a)
December 31, 2008	\$ 49.64	\$ 59.03	\$ 66.21	\$ 80.10
December 31, 2009	\$ 46.28	\$ 82.25	\$ 84.20	\$ 71.98
December 31, 2010	\$ 30.22	\$ 97.32	\$ 106.82	\$ 88.44
December 31, 2011	\$ 15.04	\$ 98.63	\$ 102.36	\$ 96.34
December 31, 2012	\$ 16.79	\$ 110.78	\$ 119.09	\$ 102.39

(a) The Peer Group consists of the following companies: CRA International Inc., Forrester Research Inc., FTI Consulting Inc., Gartner Group, Inc., Huron Consulting Group, Inc. and The Hackett Group, Inc. The Peer Group is weighted by market capitalization.

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Item 6. Selected Financial Data

The following historical information was derived from our audited consolidated financial statements for the years ended December 31, 2012, 2011, 2010, 2009 and 2008. The information is only a summary and should be read in conjunction with the historical consolidated financial statements and related notes. The historical results included below are not indicative of our future performance.

	Years Ended December 31,				
	2012	2011	2010	2009	2008
(dollars in thousands, except per share data)					
Statement of Comprehensive Income (Loss)					
Data:					
Revenues	\$ 192,745	\$ 184,426	\$ 132,013	\$ 132,744	\$ 174,795
Depreciation and amortization	8,857	11,034	9,846	9,562	10,000
Operating income (loss)	6,550	(60,842)(1)	(51,741)(2)	814(3)	(57,642)(4)
Interest expense	(3,146)	(3,458)	(3,241)	(4,550)	(6,928)
Interest income	45	75	159	262	1,300
Foreign currency transaction (loss) gain	(209)	(38)	(268)	(140)	578
Income tax provision (benefit)	2,637	(8,326)	(1,926)	(778)	(4,783)
Net income (loss)	603	(55,937)	(53,165)	(2,836)	(57,909)
Basic weighted average common shares	36,205	36,258	32,050	31,491	31,282
Net income (loss) per common share basic	0.02	(1.54)	(1.66)	(0.09)	(1.85)
Diluted weighted average common shares	37,626	36,258	32,050	31,491	31,282
Net income (loss) per common share diluted	0.02	(1.54)	(1.66)	(0.09)	(1.85)
Cash Flow Data:					
Cash provided by (used in):					
Operating activities	\$ 10,730	\$ 871	\$ 5,747	\$ 4,056	\$ 20,481
Investing activities	\$ (1,848)	\$ (9,655)	\$ (6,707)	\$ (1,239)	\$ (1,634)
Financing activities	\$ (10,179)	\$ (6,903)	\$ (1,698)	\$ (22,080)	\$ (3,939)
Balance Sheet Data (at period end)					
Total assets	\$ 135,985	\$ 145,034	\$ 184,564	\$ 241,973	\$ 279,588
Debt	\$ 63,063	\$ 70,063	\$ 69,813	\$ 71,813	\$ 94,050
Shareholders' equity	\$ 38,309	\$ 35,884	\$ 81,817	\$ 131,625	\$ 130,581

- (1) As a result of our goodwill and intangible asset impairment assessments, we recorded an impairment charge of \$34.3 million during the fourth quarter of 2011 associated with goodwill and \$27.4 million related to intangible assets.
- (2) As a result of our goodwill and intangible asset impairment assessments, we recorded an impairment charge of \$46.6 million during the third quarter of 2010 associated with goodwill and \$5.9 million related to intangible assets.
- (3) As a result of our intangible asset impairment assessments, we recorded an impairment charge of \$6.8 million during the third quarter of 2009 associated with intangible assets.
- (4) As a result of our goodwill and intangible asset impairment assessments, we recorded an impairment charge of \$49.4 million during the fourth quarter of 2008 associated with goodwill and \$24.8 million related to intangible assets.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion together with Item 6 "Selected Financial Data" and our audited consolidated financial statements and the related notes included in Item 8 "Financial Statements and Supplementary Data". In addition to historical consolidated financial information, this discussion contains forward-looking statements that reflect our plans, estimates and beliefs. These forward-looking statements are subject to numerous risks and uncertainties. Statements, other than those based on historical facts, which address activities, events or developments that we expect or anticipate may occur in the future are forward-looking statements. Such forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors relating to our operations and business environment that may cause actual results to be materially different from any future results, express or implied, by such forward-looking statements. These forward-looking statements must be understood in the context of numerous risks and uncertainties, including, but not limited to, those described previously in section 1A "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 450 clients around the world to help them achieve operational excellence. ISG supports 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 ISG 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 800 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 acquisition. 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.

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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.

EXECUTIVE SUMMARY

In 2012, the launch of our new go-to-market brand, ISG, was completed and demonstrated the power of our brand was greater than the sum of its parts. Globally our clients now have access to a single portfolio of products and services: from research and benchmarking to design and transaction services, from transition, transformation and project management services to managed services. It was the realization of a journey that began when we launched ISG with the goal of building an industry-leading, high-growth, information-based services business. In essence, we set out to create a single source for delivering client solutions to achieve operational excellence. Today, whether we are working in the Americas, Europe, or Asia Pacific, our mission has not changed: helping our clients achieve operational excellence.

Strong progress was made this year, our first full year as an integrated operating company. Despite macroeconomic headwinds in Europe and a tougher environment for corporate spending, we increased our revenue by 5%. Our growth was led by our recurring revenue streams including research, managed services and the U.S. public sector. Geographically, we were led by the Americas with growth of 21%. We served over 465 clients in 2012, with 25% of these new to ISG. And our operating business model has good cash characteristics, demonstrated by the \$8.9 million in free cash flow generated this year. We secured our first managed services clients in Europe and Latin America, and we now have more than \$10 billion in managed services total contract value under management. Internally, we continue to build a strong foundation for future growth. We developed and deployed our global shared services organization ISG One Platform for Human Resources, Marketing, Communications, Finance, Legal, and IT. And we launched ISG University and the ISG Career Center, integrating learning, development and advancement opportunities for our employees worldwide. In all, we added more than 100 new colleagues around the world, and our total workforce now exceeds 800. Our Asia Pacific hub in Bangalore, India, which includes the "nerve center" for our managed services business, reached a new milestone in November by breaking the 200-employee threshold, doubling its workforce in just fifteen months reflecting our growth ambitions.

In 2013, we will remain focused on delivering value to clients, investing to grow our business and expanding our capabilities. We intend to accelerate the development of our recurring revenue streams and expect further growth in 2013. We are also investing in how we go to market. In particular, our data driven assess and strategy services represent a critical, differentiating capability for ISG that must be sustained and grown. These services will enable us to engage earlier in the client engagement cycle

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and ensure greater involvement in our clients' transformational programs. Our execute services, which include transaction services, continue to make up a key part of our overall revenue. To maintain our longstanding market leadership, we are developing innovative new tools, technologies and methodologies to meet the changing needs of the marketplace. And we will expand our promising program management services to provide more expertise and resources to clients with large project portfolios and significant transformation programs.

In addition, four key mega trends: social media, mobile communications, analytics and the Cloud (commonly known as SMAC) are disrupting traditional business models, shifting how clients consume technology solutions. They are at the top of C-suite agendas, creating new opportunities for ISG over the next few years. We are uniquely qualified to provide unlimited solutions to address these emerging trends.

Finally, our seasoned, highly experienced professionals with significant domain and industry expertise are critical assets and one of our key market differentiators. Our BFSI (Banking, Financial Services and Insurance) and Manufacturing (including auto) verticals will remain our largest but we continue to see growth opportunities emerging in our Energy, Healthcare/Life Sciences/Technology and the Public Sector verticals as well.

Clients are increasingly asking for more flexible and cost-effective approaches. We continue to evolve to a more efficient client delivery model that aligns with the changing market demands for greater value as well as continued operating cost reductions to drive expansion of our margins and enable investments for the future.

We have focused our over 800 professionals on a single mission: delivering Operational Excellence to our clients. Those clients, primarily the 2,000 largest companies and organizations worldwide, choose ISG based on our proprietary data and market intelligence, our experienced team of professionals and insights we bring to improve their operational performance. We will continue to monitor the macro-economic environment, especially Europe. And we continue to build value for the long term for our stakeholders.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2012 AND DECEMBER 31, 2011

Revenues

Revenues are generally derived from engagements priced on a time and materials basis and are recorded based on actual time worked 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 arrangement. Invoices are issued to clients monthly, semimonthly or in accordance with the specific contractual terms of each project.

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.

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Geographical information for the segment is as follows:

Geographic Area	Years Ended December 31,			Percent Change
	2012	2011	Change	
	(in thousands)			
Americas	\$ 104,925	\$ 86,735	\$ 18,190	21.0%
Europe	62,671	74,383	(11,712)	(16.0)%
Asia Pacific	25,149	23,308	1,841	7.9%
Total revenues	\$ 192,745	\$ 184,426	\$ 8,319	4.5%

The net increase in revenues of \$8.3 million or 5% in 2012 was attributable principally to a 21% increase in Americas revenues to \$104.9 million and a 8% increase in Asia Pacific revenues to \$25.1 million. The increase in revenues is primarily due to greater demand for Strategic Consulting, Research and Managed Services in the Americas and Asia Pacific regions. The increase was also driven by strong demand in the U.S. public sector for ISG services. These increases were offset by a 16% reduction in Europe primarily due to lower volumes in sourcing related engagements. The translation of foreign currency into US dollars also negatively impacted performance compared to prior year. Billable staff at December 31, 2012 totaled 619, as compared to 516 at December 31, 2011.

Operating Expenses

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

Operating Expenses	Years Ended December 31,			Percent Change
	2012	2011	Change	
	(in thousands)			
Direct costs and expenses for advisors	\$ 114,429	\$ 104,823	\$ 9,606	9.2%
Selling, general and administrative	62,909	67,717	(4,808)	(7.1)%
Goodwill impairment charge		34,314	(34,314)	(100.0)%
Intangible asset impairment charge		27,380	(27,380)	(100.0)%
Depreciation and amortization	8,857	11,034	(2,177)	(19.7)%
Total operating expenses	\$ 186,195	\$ 245,268	\$ (59,073)	(24.1)%

Total operating expenses decreased by \$59.1 million in 2012 with decreases in selling, general and administrative ("SG&A") expenses (7%) offset by increases in direct expenses (9%). Operating expenses were also lower due to the impairment charge of \$61.7 million that was recorded in 2011. Higher direct costs were driven by higher compensation and benefits, contract labor and computer expenses. Lower SG&A levels were driven by a \$1.9 million reduction in the contingent liability related to the STA Consulting earn out based on latest estimates of future profit levels and deal and restructuring costs totaling \$4.0 million that were recorded in 2011. The impact of foreign currency translation into US dollars also drove costs lower compared to the same prior 2011 period.

Compensation costs consist of a mix of fixed and variable salaries, annual bonuses, benefits and pension plan contributions. Bonus compensation is determined based on achievement against our financial and individual targets, and is accrued monthly throughout the year based on management

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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.

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.

Selling 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. Additionally, 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 client 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.

Selling, 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

The decrease of \$2.2 million in depreciation and amortization expense was primarily due to a \$2.4 million decrease in amortization as a result of intangible assets that were fully amortized in 2011. Depreciation expense is generally computed by applying the straight-line method over the estimated useful lives of assets. We also capitalize some costs associated with the purchase and development of internal-use software, system conversions and website development costs. These costs are amortized over the estimated useful life of the software or system.

We amortize our intangible assets (e.g. client relationships and databases) over their estimated useful lives. Goodwill, trademark and trade names related to acquisitions are not amortized but are subject to annual impairment testing. As of November 1, 2011, trademark and trade names acquired in our acquisitions were reclassified to definite lived assets and are amortized over their estimated useful lives.

Impairment of goodwill and intangible assets

During 2012, there was no impairment of goodwill or intangible assets. During the fourth quarter of 2011, we recorded a non-cash impairment charge of \$34.3 million associated with goodwill and

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\$27.4 million associated with indefinite lived intangible assets, each of which is described in detail below.

Other (Expense), Net

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

	Years Ended December 31,			Percent Change
	2012	2011	Change	
	(in thousands)			
Interest income	\$ 45	\$ 75	\$ (30)	(40.0)%
Interest expense	(3,146)	(3,458)	312	9.0%
Foreign currency loss	(209)	(38)	(171)	(450.0)%
Total other (expense), net	\$ (3,310)	\$ (3,421)	\$ 111	3.2%

Income Tax Expense

Our effective tax rate varies from period to period based on the mix of earnings among the various state and foreign tax jurisdictions in which business is conducted and the level of non-deductible expenses incurred in any given period. We recorded an income tax provision for 2012 of \$2.6 million as compared to an \$8.3 million income tax benefit for 2011. Our effective tax rate for the year ended December 31, 2012 was 81.4% compared to 13.0% for the year ended December 31, 2011. Our effective tax rate is higher than the statutory rate primarily due to the reversal of deferred tax assets associated with vested restricted stock units of \$0.5 million and a net increase in the valuation allowance of \$0.8 million primarily related to the Company's foreign tax credits.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010

The results for the year ended December 31, 2011 discussed below include the operations of Compass from January 4, 2011 to December 31, 2011 and STA Consulting from February 10, 2011 to December 31, 2011.

Revenues

Geographical information for the segment is as follows:

Geographic Area	Years Ended December 31,			Percent Change
	2011	2010	Change	
	(in thousands)			
Americas	\$ 86,735	\$ 76,123	\$ 10,612	13.9%
Europe	74,383	39,400	34,983	88.8%
Asia Pacific	23,308	16,490	6,818	41.3%
Total revenues	\$ 184,426	\$ 132,013	\$ 52,413	39.7%

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The net increase in revenues of \$52.4 million or 40% in 2011 was attributable principally to an 89% increase in Europe revenues to \$74.4 million and a 41% increase in Asia Pacific revenues to \$23.3 million. The increase in revenues is primarily due to the acquisitions of Compass and STA Consulting and higher levels of sourcing activity in the Asia Pacific and Americas regions, attributable to increases in post contract governance services. The translation of foreign currency revenues into US dollars also favorably impacted performance compared to the prior year. Billable staff at December 31, 2011 totaled 516, as compared to 323 at December 31, 2010.

Operating Expenses

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

Operating Expenses	Years Ended December 31,			Percent Change
	2011	2010	Change	
	(in thousands)			
Direct costs and expenses for advisors	\$ 104,823	\$ 71,528	\$ 33,295	46.5%
Selling, general and administrative	67,717	49,889	17,828	35.7%
Goodwill impairment charge	34,314	46,591	(12,277)	(26.4)%
Intangible asset impairment charge	27,380	5,900	21,480	364.1%
Depreciation and amortization	11,034	9,846	1,188	12.1%
Total operating expenses	\$ 245,268	\$ 183,754	\$ 61,514	33.5%

Total operating expenses increased by \$61.5 million in 2011 with increases in direct expenses (47%) and selling, general and administrative ("SG&A") expenses (36%) due primarily to goodwill and intangible asset impairment charges in 2011 as well as the acquisitions of Compass and STA Consulting, higher compensation, contract labor, restructuring costs, conferences, bad debt and travel expenses. These cost increases were only partially offset by lower deal-related costs, professional fees, marketing and computer expenses. The impact of foreign currency translation into US dollars drove costs higher compared to the same prior 2010 period.

During 2011, we recorded restructuring costs of \$2.7 million associated with a program focused on implementing selected cost savings and productivity improvements. The workforce reduction is focused on integration-related cost synergies including selling, general and administrative support, elimination of unnecessary sales and advisory positions and real estate consolidations. Restructuring costs primarily related to employee severance and benefit costs. The \$2.7 million of restructuring costs was recorded in selling, general and administrative expenses. We expect that the remaining actions in our workforce reduction will be completed over the next three months. We also recorded \$1.1 million of restructuring costs during 2010.

Depreciation and Amortization Expense

The increase of \$1.2 million in depreciation and amortization expense was primarily due to a \$1.1 million increase in amortization as a result of the acquisitions of Compass and STA Consulting. Our fixed assets consist of furniture, fixtures, equipment (mainly personal computers) and leasehold improvements.

Table of Contents***Impairment of goodwill and intangible assets***

Due to a decline in our stock price for a prolonged period of time, and the timing of our annual impairment test in the fourth quarter of 2011, we recorded a non-cash impairment charge of \$34.3 million associated with goodwill and \$27.4 million associated with indefinite lived intangible assets. The goodwill impairment was attributable to declines in projected revenue run rates, actual and projected revenue generated per billable hour, driven by a global recession which has impacted and reduced sourcing industry activity. The impairment to our indefinite lived intangible assets relates to the Company's fourth quarter 2011 decision to phase out the use of the Compass, STA Consulting and TPI trade names and migrate to the ISG brand name. As a result of this decision, the Company reduced the amount of revenue projected to be attributable to these specific brand names and the related royalty rate resulting in a reduced fair value of such acquired trademark and trade names. Additionally, these trademark and trade names were reclassified to definite lived assets and will be amortized over their estimated useful lives of seven years. During the third quarter of 2010, we also recorded non-cash impairment charges of \$46.6 million associated with goodwill and \$5.9 million associated with indefinite-lived intangible assets as a result of our impairment testing.

Other Income (Expense), Net

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

	Years Ended December 31,			Percent Change
	2011	2010	Change	
	(in thousands)			
Interest income	\$ 75	\$ 159	\$ (84)	(52.8)%
Interest expense	(3,458)	(3,241)	(217)	(6.7)%
Foreign currency loss	(38)	(268)	230	85.8%
Total other (expense), net	\$ (3,421)	\$ (3,350)	\$ (71)	(2.1)%

The increase was primarily the result of higher interest expense as a result of the convertible notes issued in connection with the acquisition of Compass, the time value of money related to the contingent consideration related to the acquisition of STA Consulting and lower interest income that was partially offset by a reduction in foreign currency related losses.

Income Tax Expense

Our effective tax rate varies from period to period based on the mix of earnings among the various state and foreign tax jurisdictions in which business is conducted and the level of non-deductible expenses incurred in any given period. We recorded an income tax benefit for 2011 of \$8.3 million as compared to \$1.9 million for 2010. Our effective tax rate for the year ended December 31, 2011 was 13.0% compared to 3.5% for the year ended December 31, 2010. The increase in the effective tax rate was primarily due to impairment charges recorded on goodwill and indefinite lived intangible assets and due to valuation allowance booked against the Company's foreign tax credits.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES***Liquidity*

Our primary sources of liquidity are cash flows from operations and existing cash and cash equivalents. 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.

The following table summarizes our cash flows for the years ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Net cash provided by (used in):			
Operating activities	\$ 10,730	\$ 871	\$ 5,747
Investing activities, including acquisitions	(1,848)	(9,655)	(6,707)
Financing activities	(10,179)	(6,903)	(1,698)
Effect of exchange rate changes on cash	327	(145)	173
Net decrease in cash and cash equivalents	\$ (970)	\$ (15,832)	\$ (2,485)

As of December 31, 2012, our liquidity and capital resources included cash and cash equivalents of \$23.5 million compared to \$24.5 million as of December 31, 2011 a net decrease of \$1.0 million, which was primarily attributable to the following:

Our operating activities provided net cash of \$10.7 million for the year ended December 31, 2012. Net cash provided from operations is primarily attributable to a net income, adjusted for non-cash charges totaling approximately \$8.3 million and \$2.4 million of changes in working capital primarily attributable to \$0.9 million changes in accounts receivables and \$1.5 million changes in accounts payable, prepaid expenses and accrued expenses;

payments of principal amounts due on the debt of \$7.0 million;

payment of STA Consulting contingent consideration of \$2.0 million;

capital expenditures for property, plant and equipment of \$1.8 million; and

equity repurchases of \$1.5 million.

Capital Resources

We have outstanding a substantial amount of debt, which may limit our ability to fund general corporate requirements and obtain additional financing, limit our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic and industry conditions.

We incurred a substantial amount of indebtedness to finance the acquisition of TPI, including transaction costs and deferred underwriting fees. 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. On

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November 16, 2007, ICAC borrowed \$95.0 million under the term loan facility to finance the purchase price for our acquisition of TPI and to pay transaction costs. As a result of the substantial fixed costs associated with the debt obligations, we expect that:

a decrease in revenues will result in a disproportionately greater percentage decrease in earnings;

we may not have sufficient liquidity to fund all of these fixed costs if our revenues decline or costs increase;

we may have to use our working capital to fund these fixed costs instead of funding general corporate requirements, including capital expenditures;

we may not have sufficient liquidity to respond to business opportunities, competitive developments and adverse economic conditions; and

our results of operations will be adversely affected if interest rates increase because, based on our current outstanding term loan borrowings in the amount of \$56.8 million, a 1% increase in interest rates would result in a pre-tax impact on earnings of approximately \$0.6 million per year.

These debt obligations may also impair our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business. Our indebtedness under the senior secured revolving credit facility is secured by substantially all of our assets, leaving us with limited collateral for additional financing. Moreover, the terms of our indebtedness under the senior secured revolving credit facility restrict our ability to take certain actions, including the incurrence of additional indebtedness, mergers and acquisitions, investments and asset sales. Our ability to pay the fixed costs associated with our debt obligations will depend on our operating performance and cash flow, which in turn depend on general economic conditions and the advisory services market. A failure to pay interest or indebtedness when due could result in a variety of adverse consequences, including the acceleration of our indebtedness. In such a situation, it is unlikely that we would be able to fulfill our obligations under or repay the accelerated indebtedness or otherwise cover our fixed costs.

The 2007 Credit Agreement 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. The 2007 Credit Agreement contains customary events of default, including cross-default to other material agreements, judgment default and change of control.

We are required to comply with a total leverage ratio as defined in the 2007 Credit Agreement. The total leverage ratio is defined as the ratio of consolidated indebtedness to consolidated earnings before interest, taxes, depreciation and amortization, subject to certain exclusions. The 2007 Credit Agreement includes quarterly financial covenants that require us to maintain a maximum total leverage ratio (as defined in the 2007 Credit Agreement). As of December 31, 2012, our maximum total leverage ratio was 3.00 to 1.00 and we were in compliance with all covenants contained in the 2007 Credit Agreement. The maximum total leverage ratio will continue to decline over the life of the 2007 Credit Agreement. The maximum total leverage ratio is 3.00 for the quarter ended December 31, 2012

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and will continue to decline thereafter. We currently expect to be in compliance with the covenants contained within the 2007 Credit Agreement. In the event we are unable to remain in compliance with the debt covenants associated with the 2007 Credit Agreement we have alternative options available to us including, but not limited to, the ability to make a prepayment on our debt without penalty to bring the actual leverage ratio into compliance. Our available cash balances and liquidity will be negatively impacted should such prepayment be necessary. In addition, should our revenues not meet our forecast, we have the ability to reduce various expenditures to minimize the impact to the leverage ratio. Such actions may include reductions to headcount, variable compensation, marketing expenses, conferences and non-billable travel.

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

On March 13, 2012, our lenders agreed to allow ICAC to include the results of operations of Compass in the calculation of our leverage ratio. ICAC also received approval to increase the annual cash dividend payable to ISG to \$2.0 million.

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

As of December 31, 2012, the total principal outstanding under the term loan facility was \$56.8 million. There were no borrowings under the revolving credit facility during the years ended December 31, 2012 or 2011. Additional mandatory principal repayments totaling \$10.0 million will be due in 2013 with the remaining principal repayments due in 2014. The final mandatory term loan principal repayment will be due on November 16, 2014, which is the maturity date for the term loan.

Table of Contents**Contractual Obligations**

The following table summarizes our contractual obligations as of December 31, 2012, and the timing and effect that such obligations are expected to have on our liquidity and capital requirements in future periods.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 3 Years	3 5 Years	More Than 5 Years
	(In Thousands)				
Debt obligations, principal and interest	\$ 68,580	\$ 12,617	\$ 49,246	\$ 6,717	\$
Operating lease obligations	6,912	2,334	4,196	382	
Total	\$ 75,492	\$ 14,951	\$ 53,442	\$ 7,099	\$

We have liabilities related to uncertain tax positions totaling approximately \$2.7 million as of December 31, 2012. These liabilities, which are reflected on our balance sheet, are not reflected in the table above since it is unclear when these liabilities will be paid.

We believe that cash flows generated from operations, existing cash and cash equivalents and borrowing capacity under our senior secured credit facility are sufficient to finance the requirements of our business during future periods.

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.

Employee Retirement Plans

We maintain a qualified defined contribution profit-sharing plan (the "Plan") for U.S.-based employees. Prior to January 1, 2008, contributions to the Plan were made by us up to a maximum per eligible employee of 12.75% of total cash compensation or \$25,500, whichever was less. Post January 1, 2008, the annual contribution was adjusted to be 3% of total cash compensation or \$7,500, whichever is less. Employees are generally eligible to participate in the Plan after six months of service, and are 100% vested upon entering the Plan. For the fiscal years ended December 31, 2012, 2011 and 2010, we contributed \$1.6 million, \$1.3 million and \$1.2 million, respectively, to the Plan. These amounts were invested by the participants in a variety of investment options under an arrangement with a third party asset manager. All current and future financial risks associated with the gains and losses on investments are borne by Plan participants.

Seasonality and Quarterly Results

The negotiation of sourcing transactions and, as a result, our revenue and earnings are subject to seasonal fluctuations. As a result of year-end holidays, macro-economic factors and client budget and spending patterns, our revenues have historically been weighted toward the second half of each year. Our earnings track this revenue seasonality and are also impacted by the timing of the adoption of annual price increases and certain costs and, as a result, have historically been higher in the second half

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of each year. Due to the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the appropriate application of certain accounting policies, many of which require management to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results may differ from estimates. Such differences may be material to the consolidated financial statements.

We believe the application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found the application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Our accounting policies are more fully described in Note 2 "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements." We have identified the following critical accounting policies:

Revenue Recognition

We recognize our revenues for the sale of services and products when persuasive evidence of an arrangement exists, services have been rendered or delivery has occurred, the fee is fixed or determinable and the collectability of the related revenue is reasonably assured.

We principally derive revenues from fees for services generated on a project-by-project basis. Prior to the commencement of a project, we reach agreement with the client on rates for services based upon the scope of the project, staffing requirements and the level of client involvement. It is our policy to obtain written agreements from new clients prior to performing services. In these agreements, the clients acknowledge that they will pay based upon the amount of time spent on the project or an agreed upon fee structure. Revenues for services rendered are recognized on a time and materials basis or on a fixed-fee or capped-fee basis in accordance with accounting and disclosure requirements for revenue recognition.

Fees for services that have been performed, but for which we have not invoiced the customers are recorded as unbilled receivables in the accompanying consolidated balance sheets. Invoices issued before the related services have been performed are recorded as deferred revenue in the accompanying consolidated balance sheets.

Revenues for time and materials contracts are recognized based on the number of hours worked by our advisors at an agreed upon rate per hour and are recognized in the period in which services are performed. Revenues for time and materials contracts are billed monthly, semimonthly or in accordance with the specific contractual terms of each project.

Revenues related to fixed-fee or capped-fee contracts are recognized into revenue as value is delivered to the customer. The pattern of revenue recognition for these contracts varies depending on the terms of the individual contracts, and may be recognized proportionally over the term of the

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contract or deferred until the end of the contract term and recognized when our obligations have been fulfilled with the customer. In instances where substantive acceptance provisions are specified in customer contracts, revenues are deferred until all acceptance criteria have been met. The pattern of revenue recognition for contracts where revenues are recognized proportionally over the term of the contract is based on the proportional performance method of accounting using the ratio of labor hours incurred to estimated total labor hours, which we consider to be the best available indicator of the pattern and timing in which contract obligations are fulfilled. This percentage is multiplied by the contracted dollar amount of the project to determine the amount of revenue to recognize in an accounting period. The contracted amount used in this calculation typically excludes the amount the client pays for reimbursable expenses. There are situations where the number of hours to complete projects may exceed our original estimate as a result of an increase in project scope or unforeseen events. On a regular basis, we review the hours incurred and estimated total labor hours to complete. The results of any revisions in these estimates are reflected in the period in which they become known. We believe we have demonstrated a history of successfully estimating the total labor hours to complete a project.

The agreements entered into in connection with a project, whether on a time and materials basis or fixed-fee or capped-fee basis, typically allow our clients to terminate early due to breach or for convenience with 30 days' notice. In the event of termination, the client is contractually required to pay for all time, materials and expenses incurred by us through the effective date of the termination. In addition, from time to time, we enter into agreements with clients that limit our right to enter into business relationships with specific competitors of that client for a specific time period. These provisions typically prohibit us from performing a defined range of services that it might otherwise be willing to perform for potential clients. These provisions are generally limited to six to twelve months and usually apply only to specific employees or the specific project team.

Accounts and Unbilled Receivables and Allowance for Doubtful Accounts

Our trade receivables primarily consist of amounts due for services already performed via fixed fee or time and materials arrangements. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of clients to pay fees or for disputes that affect its ability to fully collect billed accounts receivable. The allowance for these risks is prepared by reviewing the status of all accounts and recording reserves on a specific identification method based on previous experiences and historical bad debts. However, our actual experience may vary significantly from these estimates. If the financial condition of our clients were to deteriorate, resulting in their inability or unwillingness to pay their invoices, we may need to record additional allowances or write-offs in future periods. To the extent the provision relates to a client's inability or unwillingness to make required payments, the provision is recorded as bad debt expense, which is classified within selling, general and administrative expense in the accompanying consolidated statement of comprehensive income (loss).

The provision for unbilled services is recorded as a reduction to revenues to the extent the provision relates to fee adjustments and other discretionary pricing adjustments.

Income Taxes

We use the asset and liability method to account for income taxes, including recognition of deferred tax assets and liabilities for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax basis. We review our deferred tax assets

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for recovery. A valuation allowance is established when we believe that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in the valuation allowance from period to period are included in our tax provision in the period of change.

For uncertain tax positions, we use a prescribed model for assessing the financial recognition and measurement of all tax positions taken or expected to be taken in its tax returns. This guidance provides clarification on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. Our provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related interest.

Goodwill

Our goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually by applying a fair-value based test in accordance with accounting and disclosure requirements for goodwill and other indefinite-lived intangible assets. This test is performed by us during our fourth fiscal quarter or more frequently if we believe impairment indicators are present. At October 31, 2012, our annual impairment testing date, we maintain a single operating segment and reporting unit.

During the third quarter of 2012, management determined that a triggering event had occurred due to a revision in forecasted earnings as a result of macro-economic environment in Europe and continued unfavorable currency translation. Accordingly, the Company evaluated the carrying value of goodwill.

We performed a two-step impairment test on goodwill. Step one compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test whereby the carrying value of the reporting unit's goodwill is compared to its implied fair value. If the carrying value of the goodwill exceeds the implied fair value, an impairment loss equal to the difference is recorded.

In performing the first step of the impairment test on goodwill, we determined the fair value of the reporting unit using both a market and income approach. The income approach utilizes a discounted cash flow model and is based on projections of future operations of the reporting unit as of the valuation date. The market approach is based on the guideline public company method which considers multiples of comparable companies. The Company selected an amount in the first quartile of such comparable companies. The discounted cash flow model assumed revenue growth rates of approximately 3% per year. We employed a discount rate of 13.5% based on the weighted average cost of capital of guideline public companies to discount future excess cash flows. As a result of the step one test performed, the fair value of our reporting unit exceeded the carrying value by 9%. Accordingly, step two was not performed or required.

The Company tested the fair value of goodwill during our scheduled annual impairment testing date in the fourth quarter of 2012 as of October 31, 2012 and passed step one of the impairment test by approximately 9%. In performing our fourth quarter impairment test we utilized the same assumptions as those in the third quarter impairment test. Management will continue to monitor changes in the business, as well as overall market conditions and economic factors that could require additional impairment tests.

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Future downturns in our business, particularly changes in the discount rates or growth rates inherent in management's estimates of future cash flows, continued deterioration of economic conditions, or our stock trading below book value per share may result in an impairment charge in future periods, which could adversely affect our results of operations for those periods.

Long-Lived Assets

Long-lived assets, excluding goodwill and indefinite-lived intangibles, to be held and used by the Company are reviewed to determine whether any significant change in the long-lived asset's physical condition, a change in industry conditions or a reduction in cash flows associated with the use of the long-lived asset. If these or other factors indicate the carrying amount of the asset may not be recoverable, the Company determines whether impairment has occurred through the use of an undiscounted cash flow analysis of the asset at the lowest level for which identifiable cash flows exist. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset. The fair value of the asset is measured using market prices or, in the absence of market prices, an estimate of discounted cash flows. Cash flows are generally discounted at an interest rate commensurate with our weighted average cost of capital for a similar asset. Assets are classified as held for sale when the Company has a plan for disposal of certain assets and those assets meet the held for sale criteria of accounting and disclosure requirement for the impairment or disposal of long-lived assets.

As a result of the triggering event which occurred during the third quarter of 2012, an impairment test was performed including definite-lived intangible assets based on the undiscounted cash flows method. The analysis determined there was no impairment.

Stock-Based Compensation

Stock Appreciation Rights ("SARs") for a fixed number of shares are granted to certain employees with an exercise price based on the closing trading price of our common stock on the grant date. We use the Black-Scholes option pricing model to determine the fair value of each option award on the date of grant. Prior to December 31, 2009, the volatility calculation was based on the most recent trading day average volatility of a representative sample of seven companies with market capitalizations of approximately \$125 million to \$4.6 billion that management believed to be engaged in the business of information services (the "Sample Companies"). We referred to the average volatility of the Sample Companies because management believes that the average volatility of such companies is a reasonable benchmark to use in estimating the expected volatility of our common stock as we had a limited history as a public company. The risk-free interest rate is determined based upon the interest rate on a U.S. Treasury Bill with a term equal to the expected life of the option at the time the option was granted. An expected life of five years was taken into account for purposes of assigning a fair value to the option. The expected life represents the period of time the awards granted are expected to be outstanding. There were no grants of SARs during the years ended December 31, 2012 or 2011.

We also grant restricted stock with a fair value that is determined based on the closing price of our common stock on the date of grant. SARs and restricted stock generally vest over a four-year period. Stock-based compensation expense is recognized ratably over the applicable service period.

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We follow the provisions of accounting and disclosures requirement for share-based payments, requiring the measurement and recognition of all share-based compensation under the fair value method.

Recent Accounting Pronouncements

See Note 2 to our consolidated financial statements included elsewhere in this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risks primarily related to changes in interest rates and manage these risks by employing a variety of debt instruments. A 100 basis point change in interest rates would result in an annual change in the results of operations of \$0.6 million pre-tax. Although we do not believe a change in interest rates will materially affect our financial position or results of financial operations, the Company has purchased an interest rate cap to limit our exposure for forty percent of the total term loan value to an increase in LIBOR rates beyond seven percent. The expense related to this interest rate cap was nominal. This agreement expired in January 2011 and is not required going forward.

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 December 31, 2012, 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 \$0.2 million for the year ended December 31, 2012. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

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

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

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

Item 8. Financial Statements and Supplementary Data.

Reference is made to our financial statements beginning on page F-2 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

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Item 9A. 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 December 31, 2012, 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 our disclosure controls and procedures were effective as of December 31, 2012.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with US generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2012, as required by Rule 13a-15(c) under the Exchange Act. In making this assessment, we used the criteria set forth in the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in Internal Control Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2012.

Changes in 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 quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

- (a) Identification of Director's and Executive Officers.

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2013 Annual Meeting of Stockholders under the caption "Management."

- (b) Compliance with Section 16(a) of the Exchange Act.

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2013 Annual Meeting of Stockholders under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

- (c) Code of Ethics.

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2013 Annual Meeting of Stockholders under the caption "Corporate Governance."

- (d) Nominating Committee, Audit Committee, Audit Committee Financial Expert.

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2013 Annual Meeting of Stockholders under the caption "Corporate Governance."

Item 11. Executive Compensation

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2013 Annual Meeting of Stockholders under the caption "Compensation of Officers and Directors."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required hereunder is incorporated by reference from the sections of our Proxy Statement filed in connection with our 2013 Annual Meeting of Stockholders under the caption "Security Ownership of Certain Beneficial Owners."

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required hereunder is incorporated by reference from the sections in our Proxy Statement filed in connection with our 2013 Annual Meeting of the Stockholders under the caption "Corporate Governance."

Item 14. Principal Accounting Fees and Services

The information required hereunder is incorporated by reference from the sections in our Proxy Statement filed in connection with our 2013 Annual Meeting of the Stockholders under the caption "Proposal No. 2 Ratification of Engagement of Independent Registered Public Accounting Firm."

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PART IV

Item 15. Exhibits and Financial Statement Schedule

(a)(1) Documents filed as a part of this report:

Financial Statements of Information Services Group, Inc.:
Report of Independent Registered Public Accounting Firm

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Consolidated Balance Sheets

F-2

Consolidated Statement of Comprehensive Income (Loss)

F-3

Consolidated Statement of Stockholders' Equity

F-4

Consolidated Statement of Cash Flows

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Notes to Consolidated Financial Statements

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(a)(2) Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts

(a)(3) Exhibits:

We hereby file as part of this Annual Report on Form 10-K the Exhibits listed in the attached Exhibit Index.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Information Services Group, Inc:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income (loss), stockholders' equity and cash flows present fairly, in all material respects, the financial position of Information Services Group, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Houston, Texas
March 13, 2013

Table of Contents**INFORMATION SERVICES GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value)

	December 31,	
	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 23,499	\$ 24,469
Accounts and unbilled receivables, net of allowance of \$395 and \$549, respectively	40,920	42,019
Deferred tax asset	1,213	1,885
Prepaid expense and other current assets	1,783	2,118
Total current assets	67,415	70,491
Restricted cash	52	51
Furniture, fixtures and equipment, net of accumulated depreciation of \$6,072 and \$4,730, respectively	3,074	2,954
Goodwill	34,691	34,691
Intangible assets, net	27,920	35,070
Other assets	2,833	1,777
Total assets	\$ 135,985	\$ 145,034
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,072	\$ 4,089
Current maturities of long-term debt	10,000	7,000
Deferred revenue	3,652	4,604
Accrued expenses	13,209	14,462
Total current liabilities	32,933	30,155
Long-term debt, net of current maturities	53,063	63,063
Deferred tax liability	5,732	8,860
Other liabilities	5,948	7,072
Total liabilities	97,676	109,150
Commitments and contingencies (Note 12)		
Stockholders' equity		
Preferred stock, \$.001 par value; 10,000 shares authorized; none issued		
Common stock, \$.001 par value, 100,000 shares authorized; 36,675 shares issued and 36,399 outstanding at December 31, 2012 and 36,675 shares issued and 36,276 outstanding at December 31, 2011	37	37
Additional paid-in capital	205,568	204,076
Treasury stock (276 and 399 common shares, respectively, at cost)	(324)	(450)
Accumulated other comprehensive loss	(2,043)	(2,247)
Accumulated deficit	(164,929)	(165,532)
Total stockholders' equity	38,309	35,884
Total liabilities and shareholders' equity	\$ 135,985	\$ 145,034

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

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Table of Contents**INFORMATION SERVICES GROUP, INC.****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)****(in thousands, except per share data)**

	Years Ended December 31,		
	2012	2011	2010
Revenues	\$ 192,745	\$ 184,426	\$ 132,013
Operating expenses			
Direct costs and expenses for advisors	114,429	104,823	71,528
Selling, general and administrative	62,909	67,717	49,889
Goodwill impairment charge		34,314	46,591
Intangible assets impairment charge		27,380	5,900
Depreciation and amortization	8,857	11,034	9,846
Operating income (loss)	6,550	(60,842)	(51,741)
Interest income	45	75	159
Interest expense	(3,146)	(3,458)	(3,241)
Foreign currency transaction loss	(209)	(38)	(268)
Income (loss) before taxes	3,240	(64,263)	(55,091)
Income tax provision (benefit)	2,637	(8,326)	(1,926)
Net income (loss)	\$ 603	\$ (55,937)	\$ (53,165)
Weighted average shares outstanding:			
Basic	36,205	36,258	32,050
Diluted	37,626	36,258	32,050
Earnings (loss) per share:			
Basic	\$ 0.02	\$ (1.54)	\$ (1.66)
Diluted	\$ 0.02	\$ (1.54)	\$ (1.66)
Comprehensive income (loss):			
Net income (loss)	\$ 603	\$ (55,937)	\$ (53,165)
Foreign currency translation	204	(694)	(32)
Comprehensive income (loss)	\$ 807	\$ (56,631)	\$ (53,197)

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

INFORMATION SERVICES GROUP, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Additional	Treasury	Accumulated Other	Comprehensive	Total
	Shares	Amount	Paid-in- Capital	Stock	Loss	(Accumulated Deficit)	Stockholders' Equity
Balance, December 31, 2009	31,816	\$ 32	\$ 189,601	\$ (57)	\$ (1,521)	\$ (56,430)	\$ 131,625
Net loss						(53,165)	(53,165)
Other comprehensive loss					(32)		(32)
Proceeds from issuance of ESPP	801	1	301				302
Stock based compensation			3,087				3,087
Balance December 31, 2010	32,617	33	192,989	(57)	(1,553)	(109,595)	81,817
Net loss						(55,937)	(55,937)
Other comprehensive loss					(694)		(694)
Equity securities repurchased				(1,225)			(1,225)
Proceeds from issuance of ESPP	558		322				322
Issuance of treasury shares			(832)	832			
Issuance of common stock for acquisition	3,500	4	8,454				8,458
Stock based compensation			3,143				3,143
Balance December 31, 2011	36,675	37	204,076	(450)	(2,247)	(165,532)	35,884
Net income						603	603
Other comprehensive income					204		204
Equity securities repurchased				(1,513)			(1,513)
Proceeds from issuance of ESPP			(29)	363			334
Issuance of treasury shares			(1,276)	1,276			
Stock based compensation			2,797				2,797
Balance December 31, 2012	36,675	\$ 37	\$ 205,568	\$ (324)	\$ (2,043)	\$ (164,929)	\$ 38,309

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

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INFORMATION SERVICES GROUP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities			
Net income (loss)	\$ 603	\$ (55,937)	\$ (53,165)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation expense	1,707	1,483	1,420
Goodwill impairment charge		34,314	46,591
Intangible assets impairment charge		27,380	5,900
Amortization of intangible assets	7,150	9,551	8,426
Amortization of deferred financing costs	350	360	359
Stock-based compensation	2,797	3,143	3,087
Change in fair value of contingent consideration	(2,000)		
Bad debt expense	297	588	(51)
Deferred tax benefit	(2,643)	(11,003)	(6,763)
Loss on disposal of fixed assets	22	3	11
Changes in operating assets and liabilities:			
Accounts receivable	931	(6,238)	(675)
Prepaid expense and other current assets	(1,071)	1,401	(31)
Accounts payable	1,953	(236)	(202)
Deferred revenue	(951)	593	(497)
Accrued expenses	1,585	(4,531)	1,337
Net cash provided by operating activities	10,730	871	5,747
Cash flows from investing activities			
Acquisitions, net of cash acquired	(24)	(13,684)	
Restricted cash	(1)	5,699	(5,750)
Proceeds from sale of furniture, fixtures and equipment		20	
Purchase of furniture, fixtures and equipment	(1,823)	(1,690)	(957)
Net cash used in investing activities	(1,848)	(9,655)	(6,707)
Cash flows from financing activities			
Principal payments on borrowings	(7,000)	(6,000)	(2,000)
Proceeds from issuance of ESPP shares	334	322	302
Payment of contingent consideration	(2,000)		
Equity securities repurchased	(1,513)	(1,225)	
Net cash used in financing activities	(10,179)	(6,903)	(1,698)
Effect of exchange rate changes on cash	327	(145)	173
Net decrease in cash and cash equivalents	(970)	(15,832)	(2,485)
Cash and cash equivalents, beginning of period	24,469	40,301	42,786
Cash and cash equivalents, end of period	\$ 23,499	\$ 24,469	\$ 40,301
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	\$ 2,609	\$ 2,914	\$ 2,910
Taxes	\$ 1,966	\$ 3,904	\$ 7,712

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Noncash investing and financing activities:

Issuance of common stock for acquisition	\$		\$	7,980	\$
Issuance of convertible debt for acquisition	\$		\$	6,250	\$
Issuance of treasury stock for vested restricted stock awards	\$	1,276	\$	832	\$

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

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands, except per share data)

NOTE 1 DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

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

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

On January 4, 2011, the Company completed the acquisition of Compass. Compass is a premier independent global provider of business and information technology benchmarking, performance improvement, data and analytics services. It was founded in 1980 and headquartered in the United Kingdom and has 180 employees in 16 countries serving nearly 250 clients worldwide. The company pioneered the aggregation and application of sophisticated metrics to understand root causes of organizational performance issues. In addition, their Fact-Based Consulting unit generates tangible improvements in client businesses through sourcing advisory programs, recommendations in operational excellence and support in implementing transformational change in business operations. Compass uses benchmarking to support fact-based decision making, analysis to optimize cost reduction, and tools and techniques to manage business performance. For accounting purposes, the acquisition of Compass has been treated as a business combination.

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

During the fourth quarter of 2011, we merged our individual corporate brands into one globally integrated business under the ISG brand. TPI, the world's leading sourcing data and advisory firm; Compass, a premier independent provider of business and IT benchmarking; and STA Consulting, a premier independent technology advisory serving the North America public sector, and marketed together under the ISG brand. The merger is designed to offer clients one source to drive operational excellence in their organizations. We have retained our legacy brands to identify specific products and services we are known for including "The TPI Index", "TPI Sourcing" and "Compass Benchmarks".

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. These consolidated financial statements and footnotes are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). All intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, references to the Company include ISG and its consolidated subsidiaries.

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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 and definite-lived intangible assets, depreciation expense, fair value assumptions in analyzing goodwill and intangible asset impairments, income taxes and deferred tax asset valuation, and the valuation of stock based compensation.

Business Combinations

We have acquired businesses critical to the Company's long-term growth strategy. Results of operations for acquisitions are included in the accompanying consolidated statement of comprehensive income (loss) from the date of acquisition. Acquisitions are accounted for using the purchase method of accounting and the purchase price is allocated to the net assets acquired based upon their estimated fair values at the date of acquisition. The excess of the purchase price over the net assets was recorded as goodwill. Final valuations of assets and liabilities are obtained and recorded within one year from the date of the acquisition.

Reclassifications

Certain amounts from previously reported consolidated financial statements have been reclassified to conform to current year presentation. The reclassifications have no impact on the Company's financial position, results of operations or cash flows.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents, including certain money market accounts. The Company principally

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

maintains its cash in money market and bank deposit accounts in the United States of America which typically exceed applicable insurance limits. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

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.

Accounts and Unbilled Receivables and Allowance for Doubtful Accounts

Our trade receivables primarily consist of amounts due for services already performed via fixed fee or time and materials arrangements. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of clients to pay fees or for disputes that affect its ability to fully collect billed accounts receivable. The allowance for these risks is prepared by reviewing the status of all accounts and recording reserves on a specific identification method based on previous experiences and historical bad debts. However, our actual experience may vary significantly from these estimates. If the financial condition of our clients were to deteriorate, resulting in their inability or unwillingness to pay their invoices, we may need to record additional allowances or write-offs in future periods. To the extent the provision relates to a client's inability or unwillingness to make required payments, the provision is recorded as bad debt expense, which is classified within selling, general and administrative expense in the accompanying consolidated statement of comprehensive income (loss).

The provision for unbilled services is recorded as a reduction to revenues to the extent the provision relates to fee adjustments and other discretionary pricing adjustments.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist primarily of prepaid expenses for insurance, conferences and deposits for facilities, programs and promotion items.

Furniture, Fixtures and Equipment, net

Furniture, fixtures and equipment is recorded at cost. Depreciation is computed by applying the straight-line method over the estimated useful life of the assets, which ranges from three to five years. Leasehold improvements are depreciated over the lesser of the useful life of the underlying asset or the lease term, which generally range from three to five years. Expenditures for renewals and betterments are capitalized. Repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and any associated gain or loss thereon is reflected in the accompanying consolidated statement of comprehensive income (loss).

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal-Use Software and Website Development Costs

The Company capitalizes internal-use software and website development costs and records these amounts within furniture, fixtures and equipment. Accounting standards require that certain costs related to the development or purchase of internal-use software and systems as well as the costs incurred in the application development stage related to its website be capitalized and amortized over the estimated useful life of the software or system. They also require that costs related to the preliminary project stage, data conversion and post implementation/operation stage of an internal-use software development project be expensed as incurred.

During the years ended December 31, 2012 and 2011, the Company capitalized \$0.6 million and \$0.5 million, respectively, of costs associated with the system conversion and website development.

Goodwill

Our goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually by applying a fair-value based test in accordance with accounting and disclosure requirements for goodwill and other indefinite-lived intangible assets. This test is performed by us during our fourth fiscal quarter or more frequently if we believe impairment indicators are present. At October 31, 2012, our annual impairment testing date, we maintain a single operating segment and reporting unit.

During the third quarter of 2012, management determined that a triggering event had occurred due to a revision in forecasted earnings as a result of macro-economic environment in Europe and continued unfavorable currency translation. Accordingly, the Company evaluated the carrying value of goodwill.

We performed a two-step impairment test on goodwill. Step one compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test whereby the carrying value of the reporting unit's goodwill is compared to its implied fair value. If the carrying value of the goodwill exceeds the implied fair value, an impairment loss equal to the difference is recorded.

In performing the first step of the impairment test on goodwill, we determined the fair value of the reporting unit using both a market and income approach. The income approach utilizes a discounted cash flow model and is based on projections of future operations of the reporting unit as of the valuation date. The market approach is based on the guideline public company method which considers multiples of comparable companies. The Company selected an amount in the first quartile of such comparable companies. The discounted cash flow model assumed revenue growth rates of approximately 3% per year. We employed a discount rate of 13.5% based on the weighted average cost of capital of guideline public companies to discount future excess cash flows. As a result of the step

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

one test performed, the fair value of our reporting unit exceeded the carrying value by 9%. Accordingly, step two was not performed or required.

The Company tested the fair value of goodwill during our scheduled annual impairment testing date in the fourth quarter of 2012 as of October 31, 2012 and passed step one of the impairment test by approximately 9%. In performing our fourth quarter impairment test we utilized the same assumptions as those in the third quarter impairment test. Management will continue to monitor changes in the business, as well as overall market conditions and economic factors that could require additional impairment tests.

Future downturns in our business, particularly changes in the discount rates or growth rates inherent in management's estimates of future cash flows, continued deterioration of economic conditions, or our stock trading below book value per share may result in an impairment charge in future periods, which could adversely affect our results of operations for those periods.

Long-Lived Assets

Long-lived assets, excluding goodwill and indefinite-lived intangibles, to be held and used by the Company are reviewed to determine whether any significant change in the long-lived asset's physical condition, a change in industry conditions or a reduction in cash flows associated with the use of the long-lived asset. If these or other factors indicate the carrying amount of the asset may not be recoverable, the Company determines whether impairment has occurred through the use of an undiscounted cash flow analysis of the asset at the lowest level for which identifiable cash flows exist. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset. The fair value of the asset is measured using market prices or, in the absence of market prices, an estimate of discounted cash flows. Cash flows are generally discounted at an interest rate commensurate with our weighted average cost of capital for a similar asset. Assets are classified as held for sale when the Company has a plan for disposal of certain assets and those assets meet the held for sale criteria of accounting and disclosure requirement for the impairment or disposal of long-lived assets.

As a result of the triggering event which occurred during the third quarter of 2012, an impairment test was performed including definite-lived intangible assets based on the undiscounted cash flows method. The analysis determined there was no impairment.

Debt Issuance Costs

Costs directly incurred in obtaining long-term financing, typically bank and attorney fees, are deferred and are amortized over the life of the related loan using the effective interest method. Deferred issuance costs are classified as other assets in the accompanying consolidated balance sheet. Amortization of debt issuance costs is included in interest expense and totaled \$0.4 million for each of the years ended December 31, 2012 and 2011.

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

We recognize our revenues for the sale of services and products when persuasive evidence of an arrangement exists, services have been rendered or delivery has occurred, the fee is fixed or determinable and the collectability of the related revenue is reasonably assured.

We principally derive revenues from fees for services generated on a project-by-project basis. Prior to the commencement of a project, we reach agreement with the client on rates for services based upon the scope of the project, staffing requirements and the level of client involvement. It is our policy to obtain written agreements from new clients prior to performing services. In these agreements, the clients acknowledge that they will pay based upon the amount of time spent on the project or an agreed upon fee structure. Revenues for services rendered are recognized on a time and materials basis or on a fixed-fee or capped-fee basis in accordance with accounting and disclosure requirements for revenue recognition.

Fees for services that have been performed, but for which we have not invoiced the customers are recorded as unbilled receivables in the accompanying consolidated balance sheets. Invoices issued before the related services have been performed are recorded as deferred revenue in the accompanying consolidated balance sheets.

Revenues for time and materials contracts are recognized based on the number of hours worked by our advisors at an agreed upon rate per hour and are recognized in the period in which services are performed. Revenues for time and materials contracts are billed monthly, semimonthly or in accordance with the specific contractual terms of each project.

Revenues related to fixed-fee or capped-fee contracts are recognized into revenue as value is delivered to the customer. The pattern of revenue recognition for these contracts varies depending on the terms of the individual contracts, and may be recognized proportionally over the term of the contract or deferred until the end of the contract term and recognized when our obligations have been fulfilled with the customer. In instances where substantive acceptance provisions are specified in customer contracts, revenues are deferred until all acceptance criteria have been met. The pattern of revenue recognition for contracts where revenues are recognized proportionally over the term of the contract is based on the proportional performance method of accounting using the ratio of labor hours incurred to estimated total labor hours, which we consider to be the best available indicator of the pattern and timing in which contract obligations are fulfilled. This percentage is multiplied by the contracted dollar amount of the project to determine the amount of revenue to recognize in an accounting period. The contracted amount used in this calculation typically excludes the amount the client pays for reimbursable expenses. There are situations where the number of hours to complete projects may exceed our original estimate as a result of an increase in project scope or unforeseen events. On a regular basis, we review the hours incurred and estimated total labor hours to complete. The results of any revisions in these estimates are reflected in the period in which they become known.

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

We believe we have demonstrated a history of successfully estimating the total labor hours to complete a project.

The agreements entered into in connection with a project, whether on a time and materials basis or fixed-fee or capped-fee basis, typically allow our clients to terminate early due to breach or for convenience with 30 days' notice. In the event of termination, the client is contractually required to pay for all time, materials and expenses incurred by us through the effective date of the termination. In addition, from time to time, we enter into agreements with clients that limit our right to enter into business relationships with specific competitors of that client for a specific time period. These provisions typically prohibit us from performing a defined range of services that it might otherwise be willing to perform for potential clients. These provisions are generally limited to six to twelve months and usually apply only to specific employees or the specific project team.

Reimbursable Expenditures

Amounts billed to customers for reimbursable expenditures are included in revenues and the associated costs incurred by the Company are included in direct costs and expenses for advisors in the accompanying consolidated statement of comprehensive income (loss). Non-reimbursable amounts are expensed as incurred. Reimbursable expenditures totaled \$9.7 million and \$9.5 million for the years ended December 31, 2012 and 2011, respectively.

Direct Costs and Expenses for Advisors

Direct costs and expenses for advisors include payroll expenses and advisory fees directly associated with the generation of revenues and other program expenses. Direct costs and expenses for advisors are expensed as incurred.

Direct costs and expenses for advisors also include expense accruals for discretionary bonus payments. Bonus accrual levels are adjusted throughout the year based on actual and projected individual and Company performance.

Stock-Based Compensation

Stock Appreciation Rights ("SARs") for a fixed number of shares are granted to certain employees with an exercise price based on the closing trading price of our common stock on the grant date. We use the Black-Scholes option pricing model to determine the fair value of each option award on the date of grant. Prior to December 31, 2009, the volatility calculation was based on the most recent trading day average volatility of a representative sample of seven companies with market capitalizations of approximately \$125 million to \$4.6 billion that management believed to be engaged in the business of information services (the "Sample Companies"). We referred to the average volatility of the Sample Companies because management believes that the average volatility of such companies is a reasonable benchmark to use in estimating the expected volatility of our common stock as we had a limited history

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

as a public company. The risk-free interest rate is determined based upon the interest rate on a U.S. Treasury Bill with a term equal to the expected life of the option at the time the option was granted. An expected life of five years was taken into account for purposes of assigning a fair value to the option. The expected life represents the period of time the awards granted are expected to be outstanding. There were no grants of SARS during the years ended December 31, 2012 or 2011.

We also grant restricted stock with a fair value that is determined based on the closing price of our common stock on the date of grant. SARs and restricted stock generally vest over a four-year period. Stock-based compensation expense is recognized ratably over the applicable service period.

We follow the provisions of accounting and disclosures requirement for share-based payments, requiring the measurement and recognition of all share-based compensation under the fair value method.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable. The Company places its cash investments with high quality financial institutions. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history and generally does not require collateral.

Treasury Stock

The Company makes treasury stock purchases in the open market pursuant to the share repurchase program, which was approved by the Board of Directors on November 14, 2007.

Treasury stock is recorded on the consolidated balance sheet at cost as a reduction of stockholders' equity. Shares are released from Treasury at original cost on a first-in, first-out basis, with any gain on the sale reflected as an adjustment to additional paid-in capital. Losses are reflected as an adjustment to additional paid-in capital to the extent of gains previously recognized, otherwise as an adjustment to retained earnings.

Foreign Currency Translation

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the end of the reporting period. Revenue and expense items are translated at average exchange rates for the reporting period. Resulting translation adjustments are included in the accompanying statement of comprehensive income (loss) and accompanying statement of stockholders' equity as a component of *Accumulated Other Comprehensive Loss*.

The functional currency of the Company and its subsidiaries is the respective local currency. The Company has contracts denominated in foreign currencies and therefore, a portion of the Company's

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

revenues are subject to foreign currency risks. Transactional currency gains and losses that arise from transactions denominated in currencies other than the functional currencies of our operations are recorded in *Foreign Currency Transaction (Loss) Gain* in the accompanying consolidated statement of comprehensive income (loss).

Fair Value of Financial Instruments

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

Fair value measurements were applied with respect to our nonfinancial assets and liabilities measured on a nonrecurring basis, which would consist of measurements primarily to goodwill, intangible assets and other long-lived assets, and assets acquired and liabilities assumed in a business combination.

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.

During 2012, there were no transfers of our financial assets between Level 1 and Level 2 measures. Our financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Company held investments in cash equivalent money market funds of approximately \$20 thousand and \$1.1 million at December 31, 2012 and 2011, respectively. 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 \$63.1 million and \$70.1 million at December 31, 2012 and 2011, respectively, which are carried at amortized cost. The

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$62.9 million and \$67.1 million at December 31, 2012 and 2011, respectively. The fair values of these instruments have been estimated using a discounted cash flow analysis based on the Company's incremental borrowing rate for similar borrowing arrangements. The incremental borrowing rate used to discount future cash flows ranged from 3.63% to 4.00%. 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 fair value of the Company's contingent consideration liability related to the STA acquisition was \$2.8 million and \$6.8 million at December 31, 2012 and 2011, respectively. During the year ended December 31, 2012, the Company reduced the contingent consideration liability by \$1.9 million based on the latest estimates of future profit levels due to increased competition in the public sector and increased pricing pressures. The Company paid \$2.0 million related to the contingent consideration during the second quarter of 2012 related to 2011 performance. The fair value measurement of this contingent consideration is classified within Level 3 of the fair value hierarchy and reflects the Company's own assumptions in measuring fair values using the income approach. In developing these estimates, the Company considered certain performance projections, historical results, and industry trends. This amount was estimated through a valuation model that incorporated probability-weighted assumptions related to the achievement of these milestones and thus the likelihood of us making payments. These cash outflow projections have been discounted using a rate of 2.3%, which is the after-tax cost of debt financing for market participants.

Income Taxes

We use the asset and liability method to account for income taxes, including recognition of deferred tax assets and liabilities for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax basis. We review our deferred tax assets for recovery. A valuation allowance is established when we believe that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in the valuation allowance from period to period are included in our tax provision in the period of change.

For uncertain tax positions, we use a prescribed model for assessing the financial recognition and measurement of all tax positions taken or expected to be taken in its tax returns. The guidance provides clarification on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. Our provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related interest.

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Earnings (loss) Per 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. As of December 31, 2012, 35.6 million warrants and 1.4 million Units (each Unit comprising one common share and one warrant) have expired. The 250,000 STA shares were excluded from basic and diluted earnings per share since the contingency has not been met as of the reporting period. For the year ended December 31, 2012, the effect of 0.3 million stock appreciation rights ("SARs") have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation. In addition, 1.2 million restricted shares have not been considered in the diluted earnings per share calculation for the year ended December 31, 2012, as the effect would be anti-dilutive. For the year ended December 31, 2011, the effect of 1.6 million shares related to the Company's convertible debt, 5.0 million warrants, 0.4 million SARs and 2.7 million restricted shares have not been considered in the diluted earnings per share calculation for the year ended December 31, 2011, as the effect would be anti-dilutive. For the year ended December 31, 2010, the effect of 35.6 million warrants, 0.4 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. Also, 2.0 million restricted shares have not been considered in the diluted earnings per share calculation for the year ended December 31, 2010, as the effect would be anti-dilutive.

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

	2012	2011	2010
Basic:			
Net income (loss)	\$ 603	\$ (55,937)	\$ (53,165)
Weighted average common shares	36,205	36,258	32,050
Basic income (loss) per share	\$ 0.02	\$ (1.54)	\$ (1.66)
Diluted:			
Net income (loss)	\$ 603	\$ (55,937)	\$ (53,165)
Interest expense of convertible debt, net of tax	46		
Net income (loss), as adjusted	\$ 649	\$ (55,937)	\$ (53,165)
Basic weighted average common shares	36,205	36,258	32,050
Potential common shares	1,421		
Diluted weighted average common shares	37,626	36,258	32,050
Diluted income (loss) per share	\$ 0.02	\$ (1.54)	\$ (1.66)

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") amended the Intangibles - Goodwill and Other Topic of the ASC that allows us to make a qualitative assessment of whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, after assessing the relevant information, we determine it is more likely than not that the fair value is more than the carrying amount, no additional analysis is necessary. If we determine it is more likely than not that the fair value is less than the carrying amount, then we are required to proceed to the quantitative approach. The amended guidance is effective for us in our annual test in the fourth quarter of 2012, and adoption did not have an impact on our consolidated financial condition or results of operations.

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. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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

NOTE 3 ACQUISITIONS

On April 1, 2012, the Company executed an agreement for the purchase of the entire business of Compass Consulting Oy, previously a franchise incorporated in Finland for approximately \$0.1 million plus deferred consideration of \$0.01 million plus 50% of the amount by which the relevant profit exceeds targeted profit for the twelve month period ended March 31, 2012. The targeted profit for the twelve month period ended March 31, 2012 was not achieved. This transaction has been accounted for

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)****NOTE 3 ACQUISITIONS (Continued)**

as a business combination and the purchase price has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of the acquisition date. There was no goodwill recorded as a part of this business combination.

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 CCGH Limited (the "Agreement") and consummated the acquisition of the entire issued share capital CCGH Limited, an English corporation ("Compass").

Under the terms of the Agreement, each of the holders of the issued share capital of Compass (the "Compass Sellers") 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 as part of the acquisition.

**

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.

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. Goodwill of \$16.3 million acquired in the acquisition is not deductible for tax purposes.

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)****NOTE 3 ACQUISITIONS (Continued)**

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	16,295
Intangible assets	5,045
Accounts payable	(1,603)
Accrued expenses and other(1)	(11,009)
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	

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 3 ACQUISITIONS (Continued)

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 Consulting"), 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").

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 target commercial enterprise resource planning revenue of ISG and its affiliates is met.

As of the STA Acquisition Date, we have recorded a liability of \$6.6 million representing the present 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	\$ 8,927
Contingent consideration*	7,107
Total allocable purchase price	\$ 16,034

*

Included cash earn-out of \$6.6 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. Changes in the contingent liability as a result of operations will be recorded in selling, general and administrative expense whereas changes due to the time value of money will be recorded as interest expense.

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular amounts in thousands, except per share data)

NOTE 3 ACQUISITIONS (Continued)

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)	4,236
Intangible assets	11,210
Accounts payable	(1,067)
Accrued expenses and other	(495)
 Net assets acquired	 \$ 16,034

(1)

Goodwill of \$4.2 million acquired in the acquisition is deductible for tax purposes.

The acquisition of STA Consulting 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	

In the fourth quarter of 2011, we reclassified our acquired trademarks and trade names to definite lived assets which will be amortized over a remaining useful of approximately seven years. We decided to merge our individual corporate brands into one global integrate go-to-market business under the ISG brand.

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 \$37.4 million and net income of \$0.6 million for the period from January 4, 2011 through December 31, 2011. STA Consulting's results of operations have been included in the Company's financial statements for periods subsequent to the effective date of the acquisition. STA Consulting contributed revenues of \$12.2 million and net loss of \$1.1 million for the period from February 10, 2011 through December 31, 2011.

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(tabular amounts in thousands, except per share data)

NOTE 3 ACQUISITIONS (Continued)

The following unaudited pro forma financial information for the year ended December 31, 2011 assumes that the acquisitions of Compass and STA Consulting occurred at the beginning of the period presented. The 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	Year Ended December 31, 2011
Revenues	\$ 185,948
Direct costs and expenses for advisors	106,256
Selling, general and administrative	67,762
Impairment of intangible assets	61,694
Depreciation and amortization	11,186
Operating loss	(60,950)
Other expense, net	(3,420)
Net loss before taxes	(64,370)
Income tax benefit	8,397
Net loss	\$ (55,973)
Basic loss per share	\$ (1.54)
Diluted loss per share	\$ (1.54)

NOTE 4 ACCOUNTS AND UNBILLED RECEIVABLES

Accounts and unbilled receivables consisted of the following:

	December 31,	
	2012	2011
Accounts receivable	\$ 32,155	\$ 31,410
Unbilled revenue	8,713	10,563
Receivables from related parties	52	46
	\$ 40,920	\$ 42,019

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular amounts in thousands, except per share data)

NOTE 5 PREPAID EXPENSE AND OTHER CURRENT ASSETS

Prepaid expense and other current assets consisted of the following:

	December 31,	
	2012	2011
Prepaid rent	\$ 137	\$ 290
Prepaid insurance	179	285
Security deposits	498	506
Deferred costs	154	286
Other	815	751
	\$ 1,783	\$ 2,118

NOTE 6 FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment consisted of the following:

	Estimated Useful Lives	December 31,	
		2012	2011
Computer hardware, software and other office equipment	2 to 5 years	\$ 4,640	\$ 3,797
Furniture, fixtures and leasehold improvements	2 to 5 years	1,178	1,161
Internal-use software and development costs	3 to 5 years	3,328	2,726
Accumulated depreciation		(6,072)	(4,730)
		\$ 3,074	\$ 2,954

Depreciation expense was \$1.7 million, \$1.5 million and \$1.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular amounts in thousands, except per share data)

NOTE 7 GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Balance as of January 1		
Goodwill	\$ 164,959	\$ 144,428
Accumulated impairment losses	(130,268)	(95,954)
	34,691	48,474
Acquisitions		20,531
Impairment losses		(34,314)
		(13,783)
Balance as of December 31		
Goodwill	164,959	164,959
Accumulated impairment losses	(130,268)	(130,268)
	\$ 34,691	\$ 34,691

As a result of the Company's annual impairment test performed during the fourth quarter of 2011, the Company recorded pre-tax non-cash impairment charge of \$34.3 million associated with goodwill.

NOTE 8 INTANGIBLE ASSETS

The carrying amount of intangible assets, net of accumulated amortization and impairment charges, as of December 31, 2012 and 2011 consisted of the following:

	2012				
	Gross Carrying Amount	Acquisitions	Accumulated Amortization	Impairment Losses(1)	Net Book Value
Amortizable intangibles:					
Customer relationships	\$ 42,500	\$ 9,640	\$ (26,815)	\$	\$ 25,325
Noncompete agreements	5,500	165	(5,572)		93
Software	1,500		(1,500)		
Backlog	3,000	1,880	(4,802)		78
Databases	9,500	1,840	(3,567)	(6,391)	1,382
Trademark and trade names(1)	57,000	2,730	(208)	(58,480)	1,042
Intangibles	\$ 119,000	\$ 16,255	\$ (42,464)	\$ (64,871)	\$ 27,920

(1)

Included impairment of \$27.4 million recorded during the fourth quarter of 2011.

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(tabular amounts in thousands, except per share data)

NOTE 8 INTANGIBLE ASSETS (Continued)

	2011				
	Gross Carrying Amount	Acquisitions	Accumulated Amortization	Impairment Losses(1)	Net Book Value
Amortizable intangibles:					
Customer relationships	\$ 42,500	\$ 9,640	\$ (21,056)	\$	\$ 31,084
Noncompete agreements	5,500	165	(5,535)		130
Software	1,500		(1,500)		
Backlog	3,000	1,880	(3,862)		1,018
Databases	9,500	1,840	(3,331)	(6,391)	1,618
Trademark and trade names(1)	57,000	2,730	(30)	(58,480)	1,220
 Intangibles	 \$ 119,000	 \$ 16,255	 \$ (35,314)	 \$ (64,871)	 \$ 35,070

(1)

Included impairment of \$27.4 million recorded during the fourth quarter of 2011.

Amortization expense was \$7.2 million, \$9.5 million and \$8.4 million for the years ended December 31, 2012, 2011 and 2010, respectively. The estimated future amortization expense subsequent to December 31, 2012, is as follows:

2013	\$ 5,827
2014	5,191
2015	4,988
2016	4,673
2017	4,426
Thereafter	2,815
	 \$ 27,920

In the fourth quarter of 2011, we reclassified our acquired trademarks and trade names to definite lived assets which will be amortized over a remaining useful of approximately seven years. We merged our individual corporate brands into one global integrate go-to-market business under the ISG brand. As a result of this transition, during our annual impairment test, we concluded that the indefinite lived trademarks and trade names were impaired by \$27.4 million.

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular amounts in thousands, except per share data)

NOTE 9 ACCRUED LIABILITIES

The components of accrued liabilities at December 31, 2012 and 2011 are as follows:

	December 31,	
	2012	2011
Accrued payroll and vacation	\$ 5,076	\$ 5,170
Accrued corporate and payroll related taxes	2,979	3,227
Contingent consideration - current		2,000
Other	5,154	4,065
	\$ 13,209	\$ 14,462

NOTE 10 SHARE REPURCHASE PROGRAM

Under a stock repurchase plan approved by the Board of Directors on October 16, 2007, the Company repurchased 14.3 million shares of common stock since that date. This program includes the repurchase of common shares, units and/or warrants. On November 14, 2007, the Board of Directors authorized an additional repurchase program of up to \$15.0 million. As of December 31, 2012, there was \$7.4 million available under this repurchase program.

NOTE 11 FINANCING ARRANGEMENTS AND LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
	2012	2011
Senior secured credit facility	\$ 56,813	\$ 63,813
Compass convertible notes	6,250	6,250
	63,063	70,063
Less current installments on long term debt	10,000	7,000
Long-term debt	\$ 53,063	\$ 63,063

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular amounts in thousands, except per share data)

NOTE 11 FINANCING ARRANGEMENTS AND LONG-TERM DEBT (Continued)

Aggregate annual maturities of debt obligations by calendar year, are as follows:

	Debt
2013	\$ 10,000
2014	46,813
2015	
2016	
2017	
Thereafter	6,250
	\$ 63,063

We have outstanding a substantial amount of debt, which may limit our ability to fund general corporate requirements and obtain additional financing, limit our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic and industry conditions.

We incurred a substantial amount of indebtedness to finance the acquisition of TPI, including transaction costs and deferred underwriting fees. 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. On November 16, 2007, ICAC borrowed \$95.0 million under the term loan facility to finance the purchase price for our acquisition of TPI and to pay transaction costs. As a result of the substantial fixed costs associated with the debt obligations, we expect that:

a decrease in revenues will result in a disproportionately greater percentage decrease in earnings;

we may not have sufficient liquidity to fund all of these fixed costs if our revenues decline or costs increase;

we may have to use our working capital to fund these fixed costs instead of funding general corporate requirements, including capital expenditures;

we may not have sufficient liquidity to respond to business opportunities, competitive developments and adverse economic conditions; and

our results of operations will be adversely affected if interest rates increase because, based on our current outstanding term loan borrowings in the amount of \$56.8 million, a 1% increase in interest rates would result in a pre-tax impact on earnings of approximately \$0.6 million per year.

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 11 FINANCING ARRANGEMENTS AND LONG-TERM DEBT (Continued)

These debt obligations may also impair our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business. Our indebtedness under the senior secured revolving credit facility is secured by substantially all of our assets, leaving us with limited collateral for additional financing. Moreover, the terms of our indebtedness under the senior secured revolving credit facility restrict our ability to take certain actions, including the incurrence of additional indebtedness, mergers and acquisitions, investments and asset sales. Our ability to pay the fixed costs associated with our debt obligations will depend on our operating performance and cash flow, which in turn depend on general economic conditions and the advisory services market. A failure to pay interest or indebtedness when due could result in a variety of adverse consequences, including the acceleration of our indebtedness. In such a situation, it is unlikely that we would be able to fulfill our obligations under or repay the accelerated indebtedness or otherwise cover our fixed costs.

The 2007 Credit Agreement 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. The 2007 Credit Agreement contains customary events of default, including cross-default to other material agreements, judgment default and change of control.

We are required to comply with a total leverage ratio as defined in the 2007 Credit Agreement. The total leverage ratio is defined as the ratio of consolidated indebtedness to consolidated earnings before interest, taxes, depreciation and amortization, subject to certain exclusions. The 2007 Credit Agreement includes quarterly financial covenants that require us to maintain a maximum total leverage ratio (as defined in the 2007 Credit Agreement). As of December 31, 2012, our maximum total leverage ratio was 3.00 to 1.00 and we were in compliance with all covenants contained in the 2007 Credit Agreement. The maximum total leverage ratio will continue to decline over the life of the 2007 Credit Agreement. The maximum total leverage ratio is 3.00 for the quarter ended December 31, 2012 and will continue to decline thereafter. We currently expect to be in compliance with the covenants contained within the 2007 Credit Agreement. In the event we are unable to remain in compliance with the debt covenants associated with the 2007 Credit Agreement we have alternative options available to us including, but not limited to, the ability to make a prepayment on our debt without penalty to bring the actual leverage ratio into compliance. Our available cash balances and liquidity will be negatively impacted should such prepayment be necessary. In addition, should our revenues not meet our forecast, we have the ability to reduce various expenditures to minimize the impact to the leverage ratio. Such actions may include reductions to headcount, variable compensation, marketing expenses, conferences and non-billable travel.

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 11 FINANCING ARRANGEMENTS AND LONG-TERM DEBT (Continued)

On March 13, 2012, our lenders agreed to allow ICAC to include the results of operations of Compass in the calculation of our leverage ratio. ICAC also received approval to increase the annual cash dividend payable to ISG to \$2.0 million.

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

As of December 31, 2012, the total principal outstanding under the term loan facility was \$56.8 million. There were no borrowings under the revolving credit facility during the years ended December 31, 2012 or 2011. Additional mandatory principal repayments totaling \$10.0 million will be due in 2013 with the remaining principal repayments due in 2014. The final mandatory term loan principal repayment will be due on November 16, 2014, which is the maturity date for the term loan. The interest rate on the term loan facility was 3.875% at December 31, 2012 and 2011.

Compass Convertible Notes

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

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)****NOTE 12 COMMITMENTS AND CONTINGENCIES**

The Company is involved in certain legal proceedings arising in the ordinary course of business. Management, after review and consultation with legal counsel, believes the ultimate success of parties of the legal proceedings is remote and the ultimate aggregate liability, if any, resulting from such proceedings will not be material to the financial position of the Company.

Employee Retirement Plans

The Company's TPI subsidiary maintains a qualified profit-sharing plan (the "Plan"). Prior to January 1, 2008, the provisions of the Plan provide for a maximum employer contribution per eligible employee of the lesser of 12.75% of compensation or \$25,500. Effective January 1, 2008, the contribution was adjusted to 3% of total cash compensation or \$7,500, whichever is less. Employees are generally eligible to participate in the Plan after six months of service and are 100% vested upon entering the Plan. For the years ended December 31, 2012, 2011 and 2010, \$1.6 million, \$1.3 million and \$1.2 million were contributed to the Plan by the Company, respectively.

Leases

The Company leases its office space under long-term operating lease agreements which expire at various dates through December 2021. Under the operating leases, the Company pays certain operating expenses relating to the leased property and monthly base rent.

Aggregate future minimum payments under noncancelable leases with initial or remaining terms of one year or more consist of the following at December 31, 2012:

	Operating Leases
2013	\$ 2,334
2014	1,926
2015	1,142
2016	1,128
2017	382
Thereafter	
Total minimum lease payments	\$ 6,912

The Company's rental expense for operating leases was \$3.0 million, \$3.9 million and \$1.4 million, in 2012, 2011 and 2010, respectively.

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular amounts in thousands, except per share data)

NOTE 12 COMMITMENTS AND CONTINGENCIES (Continued)**STA Consulting Contingent Consideration**

As of December 31, 2012, the Company has recorded a liability of \$2.8 million representing the estimated fair value of contingent consideration related to the acquisition of STA Consulting, of which all is classified as noncurrent and included in other liabilities on the consolidated balance sheet. During the year ended December 31, 2012, the Company reduced the contingent consideration liability by \$1.9 million based on the latest estimates of future profit levels due to increased competition in the public sector and increased pricing pressures. This reduction decreased selling, general and administrative expenses by \$1.9 million for the year ended December 31, 2012 in the accompanying consolidated statement of comprehensive income (loss). The Company paid \$2.0 million in the second quarter of 2012 and expects to pay the remaining contingent liability in the first quarter of 2015 and the first quarter of 2016. No payments are currently anticipated in 2013 or 2014 related to 2012 and 2013 performance.

NOTE 13 RELATED PARTY TRANSACTIONS

From time to time, the Company may have receivables and payables with employees and shareholders. All related party transactions have been conducted in the normal course of business as if the parties were unrelated. As of December 31, 2012 and 2011, the Company had outstanding receivables from related parties, including shareholders, totaling \$51,713 and \$46,419, respectively, and no outstanding payables.

NOTE 14 INCOME TAXES

The components of income (loss) before income taxes for the years ended December 31, 2012, 2011 and 2010 consists of the following:

	Years Ended December 31,		
	2012	2011	2010
Domestic	\$ 2,104	\$ (69,932)	\$ (56,919)
Foreign	1,136	5,669	1,828
Total income (loss) before income taxes	\$ 3,240	\$ (64,263)	\$ (55,091)

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular amounts in thousands, except per share data)

NOTE 14 INCOME TAXES (Continued)

The components of the 2012, 2011 and 2010 income tax (benefit) provision are as follows:

	Years Ended December 31,		
	2012	2011	2010
Current:			
Federal	\$ 3,330	\$ 1,195	\$ 3,191
State	862	291	722
Foreign	1,088	1,191	924
Total current provision	5,280	2,677	4,837
Deferred:			
Federal	(1,824)	(9,307)	(6,000)
State	(503)	(1,091)	(337)
Foreign	(316)	(605)	(426)
Total deferred benefit	(2,643)	(11,003)	(6,763)
Total	\$ 2,637	\$ (8,326)	\$ (1,926)

The differences between the effective tax rates reflected in the total provision for income taxes and the U.S. federal statutory rate of 35% for the year ended December 31, 2012, 2011 and 2010 were as follows:

	Years Ended December 31,		
	2012	2011	2010
Tax provision (benefit) computed at 35%	\$ 1,134	\$ (22,492)	\$ (19,281)
Nondeductible goodwill impairment		12,010	16,307
Nondeductible expenses	158	193	743
State income taxes, net of federal benefit	94	(899)	148
Derecognition of stock compensation deferred tax asset	451	1,255	68
Valuation allowance	784	1,607	85
Other	16		4
Income tax provision (benefit)	\$ 2,637	\$ (8,326)	\$ (1,926)
Effective income tax rates	81.4%	13.0%	3.5%

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular amounts in thousands, except per share data)

NOTE 14 INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities were as follows:

	December 31, 2012	December 31, 2011
Current deferred tax asset		
Compensation related expenses	\$ 426	\$ 923
Other	1,102	1,376
Total current deferred tax asset	1,528	2,299
Current deferred tax liability		
Prepays	(315)	(414)
Total current deferred tax liability	(315)	(414)
Net current deferred tax asset	\$ 1,213	\$ 1,885
Noncurrent deferred tax asset		
Compensation related expenses	\$ 1,198	\$ 573
Foreign currency translation	1,252	1,445
Foreign tax credit carryovers	1,108	922
Foreign net operating loss carryovers	4,478	3,641
U.S. net operating loss carryovers	384	5,465
Valuation allowance for deferred tax assets	(5,039)	(9,026)
Total noncurrent deferred tax asset	3,381	3,020
Noncurrent deferred tax liability		
Depreciable assets	(26)	(329)
Intangible assets	(7,373)	(10,119)
Investment in foreign subsidiaries	(1,714)	(1,432)
Total noncurrent deferred tax liability	(9,113)	(11,880)
Net noncurrent deferred tax liability	(5,732)	(8,860)
Net deferred tax liability	\$ (4,519)	\$ (6,975)

A valuation allowance was established at December 31, 2012 and 2011 due to estimates of future utilization of net operating loss carryovers in the U.S. and certain foreign jurisdictions, derived primarily from acquisitions and recorded through purchase accounting. The valuation allowance at December 31, 2012 also includes a full valuation for the Company's foreign tax credit carryovers and foreign taxes on its controlled foreign corporation.

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)****NOTE 14 INCOME TAXES (Continued)**

Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. It is the Company's policy to accrue for interest and penalties related to its uncertain tax positions within income tax expense.

For the years ended December 31, 2012, 2011 and 2010, the Company updated its assessment of its tax positions in the taxing jurisdictions where it has operations and determined that additional accruals were required for the year ended December 31, 2012. The Company has made no permanent reinvestment assertions regarding its foreign operations.

A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period is as follows:

	December 31,		
	2012	2011	2010
Balance, beginning of year	\$ 1,977	\$ 413	\$ 193
Additions as a result of tax positions taken during the current period	353	27	220
Additions as a result of acquisitions		1,537	
Balance, end of year	\$ 2,330	\$ 1,977	\$ 413

We do not expect our unrecognized tax benefits to significantly change in the next twelve months.

The Company has recognized through state income tax expense approximately \$0.4 million of interest and penalties related to uncertain tax positions. The amount of unrecognized tax benefit, if recognized, that would impact the effective tax rate is \$2.7 million. With few exceptions, the Company is no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2006.

During the year ended December 31, 2012, the Company reclassified balances in the Consolidated Balance Sheet as of December 31, 2011 related to deferred tax assets associated with foreign currency translation of \$1.4 million from current deferred tax assets to noncurrent deferred tax liabilities and liabilities related to uncertain tax positions of \$2.3 million from accrued liabilities to other noncurrent

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 14 INCOME TAXES (Continued)

liabilities as these amounts are not expected to be settled in the next twelve months. Additionally, the Company reclassified approximately \$0.8 million related to indemnification assets from accounts receivables to other noncurrent assets consistent with the classification of the related uncertain tax position liability.

NOTE 15 STOCK-BASED COMPENSATION PLANS

The 2007 Equity Incentive Plan ("Incentive Plan") and 2007 Employee Stock Purchase Plan ("ESPP") were approved by the Company's stockholders. The Incentive Plan authorizes the grant of awards to participants with respect to a maximum of 4.0 million shares of the Company's common stock, subject to adjustment to avoid dilution or enlargement of intended benefits in the event of certain significant corporate events, which awards may be made in the form of (i) nonqualified stock options; (ii) stock options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code (stock options described in clause (i) and (ii), "options"); (iii) stock appreciation rights ("SARs"); (iv) restricted stock and/or restricted stock units; (v) performance awards; and (vi) other stock based awards; provided that the maximum number of shares with respect to which stock options and stock appreciation rights may be granted in the equity incentive plan to any one participant in any given calendar year may not exceed \$0.8 million, and the maximum amount payable to a participant in the equity plan in connection with the settlement of any of any award(s) designated as a "performance compensation awards" in respect of a single performance period shall be: (x) with respect to performance compensation awards that are paid in shares, 500,000 shares and (y) with respect to performance compensation awards that are paid in cash, \$5.0 million. The issuance of shares or the payment of cash upon the exercise of an award or in consideration of the cancellation or termination of an award shall reduce the total number of shares available under the equity incentive plan, as applicable. The provisions of each award will vary based on the type of award granted and will be specified by the Compensation Committee of the Board of Directors. Those awards which are based on a specific contractual term will be granted with a term not to exceed ten years. The SARs granted under the Incentive Plan are granted with an exercise price equal to the fair market value of the Common Shares at the time the SARs are granted.

The Incentive Plan was subsequently amended for an additional 4.5 million shares authorized for issuance under the 2007 Equity Incentive Plan, except that each share of the Company's common stock issued under a "full value" award (awards other than stock options or stock appreciation rights) will reduce the number of shares available for issuance by 1.44 shares.

As of December 31, 2012, there were 1,730,651 and 300,481 shares available for grant under the amended and restated Incentive Plan and ESPP, respectively.

The Company recognized \$2.8 million, \$3.1 million and \$3.1 million in employee stock-based compensation expense during the years ended December 31, 2012, 2011 and 2010, respectively. This

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts in thousands, except per share data)

NOTE 15 STOCK-BASED COMPENSATION PLANS (Continued)

expense was recorded in selling, general and administrative in the consolidated statement of comprehensive income (loss).

Stock Appreciation Rights

The Compensation Committee may grant (i) a stock appreciation right independent of an option or (ii) a stock appreciation right in connection with an option, or a portion thereof. A stock appreciation right granted pursuant to clause (ii) of the preceding sentence (A) may be granted at the time the related option is granted or at any time prior to the exercise or cancellation of the related option, (B) shall cover the same number of shares covered by an option (or such lesser number of shares as the Compensation Committee may determine) and (C) shall be subject to the same terms and conditions as such option except for such additional limitations as are contemplated above (or such additional limitations as may be included in an award agreement).

SARs granted pursuant to the Incentive Plan are granted with an exercise price equal to the fair market value of the Common Shares at the time the SARs are granted. Pursuant to the applicable award agreements, the SARs vest and become exercisable with respect to 25% of the shares subject to the SARs on the first four anniversaries of the grant date, so long as the employee remains employed with the Company on each such date. If the employee's employment with the Company is terminated as a result of the employee's death or disability, all unvested SARs will be fully vested. If the employee retires, the SARs will continue to vest on the same schedule as if the employee had remained employed with the Company. Any vested SARs will expire upon the earliest to occur of the following: (i) the tenth anniversary of the grant date; (ii) one year following the date of the employee's termination of services as a result of death or permanent disability; (iii) 90 days following the fourth anniversary of the grant date, following the participant's retirement; (iv) 30 days following the date of the participant's termination of employment for any reason (other than as a result of death, disability or retirement); and (v) immediately upon a termination for cause. SARs will be settled in the form of shares of the Company's common stock upon exercise.

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(tabular amounts in thousands, except per share data)

NOTE 15 STOCK-BASED COMPENSATION PLANS (Continued)

A summary of the status of the Company's SARs issued under its Incentive Plan is presented below:

	SARs	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	594	\$ 5.12	8.4	\$
Granted		\$		
Exercised		\$		
Forfeited	(105)	\$ 4.94		
Outstanding at December 31, 2010	489	\$ 5.16	7.2	\$
Granted		\$		
Exercised		\$		
Forfeited	(93)	\$ 5.64		
Outstanding at December 31, 2011	396	\$ 5.04	6.5	\$
Granted		\$		
Exercised		\$		