Information Services Group Inc.
Form 10-Q
November 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from to

Commission File Number 333-136536

INFORMATION SERVICES GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**20-5261587**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

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

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

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

Class	**Outstanding at October 30, 2009**
Common Stock, $0.001 par value	31,503,115 shares

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10 Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, should, could, would, expect, plan, anticipate, believe, estimate, the negative of such terms or other similar expressions. The actual results of the Company may vary materially from those expected or anticipated in these forward-looking statements. The realization of such forward-looking statements may be impacted by certain important unanticipated factors. Because of these and other factors that may affect the Company s operating results, past performance should not be considered as an indicator of future performance, and investors should not use historical results to anticipate results or trends in future periods. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers should carefully review the risk factors described in this and other documents that the Company files from time to time with the Securities and Exchange Commission, including subsequent Current Reports on Form 8-K, Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

INFORMATION SERVICES GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 42,932	$ 61,146
Accounts receivable, net of allowance of $283 and $132, respectively	26,548	29,105
Deferred tax asset	2,083	2,577
Prepaid expense and other current assets	1,495	1,313
Total current assets	73,058	94,141
Furniture, fixtures and equipment, net	2,534	2,771
Goodwill	95,065	95,249
Intangible assets, net	72,108	85,016
Other assets	1,727	2,411
Total assets	$ 244,492	$ 279,588
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 1,634	$ 2,635
Current maturities of long-term debt	7,000	950
Deferred revenues	1,151	1,472
Accrued expenses	7,968	19,948
Total current liabilities	17,753	25,005
Long-term debt, net of current maturities	69,812	93,100
Deferred tax liability	26,318	30,902
Total liabilities	113,883	149,007
Commitments and contingencies (Note 6)		
Stockholders equity		
Preferred stock, $.001 par value; 10,000 shares authorized; none issued		

Common stock, $.001 par value, 100,000 shares authorized; 31,496 shares issued and 31,480 shares outstanding at September 30, 2009 and 31,358 shares issued and 31,308 outstanding at December 31, 2008	32	31
Additional paid-in-capital	188,562	186,716
Treasury stock (16 and 50 common shares, respectively, at cost)	(57)	(249)
Accumulated other comprehensive loss	(1,375)	(2,412)
Accumulated deficit	(56,553)	(53,505)
Total stockholders equity	130,609	130,581
Total liabilities and stockholders equity	$ 244,492	$ 279,588

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues	$ 32,462	$ 41,123	$ 98,279	$ 137,370
Operating expenses				
Direct costs and expenses for advisors	16,968	22,771	49,447	76,827
Selling, general and administrative	10,532	11,934	35,647	39,482
Impairment of intangible assets	6,800		6,800	
Depreciation and amortization	2,366	2,614	7,160	7,793
Operating (loss) income	(4,204)	3,804	(775)	13,268
Interest income	39	307	254	963
Interest expense	(1,111)	(1,572)	(3,640)	(5,162)
Foreign currency transaction (loss) gain	(107)	(3)	(151)	405
(Loss) income before taxes	(5,383)	2,536	(4,312)	9,474
Income tax (benefit) provision	(1,786)	1,079	(1,354)	3,930
Net (loss) income	$ (3,597)	$ 1,457	$ (2,958)	$ 5,544
Weighted average shares outstanding:				
Basic	31,478	31,208	31,456	31,290
Diluted	31,478	31,281	31,456	31,357
(Loss) earnings per share:				
Basic	$ (0.11)	$ 0.05	$ (0.09)	$ 0.18
Diluted	$ (0.11)	$ 0.05	$ (0.09)	$ 0.18

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities		
Net (loss) income	$ (2,958)	$ 5,544
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation expense	1,052	1,157
Impairment of intangible assets	6,800	
Amortization of intangibles	6,108	6,636
Amortization of deferred financing costs	686	404
Compensation costs related to stock-based awards	1,873	1,813
Bad debt expense	410	87
Deferred tax benefit	(4,753)	(2,321)
Loss on disposal of furniture, fixtures and equipment	4	5
Changes in operating assets and liabilities:		
Accounts receivable	2,711	2,123
Prepaid expense and other current assets	(183)	1,579
Accounts payable	(1,001)	(2,513)
Deferred revenues	(321)	(1,318)
Accrued expenses	(11,740)	1,201
Net cash (used in) provided by operating activities	(1,312)	14,397
Cash flows from investing activities		
Purchase of furniture, fixtures and equipment	(819)	(1,383)
Net cash used in investing activities	(819)	(1,383)
Cash flows from financing activities		
Principal payments on borrowings	(17,237)	(713)
Issuance of treasury shares	161	142
Equity securities repurchased	(86)	(2,255)
Net cash used in financing activities	(17,162)	(2,826)
Effect of exchange rate changes on cash	1,079	(350)
Net (decrease) increase in cash and cash equivalents	(18,214)	9,838
Cash and cash equivalents, beginning of period	61,146	47,177
Cash and cash equivalents, end of period	$ 42,932	$ 57,015

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

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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 Acquisition Date), the Company consummated the acquisition of TPI Advisory Services Americas, Inc., (the Acquisition) a Texas corporation (TPI), pursuant to a Purchase Agreement (the 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.

The Company operates as a fact-based sourcing advisory firm specializing in the assessment, evaluation, negotiation and management of service contracts between our clients and those clients service providers. These service contracts typically involve the clients information technology (IT) infrastructure or software applications development, data and voice communications, or IT-enabled business processes such as the clients internal finance and accounting functions, human resources, call center operations, or supply chain procurement. The majority of our clients are Forbes Global 2000 corporations in the United States, Canada, Western Europe, Asia and Australia who are seeking to enter into or streamline their third-party outsourcing contracts. Clients are primarily charged on an hourly basis plus expenses. We also enter into a limited number of fixed fee arrangements. Services are rendered by our professional advisory staff who are primarily based throughout the Americas, Europe, and Asia Pacific.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements as of September 30, 2009 and for the periods ended September 30, 2009 and 2008, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial statements and pursuant to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are considered necessary for a fair presentation of the financial position of the Company as of September 30, 2009, the results of operations for the three and nine months ended September 30, 2009 and 2008, and the statements of cash flows for the nine months ended September 30, 2009 and 2008. The condensed consolidated balance sheet as of December 31, 2008 has been derived from the Company s audited consolidated financial statements. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. We have evaluated subsequent events for recognition or disclosure through November 6, 2009, which was the date we filed this Form 10-Q with the SEC.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with GAAP have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2008, which are included in the Company s 2008 Form 10-K filed with the SEC.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (FASB) confirmed that the Accounting Standards Codification (ASC) will become the single official source of authoritative US GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. After the ASC became effective (interim and annual periods ending on or after September 15, 2009), only one level of authoritative US GAAP exists. All other literature will be considered non-authoritative. The ASC is not intended to change GAAP, but changes the approach by referencing authoritative literature by topic (each a Topic) rather than by type of standard. Accordingly, references in the Company s Notes to Consolidated Financial Statements to former FASB positions, statements, interpretations, opinions, bulletins or other pronouncements are now presented as references to the corresponding Topic in the ASC. The Company adopted ASC beginning in the third quarter of fiscal 2009.

Goodwill and Intangible Assets

The Company s goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired at the date of acquisition. The primary other identifiable intangible assets of the Company with indefinite lives are trademarks and trade names of the business acquired. These assets are not amortized but rather tested for impairment at least annually by applying a fair-value based test in accordance with accounting and disclosure requirements for goodwill and other indefinite-lived intangible assets. The Company maintains a single operating segment and reporting unit. As a result of declining revenue, driven by a global recession which has impacted and reduced sourcing industry activity, the Company determined a triggering event had occurred requiring a goodwill impairment test be performed.

We determined the fair value of the reporting unit under both a market and income approach. The income approach utilizes a discounted cash flow model and is based on projections of future operations of the reporting unit as of the valuation date. The market approach is based on the Company s stock price and provides a direct indication of fair value. Assumptions used in our impairment evaluations, such as forecasted growth rates and cost of capital, are consistent with internal projections and operating plans. We believe such assumptions and estimates are also comparable to those that would be used by other marketplace participants.

We determined that the fair value of our reporting unit exceeded its carrying value; therefore we did not recognize any impairment charges for goodwill for the year.

Our indefinite-lived intangible assets impairment tests involve estimates and management s judgment. The fair value of trademarks and trade name assets were determined using the relief from royalty method by discounting the cash flows that represent a savings over having to pay a royalty fee for use of the trademarks and trade names. The discounted cash flow valuation uses the same projections used under the income approach described above.

Due to the continued challenging macro-economic factors impacting industry conditions and recent actual results, we concluded that the indefinite life trademarks and trade names was impaired by $6.8 million which is included in loss from operations in the accompanying consolidated statement of operations for the three and nine months ended September 30, 2009. This impairment charge was measured as the excess of the carrying value over the fair value of the asset.

We also reviewed our long-lived assets for impairment in accordance with disclosure requirements for the impairment or disposal of long-lived assets and determined there was no impairment.

We will revaluate the fair values of the goodwill and indefinite-lived intangible assets during our scheduled annual impairment testing in the fourth quarter of 2009.

(Loss) Earnings Per Common Share

Basic earnings 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. For the three and nine months ended September 30, 2009, the effect of 35.6 million warrants, 1.4 million Units (each Unit comprising one common share and one warrant) associated with the Company s IPO underwriters purchase options have not been considered in the diluted earnings per share calculation since the market price of the Company s common stock was less than the exercise price during the period in the computation. In addition, 1.9 million restricted shares and 0.6 million stock appreciation rights (SARs) have not been considered in the diluted earnings per share calculation for the three and nine months ended September 30, 2009, as the effect would be anti-dilutive. For the three and nine months ended September 30, 2008, the effect of 41.0 million warrants, 0.3 million SARs and 1.4 million Units included in the underwriters purchase options have not been considered in the diluted earnings per share calculation since the market price of the stock was less than the exercise price during the period in the computation. In addition, 0.7 million and 1.1 million restricted shares have not been considered in the diluted earnings per share calculation for the three and nine months ended September 30, 2008, as the effect would be anti-dilutive.

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Numerator:				
Net (loss) income	$ (3,597)	$ 1,457	$ (2,958)	$ 5,544
Denominator:				
Basic weighted average common shares outstanding	31,478	31,208	31,456	31,290
Diluted effects of SARs, restricted shares, Employee Stock Purchase Plan shares and warrants		73		67
	31,478	31,281	31,456	31,357
(Loss) earnings per share:				
Basic	$ (0.11)	$ 0.05	$ (0.09)	$ 0.18
Diluted	$ (0.11)	$ 0.05	$ (0.09)	$ 0.18

Recently Issued Accounting Pronouncements

In December 2008, the FASB issued a staff position regarding the employer disclosures for postretirement benefit plan assets. This standard requires enhanced disclosures about postretirement benefit plan assets, including how investment decisions are made, the major categories of plan assets, inputs and valuation techniques used to measure the fair value of plan assets, and significant concentrations of risk within plan assets. This standard is effective for fiscal years ending after December 15, 2009. The Company does not expect the adoption of this standard to have material impact on our business, results of operations or financial condition.

NOTE 4 INCOME TAXES

The Company s effective tax rate for the three and nine months ended September 30, 2009 is 33.2% and 31.4%, respectively. This compared to 42.5% and 41.5% for the three and nine months ended September 30, 2008, respectively. The decrease for the nine months ended September 30, 2009 is primarily due to the impact of the impairment of the intangible assets recorded during the third quarter of 2009.

As of September 30, 2009, the Company had total unrecognized tax benefits of approximately $0.3 million of which approximately $0.1 million would impact the Company s effective tax rate if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax provision in its consolidated statement of operations. As of September 30, 2009, the Company s accrual for interest and penalties is $0.1 million.

NOTE 5 INTANGIBLE ASSETS

The carrying amount, accumulated amortization and impairment of intangible assets as of September 30, 2009 consist of the following:

	Noncompete Agreements	Software	Customer Relationships	Databases	Trademarks	Total
Balance as of December 31, 2008	$ 3,953	$ 1,078	$ 39,229	$ 2,156	$ 38,600	$ 85,016
Amortization expense	(1,031)	(281)	(4,234)	(562)		(6,108)
Impairment of intangible assets					(6,800)	(6,800)
Balance as of September 30, 2009	$ 2,922	$ 797	$ 34,995	$ 1,594	$ 31,800	$ 72,108

The Company performed impairment tests to its indefinite-lived intangible assets during the third quarter of 2009. As a result of this testing, the Company recorded a pre-tax non-cash impairment charge of $6.8 million associated with the Company s trade names and trademarks.

We also reviewed our long-lived assets for impairment in accordance with disclosure requirements for the impairment or disposal of long-lived assets and determined there was no impairment.

We will revaluate the fair values of the indefinite-lived intangible assets during our annual impairment testing in the fourth quarter of 2009.

NOTE 6 COMMITMENTS AND CONTINGENCIES

The Company is subject to contingencies which arise through the ordinary course of business. All liabilities of which management is aware are reflected in the condensed consolidated financial statements at September 30, 2009 and December 31, 2008.

NOTE 7 COMPREHENSIVE (LOSS) INCOME

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net (loss) income	$ (3,597)	$ 1,457	$ (2,958)	$ 5,544
Other comprehensive (loss) income:				
Foreign currency translation adjustments, net of tax of $250, $(975), $636 and $(901), respectively	408	(1,591)	1,037	(731)
Comprehensive (loss) income	$ (3,189)	$ (134)	$ (1,921)	$ 4,813

NOTE 8 RESTRUCTURING ACCRUAL

2007 VCP Plan

Concurrent with the closing of the Acquisition on November 16, 2007, the Company initiated a Value Creation Plan (VCP) focused on implementing selected cost reductions and productivity improvements to achieve best in class economics and investing in new products and services. Cost reductions and productivity measures focused on increasing and/or optimizing the utilization of billable personnel, implementing a more leveraged staffing and resource model, as well as eliminating unnecessary positions, and reducing selected sales, marketing and administrative costs. In addition, compensation and benefit programs were compared and aligned with industry best practices to ensure competitiveness. The VCP was implemented during 2008 and completed in the second quarter of 2009. Costs of $4.3 million were recorded as part of the purchase price of the acquisition in accordance with accounting and disclosure requirement for recognition of liabilities in connection with a purchase business combination at December 31, 2007.

A summary of the activity affecting the Company s accrued restructuring liability related to the integration of the TPI business for the nine months ended September 30, 2009 is as follows:

		Workforce Reductions
Balance at December 31, 2008	$	1,172
Adjustments		(241)
Amounts paid		(931)
Balance at September 30, 2009	$	

The activity above related to workforce reductions. The adjustments related to lower severance expense than estimated and were recorded against goodwill.

2009 Cost Productivity Plan

As a result of the continuing global economic recession, the Company initiated a program in the second quarter of 2009 to (i) further reduce or eliminate the impact of under-utilized advisory resources, (ii) adjust certain fixed and variable compensation levels, and (iii) lower discretionary general and administrative expenses. The program was completed in the third quarter of 2009.

A summary of the activity affecting the Company s accrued restructuring liability related to the 2009 cost productivity plan for the nine months ended September 30, 2009 is as follows:

		Workforce Reductions
Balance at December 31, 2008	$	
Amounts accrued		1,620
Amounts paid		(1,050)
Adjustment		(570)
Balance at September 30, 2009	$	

The adjustment of $0.6 million in accruals recorded in the second quarter of 2009 related to the Company s 2009 cost productivity programs primarily due to voluntary terminations. In addition, there was an increase in the number of projects than previously projected which resulted in the Company being able to retain the employees that were originally part of the cost productivity plan.

NOTE 9 SEGMENT AND GEOGRAPHICAL INFORMATION

The Company operates in one segment consisting primarily of fact-based sourcing advisory services. The Company operates principally in the Americas, Europe, and the Asia Pacific regions.

Geographical information for the segment is as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,