

Information Services Group Inc.  
Form 10-K  
March 07, 2014

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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, 2013

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                       | Name of each exchange on which registered |
|-------------------------------------------|-------------------------------------------|
| Shares of Common Stock, \$0.001 par value | 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 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

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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, 2013, as reported on the NASDAQ Stock Market was approximately \$62,057,467.

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 21, 2014, the registrant had outstanding 37,394,364 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 2014 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended December 31, 2013, 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, but this is not an exclusive way of identifying such statements. 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;

growth of our markets;

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;

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

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;

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 source, successfully consummate or integrate strategic acquisitions.

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. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. 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 also 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 500 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. Headquartered in the United Kingdom, Compass was founded 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 serving state and local government entities in the United States.

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 firm 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. With our three acquisitions, we operate in 21 countries and employ more than 800 professionals globally, delivering advisory, benchmarking and analytical insight to large, multinational corporations and governments in North America, Europe and Asia Pacific.

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Our private and public sector clients continue to face significant technological, business and economic challenges that will continue to fuel demand for the professional services we provide. In the private sector, for example, we believe that companies will continue to face significant challenges associated with globalization and technological innovation, 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 global marketplace dynamics at work in both the private and public sectors mitigate 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 three 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 sellers of services in the outsourcing and managed services industries. Our combined data sources, compiled from over 30 years of servicing global corporations, provide a rich source of benchmark data into the comparative cost and quality of operational alternatives. For enterprise clients, we use these data sources to provide them with in-depth analysis into the implications of different service strategies, allowing them to compare and contrast and make informed decisions regarding strategic change. For service providers, our views into the buying behaviors, needs and objectives of global corporations examining transformation of their operations provide unique insights that help them tailor and market their offerings to these enterprises.

*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 operational governance services to our clients to ensure seamless end-to-end service. This offering assists clients with monitoring and managing their supplier relationships, providing them with real-time accurate market intelligence



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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.* ISG continues to gain marketplace traction as a leading brand in our industry after merging its TPI, Compass and STA Consulting brands into one go-to-market brand: ISG. ISG offers an integrated product and service offering for our clients as one, unified company. We have retained our legacy brands, in certain cases, as names of legal entities and to describe product and services offering that have legally registered trademarks in certain jurisdictions, such as "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 over more than 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 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. Management consultants bring strategic service capabilities to the sourcing and advisory market. However, they generally lack the depth of experience that sourcing, data and advisory firms such as ISG possess. In addition, management consultants do not possess the sourcing and technology implementation expertise nor 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, 2013, we employed 850 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 10% and 17% over the last three years.

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**Available Information**

Our Internet address is [www.isg-one.com](http://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](http://www.sec.gov). In addition, the Notice of Annual Meeting of Stockholders, Proxy Statement and 2013 Annual Report to Stockholders are available free of charge at [www.isg-one.com](http://www.isg-one.com).

**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. Cravens, 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 and changes in our debt rating.*

On May 3, 2013, the Company entered into a five year senior secured credit facility (the "2013 Credit Agreement") comprised of a \$45.0 million term loan facility and a \$25.0 million revolving credit facility. On May 3, 2013, we borrowed \$55.0 million under the 2013 Credit Agreement to refinance our existing debt under our prior credit agreement 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;

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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 \$53.3 million, a 1% increase in interest rates would result in a pre-tax impact on earnings of approximately \$0.5 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. As of December 31, 2013, the total principal outstanding under the term loan facility and revolving credit facility was \$43.3 million and \$10.0 million, respectively.

***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,

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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.

***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

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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;

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

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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 could lose money on our fixed-fee contracts.***

As part of our strategy, from time to time, we enter into fixed fee contracts, in addition to contracts based on payment for time and materials. Because of the complexity of many of our client engagements, accurately estimating the cost, scope and duration of a particular engagement can be a



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difficult task. If we fail to make accurate estimates, we could be forced to devote additional resources to these engagements for which we will not receive additional compensation. To the extent that an expenditure of additional resources is required on an engagement, this could reduce the profitability of, or result in a loss on, the engagement.

***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 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 and investments 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. If we pursue acquisition or investment opportunities, these potential risks could disrupt our ongoing business, result in the loss of key customers or personnel, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial condition.

***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

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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.

***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

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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.

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.

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***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. When companies consolidate, overlapping services previously purchased separately are usually purchased only once by the combined entity, leading to loss of revenue. Other services that were previously purchased by one of the merged or consolidated entities may be deemed unnecessary or cancelled. If our clients consolidate with or are acquired by other entities that are not our clients, or that use fewer of our services, they may discontinue or reduce their use of our services. There can be no assurance as to the degree to which we may be able to address the revenue impact of such consolidation. Any of these developments could harm our operating results and financial condition.

***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 43% of revenue in 2013 and 40% in 2012. If one or more of our large clients terminate or significantly reduce their engagements or fail to remain a viable business, then our revenues could be materially and adversely affected. In addition, 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% of our revenues for both 2013 and 2012 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;

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.

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Air travel, telecommunications and entry through international borders are all vital components of our business. If a terrorist attack 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. 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 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.

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***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 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.

***Our actual operating results may differ significantly from our guidance.***

From time to time, we release guidance regarding our future performance that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking

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statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto. Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons. Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it. Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this Annual Report on Form 10-K could result in the actual operating results being different than the guidance, and such differences may be adverse and material.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We maintain our executive offices in Stamford, Connecticut. The lease on this premise covers 9,716 square feet and expires on July 31, 2018. 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**

From time to time, in the normal course of business, we are a party to various 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.



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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, 2013     | \$ 2.02      | \$ 1.13 |
| June 30, 2013      | 2.08         | 1.84    |
| September 30, 2013 | 4.38         | 1.90    |
| December 31, 2013  | 4.56         | 3.54    |

| 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    |

On February 21, 2014, the last reported sale price for our common stock on The Nasdaq Stock Market was \$5.24 per share.

As of December 31, 2013, there were 379 holders of record of ISG common stock. The actual number of stockholders is significantly greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

**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

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Company's qualified pension plan, other investment opportunities (including mergers and acquisitions), market conditions and other factors.

The following table details the repurchases that were made during the three months ended December 31, 2013.

| Period     |             | Total Number<br>of<br>Securities<br>Purchased<br>(In thousands) | Average<br>Price per<br>Securities | Total Numbers<br>of<br>Securities<br>Purchased<br>as Part of<br>Publicly<br>Announced Plan<br>(In thousands) | Approximate<br>Dollar<br>Value of Securities<br>That May Yet Be<br>Purchased Under<br>The Plan<br>(In thousands) |
|------------|-------------|-----------------------------------------------------------------|------------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| October 1  | October 31  | 80 shares                                                       | \$ 4.09                            | 80                                                                                                           | \$ 4,126                                                                                                         |
| November 1 | November 30 | 78 shares                                                       | \$ 3.88                            | 78                                                                                                           | \$ 3,823                                                                                                         |
| December 1 | December 31 | 116 shares                                                      | \$ 4.05                            | 116                                                                                                          | \$ 3,353                                                                                                         |

### **Securities Authorized for Issuance under Equity Compensation Plan**

Information regarding equity compensation plans required by Regulation S-K Item 201(d) is incorporated by reference in Item 12 of this annual report on Form 10-K from the Proxy Statement filed in connection with our 2014 Annual Meeting of Stockholders.

Table of Contents**STOCK PERFORMANCE GRAPH**

The following graph compares the 5 year cumulative total stockholder return on our Common Stock from December 31, 2008 through December 31, 2013, 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, 2008 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

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\*  
\$100 invested on 12/31/08 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

| Measurement Periods | ISG       | NASDAQ    | Russell 2000 | Peer Group(a) |
|---------------------|-----------|-----------|--------------|---------------|
| December 31, 2009   | \$ 93.24  | \$ 144.88 | \$ 127.17    | \$ 89.87      |
| December 31, 2010   | \$ 60.88  | \$ 170.58 | \$ 161.32    | \$ 110.42     |
| December 31, 2011   | \$ 30.29  | \$ 171.30 | \$ 154.59    | \$ 120.28     |
| December 31, 2012   | \$ 33.82  | \$ 199.99 | \$ 179.86    | \$ 127.83     |
| December 31, 2013   | \$ 124.71 | \$ 283.39 | \$ 249.69    | \$ 191.57     |

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(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, 2013, 2012, 2011, 2010 and 2009. 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,                      |             |             |             |             |
|-------------------------------------------------|-----------------------------------------------|-------------|-------------|-------------|-------------|
|                                                 | 2013                                          | 2012        | 2011        | 2010        | 2009        |
|                                                 | (dollars in thousands, except per share data) |             |             |             |             |
| <b>Statement of Comprehensive Income (Loss)</b> |                                               |             |             |             |             |
| <b>Data:</b>                                    |                                               |             |             |             |             |
| Revenues                                        | \$ 210,982                                    | \$ 192,745  | \$ 184,426  | \$ 132,013  | \$ 132,744  |
| Depreciation and amortization                   | 7,473                                         | 8,857       | 11,034      | 9,846       | 9,562       |
| Operating income (loss)                         | 11,701                                        | 6,550       | (60,842)(1) | (51,741)(2) | 814(3)      |
| Interest expense                                | (2,712)                                       | (3,146)     | (3,458)     | (3,241)     | (4,550)     |
| Interest income                                 | 20                                            | 45          | 75          | 159         | 262         |
| Foreign currency transaction loss               | (45)                                          | (209)       | (38)        | (268)       | (140)       |
| Income tax provision (benefit)                  | 4,267                                         | 2,637       | (8,326)     | (1,926)     | (778)       |
| Net income (loss)                               | 4,776                                         | 603         | (55,937)    | (53,165)    | (2,836)     |
| Basic weighted average common shares            | 36,810                                        | 36,205      | 36,258      | 32,050      | 31,491      |
| Net income (loss) per common share basic        | 0.13                                          | 0.02        | (1.54)      | (1.66)      | (0.09)      |
| Diluted weighted average common shares          | 38,687                                        | 37,626      | 36,258      | 32,050      | 31,491      |
| Net income (loss) per common share diluted      | 0.13                                          | 0.02        | (1.54)      | (1.66)      | (0.09)      |
| <b>Cash Flow Data:</b>                          |                                               |             |             |             |             |
| Cash provided by (used in):                     |                                               |             |             |             |             |
| Operating activities                            | \$ 23,055                                     | \$ 10,730   | \$ 871      | \$ 5,747    | \$ 4,056    |
| Investing activities                            | \$ (1,903)                                    | \$ (1,848)  | \$ (9,655)  | \$ (6,707)  | \$ (1,239)  |
| Financing activities                            | \$ (9,398)                                    | \$ (10,179) | \$ (6,903)  | \$ (1,698)  | \$ (22,080) |
| <b>Balance Sheet Data (at period end)</b>       |                                               |             |             |             |             |
| Total assets                                    | \$ 139,874                                    | \$ 135,985  | \$ 145,034  | \$ 184,564  | \$ 241,973  |
| Debt                                            | \$ 56,746                                     | \$ 63,063   | \$ 70,063   | \$ 69,813   | \$ 71,813   |
| Shareholders' equity                            | \$ 43,243                                     | \$ 38,309   | \$ 35,884   | \$ 81,817   | \$ 131,625  |

- (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.

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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 500 clients around the world to help them achieve operational excellence. We support private and public sector organizations to transform and optimize their operational environments through research, benchmarking, consulting and managed services with a focus on information technology, business process transformation, program management services and enterprise resource planning. Clients look to us for unique insights and innovative solutions for leveraging technology, our deep data source, and more than five decades of experience of global leadership in information and advisory services. Based in Stamford, Connecticut, we have approximately 800 employees and operate in 21 countries.

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

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

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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**

ISG had a breakout year in 2013, turning in our best overall operating performance since our inception and crossing a significant threshold when we passed the \$200 million revenue mark for the first time. It was a year marked by growth and innovation as we developed a range of new products and services to meet the changing needs of our clients.

As we address perpetual change in information technology and business processes across a global marketplace that remains in constant flux, one thing remains a constant: our mission to serve our clients and enable them to achieve operational excellence.

**The Shifting Marketplace**

A lot has changed since ISG, through its predecessor company, TPI, pioneered the sourcing advisory industry more than two decades ago. Client requirements have evolved from pure economies-of-scale and labor-arbitrage propositions into complex technological and operational solutions aimed not only at lowering costs, but improving overall performance.

Companies, requiring flexibility and agility in large-scale global operations, are opting for mixed models of delivery. These models combine shorter-term deals with multiple providers, each offering specialized capabilities, with captive and internal shared-service operations. Increasing labor automation, shrinking technology costs, and the impact of SMAC (social, mobile, analytic, cloud) technologies are among the marketplace trends driving this shift.

In response, service providers are moving away from customized offerings and replacing them with standardized service models that rely more on automation and "as-a-service" (XaaS) solutions.

This highly complex environment is creating unprecedented opportunity for ISG. Now, more than ever, enterprise clients need expert advice to develop new operating models and understand the benefits they will derive from them. They also need better governance and controls to realize those benefits. Service providers, too, need a much deeper understanding of client needs so they can tailor their offerings and distinguish themselves in an increasingly crowded marketplace.

ISG is uniquely qualified to serve the needs of both enterprises and service providers on all counts.

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**A Culture of Innovation**

Continuous innovation is an imperative in this ever-changing environment. It is also part of the DNA of ISG.

Every employee here is a member of our R&D group, generating ideas that help solve immediate client problems or prove to be game-changers.

Our major innovations include ISG Managed Services, developed by employees who saw an opportunity to help clients maximize the benefits they get from their supplier relationships, and ISG Momentum Research, which leverages our data to help service providers enhance their offerings and differentiate themselves in the marketplace.

Most recently, ISG teams have developed our proprietary *AccessISG* service portal to provide on-demand access to information, insights and experts. Not only does this enhance our "stickiness" with clients between engagements and generate subscription revenues, it also allows us to address segments of the market that are interested in technology and operating solutions but lack the ability to enter into full-scale engagements.

We've also developed a dedicated Sourcing Integration and Management (SIAM) Practice to help clients achieve optimum performance in multi-sourcing environments, and an Engineering Services Practice, to address this emerging and fast-growing segment of the sourcing marketplace.

**Our Strategy for Growth**

Research. Consulting. Managed Services. These are the pillars of our business, and where we will focus our energies as we continue to build ISG into a leading, global information-based services firm in the years ahead.

**Research:** One of the things that sets ISG apart is our deep data assets. We will continue to build upon this core strength by expanding our collection and analysis of data from every engagement, deepening our vertical industry knowledge, and expanding into new domains and industries.

**Consulting:** We will continue to expand client relationships by leveraging the full range of our end-to-end services and offering higher-value solutions, from strategy development and operations design to change management and service integration. Leveraging our IT and industry-specific expertise, we also will grow our services that help clients achieve optimal performance in such areas as human resources, finance and accounting, customer service and corporate real estate.

**Managed Services:** After an operating model is designed, and IT and operational service providers are selected, our Managed Services help clients achieve maximum value from these relationships. These long-term assignments provide a steady stream of recurring revenues with annuity-like characteristics, and we will continue to expand them both in scope and number. In addition to Managed Services, we also plan to continue growing our Public Sector business, which, because of the long-term nature of government contracts, offers the same recurring revenue profile.

Going forward, we expect most of our growth to come from these organic business-building initiatives. Yet we always remain open to acquiring complementary businesses that enhance both the service we deliver to our clients and the financial performance we deliver for our shareholders.

Table of Contents**The Opportunity Ahead**

In the end, our ability to transform intelligence into action, create business solutions and drive results for our clients will determine our success.

Our highly experienced advisors, with their significant domain expertise, bring unmatched value to our clients. Their combined talent will continue to be one of our most important assets. At the same time, our clients are demanding more efficient operating models, and we will continue to respond to that need, while leveraging our talent base for the new opportunities that lie before us.

We'll achieve our growth objectives by leveraging our products and services at every stage of the business lifecycle, continuing to grow our recurring revenue streams, becoming more efficient in resourcing our consulting business, and capitalizing on emerging trends and new growth areas.

**RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013 AND DECEMBER 31, 2012****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 separately 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.

Geographical information for the segment is as follows:

| Geographic Area | Years Ended December 31, |            |           | Percent Change |
|-----------------|--------------------------|------------|-----------|----------------|
|                 | 2013                     | 2012       | Change    |                |
|                 | (in thousands)           |            |           |                |
| Americas        | \$ 114,603               | \$ 104,925 | \$ 9,678  | 9.2%           |
| Europe          | 75,127                   | 62,671     | 12,456    | 20.0%          |
| Asia Pacific    | 21,252                   | 25,149     | (3,897)   | (15.5)%        |
| Total revenues  | \$ 210,982               | \$ 192,745 | \$ 18,237 | 9.5%           |

The net increase in revenues of \$18.2 million or 10% in 2013 was attributable principally to a 20% increase in Europe revenues to \$75.1 million and a 9% increase in Americas revenues to \$114.6 million. The increase in revenues was primarily due to higher levels of sourcing activity in the Americas and Europe regions, attributable to increases in Consulting, Research and Managed Services. These increases were offset by a 16% reduction in Asia Pacific primarily due to lower volumes in sourcing related engagements which was only partially offset by growth in Managed Services. The translation of foreign currency into US dollars also had a slight negative impact on performance compared to prior year. Billable staff at December 31, 2013 totaled 653, as compared to 619 at December 31, 2012.



Table of Contents**Operating Expenses**

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

| Operating Expenses                     | Years Ended December 31, |            |           | Percent Change |
|----------------------------------------|--------------------------|------------|-----------|----------------|
|                                        | 2013                     | 2012       | Change    |                |
|                                        | (in thousands)           |            |           |                |
| Direct costs and expenses for advisors | \$ 123,985               | \$ 114,429 | \$ 9,556  | 8.4%           |
| Selling, general and administrative    | 67,823                   | 62,909     | 4,914     | 7.8%           |
| Depreciation and amortization          | 7,473                    | 8,857      | (1,384)   | (15.6)%        |
| Total operating expenses               | \$ 199,281               | \$ 186,195 | \$ 13,086 | 7.0%           |

Total operating expenses increased \$13.1 million or 7% in 2013 with increases in direct expenses (8%) and increases in selling, general and administrative ("SG&A") expenses (8%) offset by a decrease in depreciation and amortization (16%). The increases are due primarily to increases in headcount, compensation, contract labor expenses, STA Consulting earn-out and stock compensation. These cost increases were partially offset by lower professional fees, marketing and bad debt expenses. The impact of foreign currency translation into US dollars also drove costs lower compared to the same prior 2012 period. We recorded \$3.4 million of stock compensation expense, included in selling, general and administrative expense, compared to \$2.8 million in the prior year due to the vesting of 879,000 market-based restricted share units with an associated charge of \$1.7 million in the third quarter 2013 driven by the strong growth in our stock price. During the year ended December 31, 2013, we increased the contingent consideration liability for the STA Consulting earn-out by \$1.3 million based on the latest estimates of future profit levels compared to a reduction of \$1.9 million recorded in the same prior 2012 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 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

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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.

The decrease of \$1.4 million in depreciation and amortization expense was primarily due to a decrease in amortization as a result of intangible assets that were fully amortized in 2012. 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.

***Gain (Loss) on Extinguishment of Debt***

On April 26, 2013, the Company settled a portion of the subordinated convertible notes issued in connection with the acquisition of Compass. The payee agreed to accept from the Company an amount equal to \$650,000 as satisfaction in full of all indebtedness of \$1.1 million owing by the Company to such payee. As a result of this transaction, the Company recognized a gain of \$0.5 million in the second quarter of 2013 representing the difference between the fair value of the consideration issued in the settlement transaction and the carrying value of the amounts due to the payee.

On May 3, 2013, the Company entered into a five year senior secured credit facility (the "2013 Credit Agreement") comprised of a \$45.0 million term loan facility and a \$25.0 million revolving credit facility. In connection with entering into the 2013 Credit Agreement, the Company repaid in full all obligations and liabilities owing under, and terminated its prior credit agreement. As a result of this transaction, the Company realized a loss of \$0.4 million in the second quarter of 2013 relating to the write down of unamortized debt financing costs relating to its prior credit agreement.

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#### *Other (Expense), Net*

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

|                            | Years Ended December 31, |            |         | Percent<br>Change |
|----------------------------|--------------------------|------------|---------|-------------------|
|                            | 2013                     | 2012       | Change  |                   |
|                            | (in thousands)           |            |         |                   |
| Interest income            | \$ 20                    | \$ 45      | \$ (25) | (55.6)%           |
| Interest expense           | (2,712)                  | (3,146)    | 434     | 13.8%             |
| Foreign currency loss      | (45)                     | (209)      | 164     | 78.5%             |
| Total other (expense), net | \$ (2,737)               | \$ (3,310) | \$ 573  | 17.3%             |

The decrease of \$0.6 million was primarily the result of lower interest expense due to a decrease in debt and debt issuance amortization costs.

#### *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 2013 of \$4.3 million as compared to a \$2.6 million for 2012. Our effective tax rate for the year ended December 31, 2013 was 47.2% compared to 81.4% for the year ended December 31, 2012. Our effective tax rate is higher than the statutory rate primarily due to non-deductible expenses and the net increase in the valuation allowance of \$1.0 million primarily related to the Company's foreign tax credits and foreign corporation losses.

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

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<br>Change |
|-----------------|--------------------------|------------|-----------|-------------------|
|                 | 2012                     | 2011       | Change    |                   |
|                 | (in thousands)           |            |           |                   |
| Americas        | \$ 104,925               | \$ 86,735  | \$ 18,190 | 21.0%             |
| Europe          | 62,671                   | 74,383     | (11,712)  | (15.7)%           |
| Asia Pacific    | 25,149                   | 23,308     | 1,841     | 7.9%              |
| Total revenues  | \$ 192,745               | \$ 184,426 | \$ 8,319  | 4.5%              |

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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.

### *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.

### *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 \$27.4 million associated with indefinite lived intangible assets.

Table of Contents**Other Income (Expense), Net**

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

|                            | Years Ended December 31, |            |         | Percent<br>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.

**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, 2013, 2012 and 2011:

|                                                      | Years Ended December 31, |           |             |
|------------------------------------------------------|--------------------------|-----------|-------------|
|                                                      | 2013                     | 2012      | 2011        |
|                                                      | (in thousands)           |           |             |
| Net cash provided by (used in):                      |                          |           |             |
| Operating activities                                 | \$ 23,055                | \$ 10,730 | \$ 871      |
| Investing activities, including acquisitions         | (1,903)                  | (1,848)   | (9,655)     |
| Financing activities                                 | (9,398)                  | (10,179)  | (6,903)     |
| Effect of exchange rate changes on cash              | (168)                    | 327       | (145)       |
| Net increase (decrease) in cash and cash equivalents | \$ 11,586                | \$ (970)  | \$ (15,832) |

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As of December 31, 2013, our liquidity and capital resources included cash and cash equivalents of \$35.1 million compared to \$23.5 million as of December 31, 2012 a net increase of \$11.6 million, which was primarily attributable to the following:

Our operating activities provided net cash of \$23.1 million for the year ended December 31, 2013. Net cash provided from operations is primarily attributable to our net income, adjusted for non-cash charges totaling approximately \$14.7 million and \$8.4 million of changes in working capital primarily attributable to \$0.9 million changes in accounts receivables and \$7.5 million changes in accounts payable, prepaid expenses and accrued expenses;

payments of principal amounts due on the debt of \$60.8 million under our current and prior credit agreements;

proceeds of debt of \$55.0 million pursuant to our 2013 Credit Agreement;

capital expenditures for property, plant and equipment of \$1.9 million; and

equity repurchases of \$4.1 million.

### ***Capital Resources***

The Company's current outstanding debt, may limit our ability to fund general corporate requirements and obtain additional financing, impact our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic and industry conditions.

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

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

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

The credit facility is secured by all of the equity interests owned by the Company, and its direct and indirect domestic subsidiaries and, subject to agreed exceptions, the Company's direct and

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indirect "first-tier" foreign subsidiaries and a perfected first priority security interest in all of the Company's direct and indirect domestic subsidiaries' tangible and intangible assets.

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

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

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

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

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

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

We are required under the 2013 Credit Agreement to establish a fixed or maximum interest rate covering a notional amount of not less than 50% of the aggregate outstanding indebtedness for borrowed money (other than the total revolving outstanding) for a period of three years from the closing date of our 2013 Credit Agreement. Subsequent to May 3, 2013, we entered into an agreement to cap the interest rate at 5% on the LIBOR component of our borrowings under the term loan facility

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until May 3, 2016. This interest rate cap is not designated for hedging or speculative purposes. The expense related to this interest rate cap was not material.

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

On November 14, 2013, our lenders agreed to amend the 2013 Credit Agreement to allow the Company to prepay the entire outstanding principal amount of the CPIV S.A. Convertible Note ("CPIV Note") plus accrued interest and exclude the CPIV Note prepayment from the calculation of our consolidated fixed charge coverage ratio. On November 25, 2013, the Company prepaid the CPIV Note and the payee agreed to accept from the Company an amount equal to the principal of \$1.7 million plus accrued interest as satisfaction in full of all indebtedness owing by the Company to such payee.

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, 2013, the total principal outstanding under the term loan facility and revolving credit facility was \$43.3 million and \$10.0 million, respectively. Additional mandatory principal repayments totaling \$3.4 million and \$3.9 million will be due in 2014 and 2015, respectively.



Table of Contents**Contractual Obligations**

The following table summarizes our contractual obligations as of December 31, 2013, and the timing and effect that such obligations are expected to have on our liquidity and capital requirements in future periods.

**Payments Due by Period**

| Contractual Obligations                  | Total            | Less than       |                  |                  |           | More Than  |
|------------------------------------------|------------------|-----------------|------------------|------------------|-----------|------------|
|                                          |                  | 1 Year          | 1 3 Years        | 3 5 Years        | 5 Years   |            |
| (In Thousands)                           |                  |                 |                  |                  |           |            |
| Debt obligations, principal and interest | \$ 65,092        | \$ 5,284        | \$ 17,989        | \$ 41,819        | \$        | \$         |
| Operating lease obligations              | 8,107            | 2,230           | 4,818            | 706              |           | 353        |
| <b>Total</b>                             | <b>\$ 73,199</b> | <b>\$ 7,514</b> | <b>\$ 22,807</b> | <b>\$ 42,525</b> | <b>\$</b> | <b>353</b> |

We have liabilities related to uncertain tax positions totaling approximately \$2.5 million as of December 31, 2013. 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 \$7,650, 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, 2013, 2012 and 2011, we contributed \$1.6 million, \$1.6 million and \$1.3 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 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.

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**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 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

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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 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.

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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.

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 our stock price and provides a direct indication of fair value. Under the market approach, we determined the fair value of the reporting unit utilizing a relevant average of our common stock price for the October 31 measurement period, as quoted on the Nasdaq Global Market plus a 35% control premium based upon recent transactions of comparable companies. The discounted cash flow model assumed revenue growth rates of approximately 3% per year. We employed a discount rate of 13.5% 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. Therefore, step two was not performed or required.

***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.

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***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. 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 \$183 million to \$6.4 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, 2013 or 2012.

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.

**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 \$0.5 million pre-tax. We entered into an agreement to cap the interest rate at 5% on the LIBOR component of our borrowings under the term loan facility until May 3, 2016. This interest rate cap is not designated for hedging or speculative purposes. The expense related to this interest rate cap was not material.

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, 2013, 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 \$45,000 for the year ended December 31, 2013. 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.

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

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

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

**Item 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

**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, 2013, 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, 2013.

**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.

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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, 2013, 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 1992. 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, 2013.

**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, 2013 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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)

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Consolidated Statement of Stockholders' Equity

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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 consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Information Services Group, Inc. and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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 index appearing under Item 15(a)(2) present 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

Florham Park, New Jersey  
March 7, 2014

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

(in thousands, except par value)

|                                                                                                                                                                                                  | <b>December 31,</b> |                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------------|
|                                                                                                                                                                                                  | <b>2013</b>         | <b>2012</b>       |
| <b>ASSETS</b>                                                                                                                                                                                    |                     |                   |
| <b>Current assets</b>                                                                                                                                                                            |                     |                   |
| Cash and cash equivalents                                                                                                                                                                        | \$ 35,085           | \$ 23,499         |
| Accounts and unbilled receivables, net of allowance of \$352 and \$395, respectively                                                                                                             | 38,688              | 40,920            |
| Deferred tax asset                                                                                                                                                                               | 825                 | 1,213             |
| Prepaid expense and other current assets                                                                                                                                                         | 2,116               | 1,783             |
| <b>Total current assets</b>                                                                                                                                                                      | <b>76,714</b>       | <b>67,415</b>     |
| Restricted cash                                                                                                                                                                                  | 54                  | 52                |
| Furniture, fixtures and equipment, net of accumulated depreciation of \$4,575 and \$6,072, respectively                                                                                          | 3,213               | 3,074             |
| Goodwill                                                                                                                                                                                         | 34,691              | 34,691            |
| Intangible assets, net                                                                                                                                                                           | 22,093              | 27,920            |
| Other assets                                                                                                                                                                                     | 3,109               | 2,833             |
| <b>Total assets</b>                                                                                                                                                                              | <b>\$ 139,874</b>   | <b>\$ 135,985</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                      |                     |                   |
| <b>Current liabilities</b>                                                                                                                                                                       |                     |                   |
| Accounts payable                                                                                                                                                                                 | \$ 6,024            | \$ 6,072          |
| Current maturities of long-term debt                                                                                                                                                             | 3,375               | 10,000            |
| Deferred revenue                                                                                                                                                                                 | 3,944               | 3,652             |
| Accrued expenses                                                                                                                                                                                 | 21,189              | 13,209            |
| <b>Total current liabilities</b>                                                                                                                                                                 | <b>34,532</b>       | <b>32,933</b>     |
| Long-term debt, net of current maturities                                                                                                                                                        | 53,371              | 53,063            |
| Deferred tax liability                                                                                                                                                                           | 2,432               | 5,732             |
| Other liabilities                                                                                                                                                                                | 6,296               | 5,948             |
| <b>Total liabilities</b>                                                                                                                                                                         | <b>96,631</b>       | <b>97,676</b>     |
| Commitments and contingencies (Note 11)                                                                                                                                                          |                     |                   |
| <b>Stockholders' equity</b>                                                                                                                                                                      |                     |                   |
| Preferred stock, \$.001 par value; 10,000 shares authorized; none issued                                                                                                                         |                     |                   |
| Common stock, \$.001 par value, 100,000 shares authorized; 37,943 shares issued and 37,122 outstanding at December 31, 2013 and 36,675 shares issued and 36,399 outstanding at December 31, 2012 | 38                  | 37                |
| Additional paid-in capital                                                                                                                                                                       | 208,602             | 205,568           |
| Treasury stock (821 and 276 common shares, respectively, at cost)                                                                                                                                | (2,796)             | (324)             |
| Accumulated other comprehensive loss                                                                                                                                                             | (2,448)             | (2,043)           |
| Accumulated deficit                                                                                                                                                                              | (160,153)           | (164,929)         |
| <b>Total stockholders' equity</b>                                                                                                                                                                | <b>43,243</b>       | <b>38,309</b>     |
| <b>Total liabilities and shareholders' equity</b>                                                                                                                                                | <b>\$ 139,874</b>   | <b>\$ 135,985</b> |

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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, |            |             |
|----------------------------------------------------------------------|--------------------------|------------|-------------|
|                                                                      | 2013                     | 2012       | 2011        |
| <b>Revenues</b>                                                      | \$ 210,982               | \$ 192,745 | \$ 184,426  |
| <b>Operating expenses</b>                                            |                          |            |             |
| Direct costs and expenses for advisors                               | 123,985                  | 114,429    | 104,823     |
| Selling, general and administrative                                  | 67,823                   | 62,909     | 67,717      |
| Goodwill impairment charge                                           |                          |            | 34,314      |
| Intangible assets impairment charge                                  |                          |            | 27,380      |
| Depreciation and amortization                                        | 7,473                    | 8,857      | 11,034      |
| Operating income (loss)                                              | 11,701                   | 6,550      | (60,842)    |
| Interest income                                                      | 20                       | 45         | 75          |
| Interest expense                                                     | (2,712)                  | (3,146)    | (3,458)     |
| Gain on extinguishment of debt                                       | 79                       |            |             |
| Foreign currency transaction loss                                    | (45)                     | (209)      | (38)        |
| Income (loss) before taxes                                           | 9,043                    | 3,240      | (64,263)    |
| Income tax provision (benefit)                                       | 4,267                    | 2,637      | (8,326)     |
| Net income (loss)                                                    | \$ 4,776                 | \$ 603     | \$ (55,937) |
| Weighted average shares outstanding:                                 |                          |            |             |
| Basic                                                                | 36,810                   | 36,205     | 36,258      |
| Diluted                                                              | 38,687                   | 37,626     | 36,258      |
| Earnings (loss) per share:                                           |                          |            |             |
| Basic                                                                | \$ 0.13                  | \$ 0.02    | \$ (1.54)   |
| Diluted                                                              | \$ 0.13                  | \$ 0.02    | \$ (1.54)   |
| <b>Comprehensive income (loss):</b>                                  |                          |            |             |
| Net income (loss)                                                    | \$ 4,776                 | \$ 603     | \$ (55,937) |
| Foreign currency translation, net of tax of \$248, \$(149) and \$494 | (405)                    | 204        | (694)       |
| Comprehensive income (loss)                                          | \$ 4,371                 | \$ 807     | \$ (56,631) |

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<br>Paid-in-<br>Capital | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive (Accumulated<br>Loss<br>Deficit) |              | Total<br>Stockholders'<br>Equity |
|---------------------------------------------|--------------|--------|-----------------------------------|-------------------|------------------------------------------------------------------------|--------------|----------------------------------|
|                                             | Shares       | Amount |                                   |                   |                                                                        |              |                                  |
| <b>Balance, December 31, 2010</b>           | 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<br>ESPP           | 558          |        | 322                               |                   |                                                                        |              | 322                              |
| Issuance of treasury shares                 |              |        | (832)                             | 832               |                                                                        |              |                                  |
| Issuance of common stock for<br>acquisition | 3,500        | 4      | 8,454                             |                   |                                                                        |              | 8,458                            |
| Stock based compensation                    |              |        | 3,143                             |                   |                                                                        |              | 3,143                            |
| <b>Balance December 31, 2011</b>            | 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<br>ESPP           |              |        | (29)                              | 363               |                                                                        |              | 334                              |
| Issuance of treasury shares                 |              |        | (1,276)                           | 1,276             |                                                                        |              |                                  |
| Stock based compensation                    |              |        | 2,797                             |                   |                                                                        |              | 2,797                            |
| <b>Balance December 31, 2012</b>            | 36,675       | 37     | 205,568                           | (324)             | (2,043)                                                                | (164,929)    | 38,309                           |
| Net income                                  |              |        |                                   |                   |                                                                        | 4,776        | 4,776                            |
| Other comprehensive income                  |              |        |                                   |                   | (405)                                                                  |              | (405)                            |
| Equity securities repurchased               |              |        |                                   | (4,055)           |                                                                        |              | (4,055)                          |
| Proceeds from issuance of<br>ESPP           |              |        | 55                                | 327               |                                                                        |              | 382                              |
| Issuance of treasury shares                 |              |        | (1,256)                           | 1,256             |                                                                        |              |                                  |
| Issuance of common stock                    | 1,268        | 1      | (1)                               |                   |                                                                        |              |                                  |
| Tax benefit on stock issuance               |              |        | 851                               |                   |                                                                        |              | 851                              |
| Stock based compensation                    |              |        | 3,385                             |                   |                                                                        |              | 3,385                            |
| <b>Balance December 31, 2013</b>            | 37,943       | \$ 38  | \$ 208,602                        | \$ (2,796)        | \$ (2,448)                                                             | \$ (160,153) | \$ 43,243                        |

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, |                  |                  |
|------------------------------------------------------------------------------------------|--------------------------|------------------|------------------|
|                                                                                          | 2013                     | 2012             | 2011             |
| <b>Cash flows from operating activities</b>                                              |                          |                  |                  |
| Net income (loss)                                                                        | \$ 4,776                 | \$ 603           | \$ (55,937)      |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                          |                  |                  |
| Depreciation expense                                                                     | 1,647                    | 1,707            | 1,483            |
| Goodwill impairment charge                                                               |                          |                  | 34,314           |
| Intangible assets impairment charge                                                      |                          |                  | 27,380           |
| Amortization of intangible assets                                                        | 5,827                    | 7,150            | 9,551            |
| Gain on extinguishment of debt                                                           | (79)                     |                  |                  |
| Tax benefit from stock issuances                                                         | (851)                    |                  |                  |
| Amortization of deferred financing costs                                                 | 214                      | 350              | 360              |
| Stock-based compensation                                                                 | 3,385                    | 2,797            | 3,143            |
| Change in fair value of contingent consideration                                         | 1,299                    | (2,000)          |                  |
| Bad debt expense                                                                         | 49                       | 297              | 588              |
| Deferred tax benefit                                                                     | (1,814)                  | (2,643)          | (11,003)         |
| Loss on disposal of fixed assets                                                         | 66                       | 22               | 3                |
| Changes in operating assets and liabilities:                                             |                          |                  |                  |
| Accounts receivable                                                                      | 897                      | 931              | (6,238)          |
| Prepaid expense and other current assets                                                 | (495)                    | (1,071)          | 1,401            |
| Accounts payable                                                                         | (48)                     | 1,953            | (236)            |
| Deferred revenue                                                                         | 292                      | (951)            | 593              |
| Accrued expenses                                                                         | 7,890                    | 1,585            | (4,531)          |
| <b>Net cash provided by operating activities</b>                                         | <b>23,055</b>            | <b>10,730</b>    | <b>871</b>       |
| <b>Cash flows from investing activities</b>                                              |                          |                  |                  |
| Acquisitions, net of cash acquired                                                       |                          | (24)             | (13,684)         |
| Restricted cash                                                                          | (2)                      | (1)              | 5,699            |
| Proceeds from sale of furniture, fixtures and equipment                                  |                          |                  | 20               |
| Purchase of furniture, fixtures and equipment                                            | (1,901)                  | (1,823)          | (1,690)          |
| <b>Net cash used in investing activities</b>                                             | <b>(1,903)</b>           | <b>(1,848)</b>   | <b>(9,655)</b>   |
| <b>Cash flows from financing activities</b>                                              |                          |                  |                  |
| Proceeds from debt                                                                       | 55,000                   |                  |                  |
| Principal payments on borrowings                                                         | (60,822)                 | (7,000)          | (6,000)          |
| Proceeds from issuance of ESPP shares                                                    | 382                      | 334              | 322              |
| Payment of contingent consideration                                                      |                          | (2,000)          |                  |
| Debt issuance costs                                                                      | (754)                    |                  |                  |
| Tax benefit from stock issuances                                                         | 851                      |                  |                  |
| Equity securities repurchased                                                            | (4,055)                  | (1,513)          | (1,225)          |
| <b>Net cash used in financing activities</b>                                             | <b>(9,398)</b>           | <b>(10,179)</b>  | <b>(6,903)</b>   |
| <b>Effect of exchange rate changes on cash</b>                                           | <b>(168)</b>             | <b>327</b>       | <b>(145)</b>     |
| <b>Net increase (decrease) in cash and cash equivalents</b>                              | <b>11,586</b>            | <b>(970)</b>     | <b>(15,832)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>                                    | <b>23,499</b>            | <b>24,469</b>    | <b>40,301</b>    |
| <b>Cash and cash equivalents, end of period</b>                                          | <b>\$ 35,085</b>         | <b>\$ 23,499</b> | <b>\$ 24,469</b> |
| <b>Supplemental disclosures of cash flow information:</b>                                |                          |                  |                  |
| Cash paid for:                                                                           |                          |                  |                  |
| Interest                                                                                 | \$ 2,406                 | \$ 2,609         | \$ 2,914         |

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|                                                                        |          |          |          |
|------------------------------------------------------------------------|----------|----------|----------|
| Taxes                                                                  | \$ 6,636 | \$ 1,966 | \$ 3,904 |
| 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 and SARs | \$ 1,256 | \$ 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.

**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 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.

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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)**

**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).

**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

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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)**

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, 2013, 2012 and 2011, the Company capitalized \$0.7 million, \$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.

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 our stock price and provides a direct indication of fair value. Under the market approach, we determined the fair value of the reporting unit utilizing a relevant average of our common stock price for the October 31 measurement period, as quoted on the Nasdaq Global Market plus a 35% control premium based upon recent transactions of comparable companies. The discounted cash flow model assumed revenue growth rates of approximately 3% per year. We employed a discount rate of 13.5% 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. Therefore, step two was not performed or required.

**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

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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)**

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.

**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 \$0.2 million, \$0.4 million and \$0.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**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.

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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 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. 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 \$10.4 million, \$9.7 million and \$9.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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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)**

**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. 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 \$183 million to \$6.4 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, 2013, 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.

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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)**

**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 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



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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)**

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 2013, 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 \$20,000 each at December 31, 2013 and 2012. 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 \$56.7 million and \$63.1 million at December 31, 2013 and 2012, respectively, which are carried at amortized cost. The fair values of these instruments are classified within Level 3 of the fair value hierarchy. The fair value of the Company's outstanding borrowings is approximately \$56.8 million and \$62.9 million at December 31, 2013 and 2012, 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 3.17% to 3.77%. 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 \$4.1 million and \$2.8 million at December 31, 2013 and 2012, respectively. During the year ended December 31, 2013, the Company increased the contingent consideration liability by \$1.3 million based on the latest estimates of future profit levels for the year ended December 31, 2013. The fair value measurement of this contingent consideration is classified within Level 3 of the fair value hierarchy and reflects the Company's own assumptions in measuring fair values using the income approach. 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.

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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)**

**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.

**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, 2013, 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, 2013, the effect of 0.1 million stock appreciation rights ("SARs") have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation. In addition, 0.8 million restricted shares have not been considered in the diluted earnings per share calculation for the year ended December 31, 2013, as the effect would be anti-dilutive. For the year ended December 31, 2012, the effect of 0.3 million SARs have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation. 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.

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)**

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

|                                                  | 2013     | 2012    | 2011        |
|--------------------------------------------------|----------|---------|-------------|
| <b>Basic:</b>                                    |          |         |             |
| Net income (loss)                                | \$ 4,776 | \$ 603  | \$ (55,937) |
| Weighted average common shares                   | 36,810   | 36,205  | 36,258      |
| Basic income (loss) per share                    | \$ 0.13  | \$ 0.02 | \$ (1.54)   |
| <b>Diluted:</b>                                  |          |         |             |
| Net income (loss)                                | \$ 4,776 | \$ 603  | \$ (55,937) |
| Interest expense of convertible debt, net of tax | 108      | 46      |             |
| Net income (loss), as adjusted                   | \$ 4,884 | \$ 649  | \$ (55,937) |
| Basic weighted average common shares             | 36,810   | 36,205  | 36,258      |
| Potential common shares                          | 1,877    | 1,421   |             |
| Diluted weighted average common shares           | 38,687   | 37,626  | 36,258      |
| Diluted income (loss) per share                  | \$ 0.13  | \$ 0.02 | \$ (1.54)   |

**Recently Issued Accounting Pronouncements**

In January 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance to address implementation issues regarding the scope of disclosures about offsetting assets and liabilities. The amendments only applies to certain derivatives accounted for in accordance with the Derivatives and Hedging topic including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for reporting periods beginning on or after January 1, 2013. The adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

In 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 adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

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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)**

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

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

**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 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").

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)**

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               |
| <b>Total allocable purchase price</b> | <b>\$ 20,078</b> |

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\*

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:

| <b>Allocation of Purchase Price:</b> |                  |
|--------------------------------------|------------------|
| 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)          |
| <b>Net assets acquired</b>           | <b>\$ 20,078</b> |

(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

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)**

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:

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

*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.

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 final allocable purchase price consists of the following:

|                                       |                  |
|---------------------------------------|------------------|
| Cash                                  | \$ 8,927         |
| Contingent consideration*             | 7,107            |
| <b>Total allocable purchase price</b> | <b>\$ 16,034</b> |

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\*

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.

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:

|                                      |                  |
|--------------------------------------|------------------|
| <b>Allocation of Purchase Price:</b> |                  |
| Accounts receivable                  | \$ 2,093         |
| Other assets                         | 57               |
| Goodwill(1)                          | 4,236            |
| Intangible assets                    | 11,210           |
| Accounts payable                     | (1,067)          |
| Accrued expenses and other           | (495)            |
| <b>Net assets acquired</b>           | <b>\$ 16,034</b> |

\_\_\_\_\_

(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:

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





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)**

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.

**NOTE 4 ACCOUNTS AND UNBILLED RECEIVABLES**

Accounts and unbilled receivables, net of valuation allowance, consisted of the following:

|                                  | December 31, |           |
|----------------------------------|--------------|-----------|
|                                  | 2013         | 2012      |
| Accounts receivable              | \$ 27,011    | \$ 32,155 |
| Unbilled receivables             | 11,471       | 8,713     |
| Receivables from related parties | 206          | 52        |
|                                  | \$ 38,688    | \$ 40,920 |

**NOTE 5 PREPAID EXPENSE AND OTHER CURRENT ASSETS**

Prepaid expense and other current assets consisted of the following:

|                   | December 31, |          |
|-------------------|--------------|----------|
|                   | 2013         | 2012     |
| Prepaid rent      | \$ 125       | \$ 137   |
| Prepaid insurance | 128          | 179      |
| Security deposits | 783          | 498      |
| Deferred costs    | 285          | 154      |
| Other             | 795          | 815      |
|                   | \$ 2,116     | \$ 1,783 |

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

(tabular amounts in thousands, except per share data)

**NOTE 6 FURNITURE, FIXTURES AND EQUIPMENT**

Furniture, fixtures and equipment consisted of the following:

|                                                        | Estimated<br>Useful Lives | December 31, |          |
|--------------------------------------------------------|---------------------------|--------------|----------|
|                                                        |                           | 2013         | 2012     |
| Computer hardware, software and other office equipment | 2 to 5 years              | \$ 2,747     | \$ 4,640 |
| Furniture, fixtures and leasehold improvements         | 2 to 5 years              | 995          | 1,178    |
| Internal-use software and development costs            | 3 to 5 years              | 4,046        | 3,328    |
| Accumulated depreciation                               |                           | (4,575)      | (6,072)  |
|                                                        |                           | \$ 3,213     | \$ 3,074 |

Depreciation expense was \$1.6 million, \$1.7 million and \$1.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**NOTE 7 INTANGIBLE ASSETS**

The carrying amount of intangible assets, net of accumulated amortization and impairment charges, as of December 31, 2013 and 2012 consisted of the following:

|                           | 2013                        |                             |                   |
|---------------------------|-----------------------------|-----------------------------|-------------------|
|                           | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value |
| Amortizable intangibles:  |                             |                             |                   |
| Customer relationships    | \$ 52,140                   | \$ (32,104)                 | \$ 20,036         |
| Noncompete agreements     | 5,665                       | (5,603)                     | 62                |
| Software                  | 1,500                       | (1,500)                     |                   |
| Backlog                   | 4,880                       | (4,880)                     |                   |
| Databases                 | 4,949                       | (3,817)                     | 1,132             |
| Trademark and trade names | 1,250                       | (387)                       | 863               |
| Intangibles               | \$ 70,384                   | \$ (48,291)                 | \$ 22,093         |

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

(tabular amounts in thousands, except per share data)

**NOTE 7 INTANGIBLE ASSETS (Continued)**

|                           | 2012                        |                             |                   |
|---------------------------|-----------------------------|-----------------------------|-------------------|
|                           | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value |
| Amortizable intangibles:  |                             |                             |                   |
| Customer relationships    | \$ 52,140                   | \$ (26,815)                 | \$ 25,325         |
| Noncompete agreements     | 5,665                       | (5,572)                     | 93                |
| Software                  | 1,500                       | (1,500)                     |                   |
| Backlog                   | 4,880                       | (4,802)                     | 78                |
| Databases                 | 4,949                       | (3,567)                     | 1,382             |
| Trademark and trade names | 1,250                       | (208)                       | 1,042             |
| Intangibles               | \$ 70,384                   | \$ (42,464)                 | \$ 27,920         |

Amortization expense was \$5.8 million, \$7.2 million and \$9.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. The estimated future amortization expense subsequent to December 31, 2013, is as follows:

|            |           |
|------------|-----------|
| 2014       | \$ 5,191  |
| 2015       | 4,988     |
| 2016       | 4,673     |
| 2017       | 4,426     |
| 2018       | 1,022     |
| Thereafter | 1,793     |
|            | \$ 22,093 |

**NOTE 8 ACCRUED LIABILITIES**

The components of accrued liabilities at December 31, 2013 and 2012 are as follows:

|                                             | December 31, |           |
|---------------------------------------------|--------------|-----------|
|                                             | 2013         | 2012      |
| Accrued payroll and vacation                | \$ 10,406    | \$ 5,076  |
| Accrued corporate and payroll related taxes | 4,770        | 2,979     |
| Contingent consideration - current          | 1,640        |           |
| Other                                       | 4,373        | 5,154     |
|                                             | \$ 21,189    | \$ 13,209 |

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

(tabular amounts in thousands, except per share data)

**NOTE 9 SHARE REPURCHASE PROGRAM**

Under a stock repurchase plan approved by the Board of Directors on October 16, 2007, the Company repurchased 15.9 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, 2013, there was \$3.4 million available under this repurchase program. Share repurchases totaled \$4.1 million, \$1.5 million and \$1.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**NOTE 10 FINANCING ARRANGEMENTS AND LONG-TERM DEBT**

Long-term debt consists of the following:

|                                             | <b>December 31,</b> |             |
|---------------------------------------------|---------------------|-------------|
|                                             | <b>2013</b>         | <b>2012</b> |
| Senior secured credit facility              | \$ 53,312           | \$ 56,813   |
| Compass convertible notes                   | 3,434               | 6,250       |
|                                             | 56,746              | 63,063      |
| Less current installments on long term debt | 3,375               | 10,000      |
| Long-term debt                              | \$ 53,371           | \$ 53,063   |

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

|      | <b>Debt</b> |
|------|-------------|
| 2014 | \$ 3,375    |
| 2015 | 3,937       |
| 2016 | 4,500       |
| 2017 | 4,500       |
| 2018 | 40,434      |
|      | \$ 56,746   |

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

**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

**NOTE 10 FINANCING ARRANGEMENTS AND LONG-TERM DEBT (Continued)**

unamortized debt financing costs relating to the 2007 Credit Agreement. This amount was recorded in Gain on Extinguishment of Debt in the accompanying consolidated statement of comprehensive income (loss).

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

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

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

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

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

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

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

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**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

**NOTE 10 FINANCING ARRANGEMENTS AND LONG-TERM DEBT (Continued)**

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

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

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

As of December 31, 2013, the total principal outstanding under the term loan facility and revolving credit facility was \$43.3 million and \$10.0 million, respectively. Additional mandatory principal repayments totaling \$3.4 million and \$3.9 million will be due in 2014 and 2015, respectively.

**Compass Convertible Notes**

On January 4, 2011, as part of the consideration for the acquisition of Compass, 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. 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 April 26, 2013, the Company settled a portion of the Notes. The payee agreed to accept from the Company an amount equal to \$650,000 as satisfaction in full of all indebtedness of \$1.1 million

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**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

**NOTE 10 FINANCING ARRANGEMENTS AND LONG-TERM DEBT (Continued)**

owing by the Company to such payee. As a result of this transaction, the Company recognized a gain of \$0.5 million in the second quarter of 2013 representing the difference between the fair value of the consideration issued in the settlement transaction and the carrying value of the amounts due to the payee. This amount was recorded in *Gain on Extinguishment of Debt* in the accompanying consolidated statement of comprehensive income (loss).

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

**NOTE 11 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 \$7,650, 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, 2013, 2012 and 2011, \$1.6 million, \$1.6 million and \$1.3 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.



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

(tabular amounts in thousands, except per share data)

**NOTE 11 COMMITMENTS AND CONTINGENCIES (Continued)**

Aggregate future minimum payments under noncancelable leases with initial or remaining terms of one year or more consist of the following at December 31, 2013:

|                                     | <b>Operating<br/>Leases</b> |
|-------------------------------------|-----------------------------|
| 2014                                | \$ 2,230                    |
| 2015                                | 2,059                       |
| 2016                                | 1,649                       |
| 2017                                | 1,111                       |
| 2018                                | 494                         |
| Thereafter                          | 564                         |
| <b>Total minimum lease payments</b> | <b>\$ 8,107</b>             |

The Company's rental expense for operating leases was \$3.2 million, \$3.0 million and \$3.9 million, in 2013, 2012 and 2011, respectively.

**STA Consulting Contingent Consideration**

As of December 31, 2013, the Company has recorded a liability of \$4.1 million representing the estimated fair value of contingent consideration related to the acquisition of STA Consulting, of which \$1.6 million is classified as current and included in accrued expenses on the consolidated balance sheet. During the year ended December 31, 2013, the Company increased the contingent consideration liability by \$1.3 million based on the latest estimates of future profit levels for the year ended December 31, 2013. The Company expects to pay \$1.6 million in the first quarter of 2014 related to 2013 performance and the remaining contingent liability in the first quarter of 2015 and the first quarter of 2016.

**NOTE 12 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, 2013 and 2012, the Company had outstanding receivables from related parties, including shareholders, totaling \$205,817 and \$51,713, respectively, and no outstanding payables. These transactions related to personal withholding taxes paid on behalf of expatriate employees.

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

(tabular amounts in thousands, except per share data)

**NOTE 13 INCOME TAXES**

The components of income (loss) before income taxes for the years ended December 31, 2013, 2012 and 2011 consists of the following:

|                                                | Years Ended December 31, |                 |                    |
|------------------------------------------------|--------------------------|-----------------|--------------------|
|                                                | 2013                     | 2012            | 2011               |
| Domestic                                       | \$ 3,913                 | \$ 2,104        | \$ (69,932)        |
| Foreign                                        | 5,130                    | 1,136           | 5,669              |
| <b>Total income (loss) before income taxes</b> | <b>\$ 9,043</b>          | <b>\$ 3,240</b> | <b>\$ (64,263)</b> |

The components of the 2013, 2012 and 2011 income tax (benefit) provision are as follows:

|                                | Years Ended December 31, |                 |                   |
|--------------------------------|--------------------------|-----------------|-------------------|
|                                | 2013                     | 2012            | 2011              |
| <b>Current:</b>                |                          |                 |                   |
| Federal                        | \$ 3,917                 | \$ 3,330        | \$ 1,195          |
| State                          | 339                      | 862             | 291               |
| Foreign                        | 1,825                    | 1,088           | 1,191             |
| <b>Total current provision</b> | <b>6,081</b>             | <b>5,280</b>    | <b>2,677</b>      |
| <b>Deferred:</b>               |                          |                 |                   |
| Federal                        | (1,609)                  | (1,824)         | (9,307)           |
| State                          | (86)                     | (503)           | (1,091)           |
| Foreign                        | (119)                    | (316)           | (605)             |
| <b>Total deferred benefit</b>  | <b>(1,814)</b>           | <b>(2,643)</b>  | <b>(11,003)</b>   |
| <b>Total</b>                   | <b>\$ 4,267</b>          | <b>\$ 2,637</b> | <b>\$ (8,326)</b> |

Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)****NOTE 13 INCOME TAXES (Continued)**

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, 2013, 2012 and 2011 were as follows:

|                                                        | <b>Years Ended December 31,</b> |             |             |
|--------------------------------------------------------|---------------------------------|-------------|-------------|
|                                                        | <b>2013</b>                     | <b>2012</b> | <b>2011</b> |
| Tax provision (benefit) computed at 35%                | \$ 3,165                        | \$ 1,134    | \$ (22,492) |
| Nondeductible goodwill impairment                      |                                 |             | 12,010      |
| Nondeductible expenses                                 | 541                             | 158         | 193         |
| State income taxes, net of federal benefit             | 145                             | 94          | (899)       |
| Derecognition of stock compensation deferred tax asset |                                 | 451         | 1,255       |
| Tax impact of foreign operations                       | 518                             | 784         | 1,607       |
| Other                                                  | (102)                           | 16          |             |
| Income tax provision (benefit)                         | \$ 4,267                        | \$ 2,637    | \$ (8,326)  |
| Effective income tax rates                             | 47.2%                           | 81.4%       | 13.0%       |

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Table of Contents**INFORMATION SERVICES GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular amounts in thousands, except per share data)****NOTE 13 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,<br>2013 | December 31,<br>2012 |
|------------------------------------------------|----------------------|----------------------|
| <b>Current deferred tax asset</b>              |                      |                      |
| Compensation related expenses                  | \$ 456               | \$ 426               |
| Valuation allowance for deferred tax assets    | (432)                |                      |
| Accruals and reserves                          | 1,058                | 1,102                |
| <b>Total current deferred tax asset</b>        | <b>1,082</b>         | <b>1,528</b>         |
| <b>Current deferred tax liability</b>          |                      |                      |
| Prepays                                        | (257)                | (315)                |
| <b>Total current deferred tax liability</b>    | <b>(257)</b>         | <b>(315)</b>         |
| <b>Net current deferred tax asset</b>          | <b>\$ 825</b>        | <b>\$ 1,213</b>      |
| <b>Noncurrent deferred tax asset</b>           |                      |                      |
| Compensation related expenses                  | \$ 1,006             | \$ 1,198             |
| Foreign currency translation                   | 1,500                | 1,252                |
| Foreign tax credit carryovers                  | 1,739                | 1,108                |
| Foreign net operating loss carryovers          | 5,102                | 4,478                |
| U.S. net operating loss carryovers             | 368                  | 384                  |
| Other                                          | 333                  |                      |
| Valuation allowance for deferred tax assets    | (5,862)              | (5,039)              |
| <b>Total noncurrent deferred tax asset</b>     | <b>4,186</b>         | <b>3,381</b>         |
| <b>Noncurrent deferred tax liability</b>       |                      |                      |
| Depreciable assets                             | (239)                | (26)                 |
| Intangible assets                              | (5,158)              | (7,373)              |
| Investment in foreign subsidiaries             | (1,221)              | (1,714)              |
| <b>Total noncurrent deferred tax liability</b> | <b>(6,618)</b>       | <b>(9,113)</b>       |
| <b>Net noncurrent deferred tax liability</b>   | <b>(2,432)</b>       | <b>(5,732)</b>       |
| <b>Net deferred tax liability</b>              | <b>\$ (1,607)</b>    | <b>\$ (4,519)</b>    |

A valuation allowance was established at December 31, 2013 and 2012 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, 2013 also primarily 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 13 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.

**Uncertain tax positions**

The Company also agreed to settle with the Internal Revenue Service during 2013 on a prior year tax position which caused a reduction in its unrecognized tax benefits accrual at December 31, 2013. 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:

|                                                                        | <b>December 31,</b> |             |             |
|------------------------------------------------------------------------|---------------------|-------------|-------------|
|                                                                        | <b>2013</b>         | <b>2012</b> | <b>2011</b> |
| Balance, beginning of year                                             | \$ 2,470            | \$ 2,087    | \$ 508      |
| Reductions as a result of tax positions taken during a prior period    | (139)               |             |             |
| Additions as a result of tax positions taken during the current period | 110                 | 383         | 42          |
| Reductions as a result of settlement with tax authorities              | (139)               |             |             |
| Reductions as a result of lapse of statute                             | (14)                |             |             |
| Additions as a result of acquisitions                                  |                     |             | 1,537       |
| Balance, end of year                                                   | \$ 2,288            | \$ 2,470    | \$ 2,087    |

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 \$2.4 million. The Company has entered into indemnification arrangements totaling \$0.8 million to reduce the net economic impact of its uncertain

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**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

**NOTE 13 INCOME TAXES (Continued)**

tax positions. 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 2007.

**NOTE 14 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 denominated in shares, 500,000 shares and (y) with respect to performance compensation awards that are not denominated in shares, \$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, 2013, there were 1,020,995 and 135,849 shares available for grant under the amended and restated Incentive Plan and ESPP, respectively.

The Company recognized \$3.4 million, \$2.8 million and \$3.1 million in employee stock-based compensation expense during the years ended December 31, 2013, 2012 and 2011, respectively. This expense was recorded in selling, general and administrative in the 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 14 STOCK-BASED COMPENSATION PLANS (Continued)**

**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.

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

(tabular amounts in thousands, except per share data)

**NOTE 14 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<br>Exercise<br>Price | Weighted-Average<br>Remaining<br>Contractual<br>Life<br>(in years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------------------|-------|---------------------------------------|--------------------------------------------------------------------|---------------------------------|
| 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                                        |       | \$                                    |                                                                    |                                 |
| Forfeited                                        | (131) | \$ 5.29                               |                                                                    |                                 |
| Outstanding at December 31, 2012                 | 265   | \$ 4.92                               | 5.5                                                                | \$                              |
| Granted                                          |       | \$                                    |                                                                    |                                 |
| Exercised                                        | (45)  | \$ 3.18                               |                                                                    | \$ 45                           |
| Forfeited                                        | (88)  | \$ 5.27                               |                                                                    |                                 |
| Outstanding at December 31, 2013                 | 132   | \$ 5.28                               | 4.4                                                                | \$ 67                           |
| Vested and expected to vest at December 31, 2013 | 132   | \$ 5.28                               | 4.4                                                                | \$ 67                           |
| Exercisable at December 31, 2013                 | 132   | \$ 5.28                               | 4.4                                                                | \$ 67                           |

The Company did not grant any SAR during the years end December 31, 2013, 2012 and 2011, respectively. The total fair value of the SARs vested during the years ended December 31, 2013, 2012 and 2011 was \$6,000, \$0.1 million and \$0.2, respectively. As of December 31, 2013, all of the compensation costs related to the Company's vested SARs have been recognized.

The Company uses the Black-Scholes option pricing model to determine the fair value of each SAR award on the date of grant. The estimated fair value of the SARs is amortized to expense on a straight-line basis over the vesting period.

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 \$183 million to \$6.4 billion that management believes to be engaged in the business of information services (the "Sample Companies"). The Company referred to the average volatility of the Sample Companies because management believed that the average volatility of such companies is a reasonable benchmark to use in estimating the expected volatility of the Company's common stock post-business combination



**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

**NOTE 14 STOCK-BASED COMPENSATION PLANS (Continued)**

and 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 SARs at the time the SARs was granted. An expected life of five years was taken into account for purposes of assigning a fair value to the SARs. The expected life represents the period of time the awards granted are expected to be outstanding. The Company has not issued any stock options from the offering date through December 31, 2013.

**Restricted Share Awards/Units**

The Incentive Plan provides for the granting of restricted share awards ("RSA") or restricted share units ("RSU"), the vesting of which is subject to conditions and limitations established at the time of the grant. Upon the grant of an RSA, the participant has the rights of a shareholder, including but not limited to the right to vote such shares and the right to receive any dividends paid on such shares. Recipients of RSU awards will not have the rights of a shareholder of the Company until such date as the Common Shares are issued or transferred to the recipient. The Company granted 175,932 RSAs valued at \$3,500 for each employee worldwide employed as of November 16, 2007 and otherwise receiving RSU under existing programs. Subject to the employee's continued employment, the restricted shares vested with respect to 25% of the shares on each of the first four anniversaries of the grant date. If the employee retires (at the normal retirement age stated in the applicable retirement plan or applicable law, if there is a mandatory retirement age), the restricted shares continued to vest on the same schedule as if the employee remained employed with the Company. Upon a change in control, or upon a termination of employment due to employee's death or permanent disability, the restricted shares become 100% vested. Dividends accrue and will be paid if and when the restricted shares vest.

The Company also granted RSUs to specific employees which have the following characteristics:

*Performance-Based RSU Vesting (EBITDA):* The RSUs have been forfeited as the 2010 EBITDA target was not achieved.

*Time-Based RSU Vesting:* So long as the employee continues to be employed through the fourth anniversary of the grant date, the RSUs will become 100% vested on such date.

*Performance-Based RSU Vesting (Stock Price):* On July 1 and August 1, 2013, the Company granted 804,000 and 75,000 RSUs with grant date prices of \$1.90 and \$2.72, respectively. These RSUs contained a market condition that should the closing price of ISG shares meet or exceed \$3.50 for three consecutive trading days, 100% of the RSUs would vest immediately at that time. The Company assessed the fair value of the awards on the grant date utilizing a lattice model.

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

The weighted-average grant date fair value per market-based share for these awards granted was computed using the Monte Carlo pricing model using the following assumptions:

|                         |         |
|-------------------------|---------|
| Expected term of award  | 4 years |
| Risk-free interest rate | 1.10%   |
| Expected volatility     | 50%     |

The expected term of the awards was based on the requisite service period. The risk-free interest rate was based on the U.S Treasury Bill in effect at the time of grant for four years. The expected volatility was based on our historical volatility.

All RSUs under these grants have vested since the market condition was achieved during the quarter ended September 30, 2013. As a result, the Company recorded \$1.7 million of stock compensation expense in selling, general and administrative in the accompanying consolidated statement of comprehensive income (loss).

If an employee's employment is terminated (i) at any time during the vesting period due to the employee's death, disability or retirement prior to the applicable vesting date or (ii) without cause by the Company after 50% of the relevant period has elapsed, then the RSUs will vest prorata based on the period of time worked relative to such period. However, no shares will be distributed until the applicable pro rata vesting date (and, in the case of the Performance-Based RSUs, only if and to the extent that the performance target is achieved). In all other terminations occurring prior to the applicable vesting date, the RSUs will expire. All RSUs will be payable in shares of the Company's common stock immediately upon vesting. No dividend equivalents will be paid with respect to any RSUs.

The fair value of RSAs and RSUs is determined based on the closing price of the Company's shares on the grant date. The total fair value is amortized to expense on a straight-line basis over the vesting period.

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

(tabular amounts in thousands, except per share data)

**NOTE 14 STOCK-BASED COMPENSATION PLANS (Continued)**

A summary of the status of the Company's RSAs and RSUs issued under its Incentive Plan as of December 31, 2013 and changes during the year then ended, is presented below:

|                                 | RSA  | Weighted-Average Grant Date Fair Value | RSU     | Weighted-Average Grant Date Fair Value |
|---------------------------------|------|----------------------------------------|---------|----------------------------------------|
| Non-vested at December 31, 2010 | 25   | \$ 7.20                                | 1,998   | \$ 3.96                                |
| Granted                         |      | \$                                     | 1,986   | \$ 1.98                                |
| Vested                          | (22) | \$ 7.20                                | (931)   | \$ 4.29                                |
| Forfeited                       | (3)  | \$ 7.20                                | (395)   | \$ 4.68                                |
| Non-vested at December 31, 2011 |      | \$                                     | 2,658   | \$ 2.26                                |
| Granted                         |      | \$                                     | 1,057   | \$ 1.21                                |
| Vested                          |      | \$                                     | (1,033) | \$ 2.49                                |
| Forfeited                       |      | \$                                     | (334)   | \$ 2.12                                |
| Non-vested at December 31, 2012 |      | \$                                     | 2,348   | \$ 1.71                                |
| Granted                         |      | \$                                     | 1,578   | \$ 2.31                                |
| Vested                          |      | \$                                     | (2,045) | \$ 1.85                                |
| Forfeited                       |      | \$                                     | (254)   | \$ 1.68                                |
| Non-vested at December 31, 2013 |      | \$                                     | 1,627   | \$ 2.13                                |

The total fair value of RSAs and RSUs vested during the years ended December 31, 2013, 2012 and 2011 was \$3.8 million, \$2.6 million and \$4.1 million, respectively. As of December 31, 2013, there was \$2.3 million of unrecognized compensation cost related to RSUs, which is expected to be recognized over a weighted-average period of 2.4 years.

**Employee Stock Purchase Plan**

The Company uses the Black-Scholes option pricing model to estimate the fair value of shares expected to be issued under the Company's employee stock purchase plan. The ESPP provides that a total of 1.2 million shares of Common Stock are reserved for issuance under the plan. The ESPP, which is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code, is implemented utilizing three-month offerings with purchases occurring at three-month intervals. The ESPP administration is overseen by the Company's Compensation Committee. Employees are eligible to participate if they are employed by the Company for at least 20 hours per week and more than five months in a calendar year. The ESPP permits eligible employees to purchase Common Stock through payroll deductions, ranging from one to ten percent of their eligible earnings subject to IRS regulated cap of \$25,000. The price of Common Stock purchased under the ESPP is 90% of the fair market value of the Common Stock on the applicable purchase date. Employees may end their

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**INFORMATION SERVICES GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(tabular amounts in thousands, except per share data)**

**NOTE 14 STOCK-BASED COMPENSATION PLANS (Continued)**

participation in an offering at any time during the offering period, and participation ends automatically upon termination of employment. The Compensation Committee may at any time amend or terminate the ESPP, except that no such amendment or termination may adversely affect shares previously granted under the ESPP. The Company may issue new shares for ESPP using treasury shares or newly issued shares. For the year ended December 31, 2013, the Company issued 164,632 shares for ESPP. There were 135,849 shares available for purchase at December 31, 2013 under the ESPP.

**NOTE 15 WARRANTS**

On February 6, 2007, the Company issued 28,125,000 units at a price of \$8.00 per unit and the underwriters for the Company's initial public offering exercised their over-allotment option and purchased an additional 4,218,750 units. Each unit included one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$6.00.

On February 6, 2007, Oenoke Partners, LLC purchased, in a Private Placement, 6,500,000 warrants at \$1 per warrant. The warrants were exercisable on a cashless basis and had terms and provisions that were identical to those of the warrants sold in the Offering, except that these warrants would not be subject to redemption. Oenoke Partners, LLC also agreed that it would not sell or otherwise transfer the warrants until one year after the Company consummated a business combination, which occurred on November 16, 2007. Oenoke LLC was dissolved on December 17, 2008 and the shares and warrants were transferred to ISG's Executive Officers. The 30,647,000 warrants described above expired on January 31, 2011.

The Company also sold to the underwriters, for \$100, a four-year option to purchase up to a total of 1,406,250 units at a per-unit price of \$9.60. The units issuable upon exercise of this option were also identical to those offered in the Offering except that warrants included in the option have an exercise price of \$7.50. The option expired on February 6, 2011.

In connection with the acquisition of TPI, the Company issued 5,000,000 warrants valued at \$13.6 million (\$2.72 per warrant) at an exercise price of \$9.18 per share (the "MCP-TPI Warrants"). The MCP-TPI Warrants expired on November 16, 2012.

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

(tabular amounts in thousands, except per share data)

**NOTE 15 WARRANTS (Continued)**

A summary of the warrant activity as of December 31, 2013, 2012 and 2011 and changes during the years then ended, is presented below:

|                                              | Number of<br>Warrants | Weighted-<br>Average<br>Exercise<br>Price |
|----------------------------------------------|-----------------------|-------------------------------------------|
| Warrants outstanding as of December 31, 2010 | 37,053                | \$ 6.49                                   |
| Warrants expired                             | (32,053)              | 6.07                                      |
| Warrants outstanding as of December 31, 2011 | 5,000                 | \$ 9.18                                   |
| Warrants expired                             | (5,000)               | 9.18                                      |
| Warrants outstanding as of December 31, 2012 |                       | \$                                        |
| Warrants expired                             |                       |                                           |
| Warrants outstanding as of December 31, 2013 |                       | \$                                        |

**NOTE 16 SEGMENT AND GEOGRAPHICAL INFORMATION**

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

Geographical information for the segment is as follows:

|                                       | Years Ended December 31, |            |            |
|---------------------------------------|--------------------------|------------|------------|
|                                       | 2013                     | 2012       | 2011       |
| <b>Revenues</b>                       |                          |            |            |
| Americas(1)                           | \$ 114,603               | \$ 104,925 | \$ 86,735  |
| Europe(2)                             | 75,127                   | 62,671     | 74,383     |
| Asia Pacific(3)                       | 21,252                   | 25,149     | 23,308     |
|                                       | \$ 210,982               | \$ 192,745 | \$ 184,426 |
| <b>Identifiable long-lived assets</b> |                          |            |            |
| Americas                              | \$ 2,064                 | \$ 1,893   | \$ 1,989   |
| Europe                                | 912                      | 931        | 770        |
| Asia Pacific                          | 237                      | 250        | 195        |
|                                       | \$ 3,213                 | \$ 3,074   | \$ 2,954   |

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(1) Substantially all relates to operations in the United States.



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

(tabular amounts in thousands, except per share data)

**NOTE 16 SEGMENT AND GEOGRAPHICAL INFORMATION (Continued)**

- (2) Includes revenues from operations in Germany of \$30.1 million, \$28.3 million and \$30.8 million in 2013, 2012 and 2011, respectively. Includes revenues from operations in the United Kingdom of \$19.9 million, \$14.1 million and \$18.0 million in 2013, 2012 and 2011, respectively.
- (3) Includes revenues from operations in Australia of \$16.1 million, \$18.0 million and \$17.6 million in 2013, 2012 and 2011, respectively.

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

**NOTE 17 UNAUDITED QUARTERLY INFORMATION**

|                                        | Quarters Ended    |                  |                       |                      |
|----------------------------------------|-------------------|------------------|-----------------------|----------------------|
|                                        | March 31,<br>2013 | June 30,<br>2013 | September 30,<br>2013 | December 31,<br>2013 |
| <b>Fiscal 2013:</b>                    |                   |                  |                       |                      |
| Net sales                              | \$ 50,588         | \$ 55,583        | \$ 51,371             | \$ 53,440            |
| Gross profit                           | \$ 20,556         | \$ 23,881        | \$ 20,638             | \$ 21,922            |
| Operating income                       | \$ 2,610          | \$ 4,307         | \$ 1,797              | \$ 2,987             |
| Other expense, net                     | \$ (674)          | \$ (672)         | \$ (686)              | \$ (626)             |
| Income from operations                 | \$ 1,936          | \$ 3,635         | \$ 1,111              | \$ 2,361             |
| Net income                             | \$ 969            | \$ 2,439         | \$ 411                | \$ 957               |
| Basic earnings per share               | \$ 0.03           | \$ 0.07          | \$ 0.01               | \$ 0.03              |
| Diluted earnings per share             | \$ 0.03           | \$ 0.06          | \$ 0.01               | \$ 0.03              |
| Basic weighted average common shares   | 36,632            | 36,756           | 36,781                | 37,071               |
| Diluted weighted average common shares | 38,794            | 38,512           | 38,830                | 38,614               |

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

(tabular amounts in thousands, except per share data)

**NOTE 17 UNAUDITED QUARTERLY INFORMATION (Continued)**

|                                        | Quarters Ended    |                  |                       |                      |
|----------------------------------------|-------------------|------------------|-----------------------|----------------------|
|                                        | March 31,<br>2012 | June 30,<br>2012 | September 30,<br>2012 | December 31,<br>2012 |
| <b>Fiscal 2012:</b>                    |                   |                  |                       |                      |
| Net sales                              | \$ 46,282         | \$ 50,474        | \$ 46,469             | \$ 49,520            |
| Gross profit                           | \$ 18,936         | \$ 21,024        | \$ 18,593             | \$ 19,763            |
| Operating income                       | \$ 171            | \$ 2,281         | \$ 2,412              | \$ 1,686             |
| Other expense, net                     | \$ (819)          | \$ (859)         | \$ (855)              | \$ (777)             |
| (Loss) income from operations          | \$ (648)          | \$ 1,422         | \$ 1,557              | \$ 909               |
| Net (loss) income                      | \$ (572)          | \$ 816           | \$ 210                | \$ 149               |
| Basic (loss) earnings per share        | \$ (0.02)         | \$ 0.02          | \$ 0.01               | \$ 0.00              |
| Diluted (loss) earnings per share      | \$ (0.02)         | \$ 0.02          | \$ 0.01               | \$ 0.00              |
| Basic weighted average common shares   | 36,347            | 36,122           | 36,159                | 36,191               |
| Diluted weighted average common shares | 36,347            | 37,962           | 38,082                | 38,112               |

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## Edgar Filing: Information Services Group Inc. - Form 10-K

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#### EXHIBIT INDEX

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.0                   | Purchase Agreement, dated as of April 24, 2007, as amended, by and between Registrant and MCP-TPI Holdings, LLC (previously filed as Annex A to the Registrant's Definitive Proxy Statement filed with the SEC on October 17, 2007 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                         |
| 2.1                   | Agreement for the Sale and Purchase of the Entire Issued Share Capital of CCGH Limited, dated as of January 4, 2011, between Registrant and the persons named therein (previously filed as Exhibit 2.1 to the Registrant's Form 8-K filed with the SEC on January 4, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                  |
| 2.2                   | Asset Purchase Agreement, dated as of February 10, 2011, among Registrant (for specific section only), and Salvaggio & Teal Ltd. (d/b/a Salvaggio, Teal & Associates), Salvaggio & Teal II, LLC, Mitt Salvaggio, Kirk Teal, Nathan Frey, International Consulting Acquisition Corp., (previously filed as Exhibit 2.1 to the Registrant's Form 8-K filed with the SEC on February 11, 2011 (Commission File Number: 001-33287), and incorporated herein by reference). |
| 3.1                   | Amended and Restated Certificate of Incorporation of the Company (previously filed as Exhibit 3.1 to Amendment No. 5 to the Registrant's Registration Statement on Form S-1 filed with the SEC on January 29, 2007 (Commission File Number: 333-136536), and incorporated herein by reference).                                                                                                                                                                        |
| 3.2                   | Amended and Restated By-Laws, dated as of May 13, 2013 (previously filed as Exhibit 3.1 to the Registrant's Form 8-K filed with the SEC on May 15, 2013 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                                                                                    |
| 4.1                   | Specimen Common Stock Certificate (previously filed as Exhibit 4.2 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 filed with the SEC on December 22, 2006 (Commission File Number: 333-136536), and incorporated herein by reference).                                                                                                                                                                                                      |
| 4.2                   | Form of Subordinated Convertible Note, dated as of January 4, 2011, between Registrant and the persons named therein (previously filed as Exhibit 4.1 to the Registrant's Form 8-K filed with the SEC on January 4, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                   |
| 10.1                  | Registration Rights Agreement between the Registrant and the existing Stockholders dated as of February 6, 2007 (previously filed as Exhibit 10.9 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 filed with the SEC on December 22, 2006 (Commission File Number: 333-136536), and incorporated herein by reference).                                                                                                                       |
| 10.2#                 | Amended and Restated 2007 Equity Incentive Plan (previously filed as Annex A to the Registrant's Definitive Proxy Statement filed with the SEC on April 7, 2010 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                                                                            |
| 10.3#                 | 2007 Employee Stock Purchase Plan (previously filed as Annex C to the Registrant's Definitive Proxy Statement filed with the SEC on October 17, 2007 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                                                                                       |

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## Edgar Filing: Information Services Group Inc. - Form 10-K

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| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                   |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.4#                 | Form of Restricted Stock Unit Agreement (Performance and Time Based) (previously filed as Exhibit 10.1 to the Registrant's Form 10-Q filed with the SEC on August 7, 2013 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                |
| 10.5                  | Credit Agreement, dated as of May 3, 2013, among Information Services Group, Inc., various lenders and Bank of America, N.A., as Administrative Agent (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 7, 2013 (Commission File Number: 001-33287), and incorporated herein by reference). |
| 10.6*                 | First Amendment to the Credit Agreement dated November 14, 2013.                                                                                                                                                                                                                                                                                     |
| 10.7#                 | Employment Letter dated as of September 24, 2009, between the Company and David E. Berger (previously filed as Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on September 29, 2009 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                        |
| 10.8#                 | Form of Restricted Stock Unit Award Agreement (Time-Based), (previously filed as Exhibit 10.2 to the Registrant's Form 8-K filed with the SEC on September 29, 2009 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                      |
| 10.9#                 | Form of Restricted Covenant Agreement, (previously filed as Exhibit 10.3 to the Registrant's Form 8-K filed with the SEC on September 29, 2009 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                           |
| 10.10#                | Severance Agreement dated as of October 5, 2009, between the Company and David E. Berger (previously filed as Exhibit 10.4 to the Registrant's Form 8-K filed with the SEC on September 29, 2009 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                         |
| 10.11#                | Change in Control Agreement dated as of January 7, 2011, between the Company and Michael P. Connors (previously filed as Exhibit 10.2 to the Registrant's Form 8-K filed with the SEC on January 7, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                 |
| 10.12#                | Form of Change in Control Agreement for officers (previously filed as Exhibit 10.15 to the Registrant's Form 10-K filed with the SEC on March 15, 2012 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                   |
| 10.13#                | Employment Letter dated as of January 4, 2011 between the Company and David Whitmore (previously filed as Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on January 7, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                |
| 10.14#                | Employment Letter for David Whitmore, dated December 16, 2011 (previously filed as Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on December 21, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                     |
| 10.15#                | Employment Letter for Harold K. Somerdyk, dated June 21, 2010 (previously filed as Exhibit 10.9 to the Registrant's Form 10-K filed with the SEC on March 15, 2012 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                       |

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## Edgar Filing: Information Services Group Inc. - Form 10-K

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| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.16#                | Employment Agreement for Michael P. Connors, dated December 16, 2011 (previously filed as Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on December 21, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                                  |
| 10.17#                | Employment Letter for David Whitmore, dated January 24, 2012 (previously filed as Exhibit 10.19 to the Registrant's Form 10-K filed with the SEC on March 13, 2013 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                                           |
| 10.18#                | Employment Letter for David Whitmore, dated January 24, 2012 (previously filed as Exhibit 10.20 to the Registrant's Form 10-K filed with the SEC on March 13, 2013 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                                           |
| 10.19#                | Employment Agreement dated as of March 14, 2010 between Compass Limited and David Whitmore (previously filed as Exhibit 10.21 to the Registrant's Form 10-K filed with the SEC on March 13, 2013 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                             |
| 10.20#                | Employment Letter for James Cravens, dated December 17, 2013 (previously filed as Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on December 19, 2013 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                                          |
| 10.21#*               | Amendment No. 1 to Employment Agreement for Michael P. Connors.                                                                                                                                                                                                                                                                                                                                                                          |
| 11.0*                 | Computation of Earnings Per Share (included in Consolidated Statement of Comprehensive Income (Loss) to the Consolidated Financial Statements included in Part II Item 8 herein).                                                                                                                                                                                                                                                        |
| 14.0                  | Code of Ethics and Business Conduct for Directors, Officers and Employees (previously filed as Exhibit 14.1 to the Registrant's Form 8-K filed with the SEC on August 7, 2012 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                                |
| 21.1                  | Subsidiaries of the Company (previously filed as Exhibit 21.1 to the Registrant's Form 10-K filed with the SEC on March 16, 2011 (Commission File Number: 001-33287), and incorporated herein by reference).                                                                                                                                                                                                                             |
| 23.1*                 | Consent of Independent Registered Public Accounting Firm.                                                                                                                                                                                                                                                                                                                                                                                |
| 24.1*                 | Power of Attorney.                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 31.1*                 | Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a).                                                                                                                                                                                                                                                                                                                                                       |
| 31.2*                 | Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a).                                                                                                                                                                                                                                                                                                                                                       |
| 32.1*                 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350.                                                                                                                                                                                                                                                                                                                                                                    |
| 32.2*                 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350.                                                                                                                                                                                                                                                                                                                                                                    |
| 101*                  | The following financial statements from ISG's Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 7, 2014, formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheet, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements. |

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\*  
Filed herewith.

#  
Indicates Item 15(a)(3) exhibit (management contract or compensation plan or arrangement).

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Table of Contents**INFORMATION SERVICES GROUP, INC.****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**  
(in thousands)

| <b>Description</b>                   | <b>Balance at<br/>Beginning<br/>of Period</b> | <b>Balance<br/>Assumed in<br/>Acquisitions</b> | <b>Charges to<br/>Costs and<br/>Expenses</b> | <b>Additions/(Deductions)</b> | <b>Balance at<br/>End of<br/>Period</b> |
|--------------------------------------|-----------------------------------------------|------------------------------------------------|----------------------------------------------|-------------------------------|-----------------------------------------|
| <b>Year ended December 31, 2013:</b> |                                               |                                                |                                              |                               |                                         |
| Allowance for doubtful accounts      | \$ 395                                        |                                                | 49                                           | (92)                          | \$ 352                                  |
| Allowance for tax valuation          | \$ 5,039                                      |                                                | 997                                          | 258                           | \$ 6,294                                |
| <b>Year ended December 31, 2012:</b> |                                               |                                                |                                              |                               |                                         |
| Allowance for doubtful accounts      | \$ 549                                        |                                                | 297                                          | (451)                         | \$ 395                                  |
| Allowance for tax valuation          | \$ 9,026                                      |                                                | 784                                          | (4,771)                       | \$ 5,039                                |
| <b>Year ended December 31, 2011:</b> |                                               |                                                |                                              |                               |                                         |
| Allowance for doubtful accounts      | \$ 195                                        | 327                                            | 588                                          | (561)                         | \$ 549                                  |
| Allowance for tax valuation          | \$ 203                                        | 8,159                                          | 1,607                                        | (943)                         | \$ 9,026                                |