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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

Or

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

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

Information Services Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-5261587**
(State of Incorporation)	(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 o No ý

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 o No ý

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 ý No o

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

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. ý

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 o	Accelerated filer o	Non-accelerated filer ý (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

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

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

Documents Incorporated by Reference

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

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SAFE HARBOR STATEMENT

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

- discuss future expectations;
- contain projections of future results of operations or financial condition; or
- state other "forward-looking" information.

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

- ability to retain existing clients and contracts;
- ability to win new clients and engagements;
- ability to implement cost reductions and productivity improvements;
- beliefs about future trends in the sourcing industry;
- expected spending on sourcing services by clients;
- foreign currency exchange rates;
- effective tax rate; and
- competition in the sourcing industry.

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

- the amount of cash on hand;
- business strategy;
- cost reductions and productivity improvements may not be fully realized or realized within the expected time frame;

continued compliance with government regulations;

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

fluctuations in client demand;

management of growth;

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

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- ISG's relative dependence on clients which operate in the financial services, manufacturing, automotive and public services sectors;
- ability to hire and retain enough qualified employees to support operations;
- increases in wages in locations in which ISG has operations;
- ability to retain senior management;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies;
- ability to attract and retain clients and the ability to develop and maintain client relationships based on attractive terms;
- legislation in the United States or elsewhere that adversely affects the performance of sourcing services offshore;
- increased competition;
- telecommunications or technology disruptions or breaches, or natural or other disasters;
- ability to protect ISG intellectual property and the intellectual property of others;
- the international nature of ISG's business;
- political or economic instability in countries where ISG has operations;
- worldwide political, economic and business conditions; and
- ability to successfully consummate or integrate strategic acquisitions.

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

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

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

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PART I

Item 1. Business

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

Our Company

Information Services Group, Inc. (ISG) (NASDAQ: III) is a leading technology insights, market intelligence and advisory services company serving more than 450 clients around the world to help them achieve operational excellence. ISG supports private and public sector organizations to transform and optimize their operational environments through research, benchmarking, consulting and managed services with a focus on information technology, business process transformation, program management services and enterprise resource planning. Clients look to ISG for unique insights and innovative solutions for leveraging technology, our deep data source, and more than five decades of experience of global leadership in information and advisory services. Based in Stamford, Connecticut, the Company has approximately 800 employees and operates in 21 countries.

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

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

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

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

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

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

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

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

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

Our Services

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

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

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

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

Managed Services. Our managed service offerings provide best in class operational governance services and bring these to our clients as a seamless end-to-end service. This offering assists clients with monitoring and managing their supplier relationships, providing them with real-time accurate market intelligence and insights into all aspects of provider performance and cost, allowing them to focus on the more strategic aspects of supplier management.

Our Competitive Advantages

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

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

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

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

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

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

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

Our Strategy

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

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

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

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

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

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

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

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

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

Our Proprietary Data Assets and Market Intelligence

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

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

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

Clients

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

Competition

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

Employees

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

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

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

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

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

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Available Information

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

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

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Item 1A. Risk Factors

The loss of key executives could adversely affect our business.

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

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

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

We incurred a substantial amount of indebtedness to finance the acquisition of TPI, including transaction costs and deferred underwriting fees. On November 16, 2007, our wholly-owned subsidiary International Consulting Acquisition Corp. ("ICAC") entered into a senior secured credit facility comprised of a $95.0 million term loan facility and a $10.0 million revolving credit facility. On November 16, 2007, ICAC borrowed $95.0 million under the term loan facility to finance the purchase price for our acquisition of TPI and to pay transaction costs. As a result of the substantial fixed costs associated with the debt obligations, we expect that:

- a decrease in revenues will result in a disproportionately greater percentage decrease in earnings;
- we may not have sufficient liquidity to fund all of these fixed costs if our revenues decline or costs increase;
- we may have to use our working capital to fund these fixed costs instead of funding general corporate requirements, including capital expenditures;
- we may not have sufficient liquidity to respond to business opportunities, competitive developments and adverse economic conditions; and
- our results of operations will be adversely affected if interest rates increase because, based on our current outstanding term loan borrowings in the amount of $56.8 million, a 1% increase in interest rates would result in a pre-tax impact on earnings of approximately $0.6 million per year.

These debt obligations may also impair our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business. Our indebtedness under the senior secured revolving credit facility is secured by substantially all of our assets, leaving us with limited collateral for additional financing. Moreover, the terms of our indebtedness under the senior secured revolving credit facility restrict our ability to take certain actions, including the incurrence of additional indebtedness, mergers and acquisitions, investments and asset sales. Our ability to pay the fixed costs associated with our debt obligations will depend on our operating performance and cash flow, which in turn depend on general economic conditions and the advisory services market. A failure to pay interest or indebtedness when due could result in a variety of adverse consequences, including the acceleration of our indebtedness. In such a situation, it is unlikely that we would be able to fulfill our obligations under or repay the accelerated indebtedness or otherwise cover our fixed costs. As of December 31, 2012, the total principal outstanding under the term loan facility was $56.8 million. There were no borrowings under the revolving credit facility during fiscal 2012.

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

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

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

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

The market price of our common stock may fluctuate widely.

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

- future announcements concerning us or our competitors;
- quarterly fluctuations in operating results;
- announcements of acquisitions or technological innovations;
- changes in earnings estimates or recommendations by analysts; or
- current market volatility.

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

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

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

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

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

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

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

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

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

- fluctuations in revenues earned on contracts;
- commencement, completion or termination of contracts during any particular period;
- additions and departures of key advisors;
- transitioning of advisors from completed projects to new engagements;
- seasonal trends;

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- introduction of new services by us or our competitors;
- changes in fees, pricing policies or compensation arrangements by us or our competitors;
- strategic decisions by us, our clients or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- global economic and political conditions and related risks, including acts of terrorism; and
- conditions in the travel industry that could prevent our advisors from traveling to client sites.

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

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

- delivering consistent, high-quality advisory services to our clients;
- tailoring our advisory services to the changing needs of our clients;
- matching the skills and competencies of our advisory staff to the skills required for the fulfillment of existing or potential advisory engagements; and
- maintaining a global business operation.

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

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

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

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

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

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

We have risks associated with potential acquisitions or investments.

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

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

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

We may fail to anticipate and respond to market trends.

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

We may be unable to protect important intellectual property rights.

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

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

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

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

We rely heavily on key members of our management team.

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

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

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

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

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

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

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

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

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

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

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

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

- tariffs and trade barriers;
- regulations related to customs and import/export matters;
- restrictions on entry visas required for our advisors to travel and provide services;
- tax issues, such as tax law changes and variations in tax laws as compared to the United States;
- cultural and language differences;

- an inadequate banking system;
- foreign exchange controls;
- restrictions on the repatriation of profits or payment of dividends;
- crime, strikes, riots, civil disturbances, terrorist attacks and wars;
- nationalization or expropriation of property;
- law enforcement authorities and courts that are inexperienced in commercial matters; and
- deterioration of political relations with the United States.

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

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

We operate in a number of international areas which exposes us to significant foreign currency exchange rate risk.

We have significant international revenue, which is generally collected in local currency. We currently hold or issue forward exchange contracts for hedging purposes. We do enter into forward contracts for hedging of specific transactions. All are settled prior to quarter end. It is expected that our international revenues will continue to grow as European and Asian markets adopt sourcing solutions and through the acquisition of Compass. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

We may be subject to claims for substantial damages by our clients arising out of disruptions to their businesses or inadequate service and our insurance coverage may be inadequate.

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

Under our service agreements with our clients, our liability for breach of our obligations is generally limited to actual damages suffered by the client and is typically capped at the greater of an agreed amount or the fees paid or payable to us under the relevant agreement. These limitations and caps on liability may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients or liability for breaches of confidentiality, are generally not limited under those agreements. Although we have general commercial liability insurance coverage, the coverage may not continue to be available on acceptable terms or in sufficient amounts to cover one or more large claims. The successful assertion of one or more large claims against us that exceed available insurance coverage or changes in our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements) could have a material adverse effect on our business.

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

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

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

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

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

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

We believe that the ISG brand and the related subsidiary brands including "TPI", "Compass" and "STA Consulting" remain critical to our efforts to attract and retain clients and staff and that the importance of brand recognition will increase as competition increases. We may expand our marketing activities to promote and strengthen our brands and may need to increase our marketing budget, hire additional marketing and public relations personnel, expend additional sums to protect the brands and otherwise increase expenditures to create and maintain client brand loyalty. If we fail to effectively promote and maintain the brands or incur excessive expenses in doing so, our future business and operating results could be adversely impacted.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

	Common Stock	
Quarter Ending	**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

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

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

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

Dividend Policy

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

Issuer Purchases of Equity Securities

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

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

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

Securities Authorized for Issuance under Equity Compensation Plan

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

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

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

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

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STOCK PERFORMANCE GRAPH

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

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Information Services Group Inc, the NASDAQ Composite Index,
the Russell 2000 Index, and a Peer Group

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

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

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

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Item 6. Selected Financial Data

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

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

(1) As a result of our goodwill and intangible asset impairment assessments, we recorded an impairment charge of $34.3 million during the fourth quarter of 2011 associated with goodwill and $27.4 million related to intangible assets.

(2) As a result of our goodwill and intangible asset impairment assessments, we recorded an impairment charge of $46.6 million during the third quarter of 2010 associated with goodwill and $5.9 million related to intangible assets.

(3) As a result of our intangible asset impairment assessments, we recorded an impairment charge of $6.8 million during the third quarter of 2009 associated with intangible assets.

(4) As a result of our goodwill and intangible asset impairment assessments, we recorded an impairment charge of $49.4 million during the fourth quarter of 2008 associated with goodwill and $24.8 million related to intangible assets.

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

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

BUSINESS OVERVIEW

Information Services Group, Inc. (ISG) (NASDAQ: III) is a leading technology insights, market intelligence and advisory services company serving more than 450 clients around the world to help them achieve operational excellence. ISG supports private and public sector organizations to transform and optimize their operational environments through research, benchmarking, consulting and managed services with a focus on information technology, business process transformation, program management services and enterprise resource planning. Clients look to ISG for unique insights and innovative solutions for leveraging technology, our deep data source, and more than five decades of experience of global leadership in information and advisory services. Based in Stamford, Connecticut, the Company has approximately 800 employees and operates in 21 countries.

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

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

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

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

Revenues

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

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

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Geographical information for the segment is as follows:

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

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

Operating Expenses

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

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

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

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

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estimates of target achievement. Statutory and elective pension plans are offered to employees as appropriate. Direct costs also include employee taxes, health insurance, workers compensation and disability insurance.

A portion of compensation expenses for certain billable employees are allocated between direct costs and selling, general and administrative costs based on relative time spent between billable and non-billable activities.

Selling costs consist principally of compensation expense related to business development, proposal preparation and delivery, and negotiation of new client contracts. Costs also include travel expenses relating to the pursuit of sales opportunities, expenses for hosting periodic client conferences, public relations activities, participation in industry conferences, industry relations, website maintenance and business intelligence activities. Additionally, we maintain a dedicated global marketing function responsible for developing and managing sales campaigns, brand promotion, the TPI Index and assembling proposals.

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

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

Depreciation and Amortization Expense

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

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

Impairment of goodwill and intangible assets

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

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

Other (Expense), Net

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

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

Income Tax Expense

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

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

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

Revenues

Geographical information for the segment is as follows:

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

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

Operating Expenses

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

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

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

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

Depreciation and Amortization Expense

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

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Impairment of goodwill and intangible assets

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

Other Income (Expense), Net

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

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

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

Income Tax Expense

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

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

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

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

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

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

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

payment of STA Consulting contingent consideration of $2.0 million;

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

equity repurchases of $1.5 million.

Capital Resources

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

We incurred a substantial amount of indebtedness to finance the acquisition of TPI, including transaction costs and deferred underwriting fees. On November 16, 2007, our wholly-owned subsidiary International Consulting Acquisition Corp. ("ICAC") entered into a senior secured credit facility comprised of a $95.0 million term loan facility and a $10.0 million revolving credit facility. On

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

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

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

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

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

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

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

The 2007 Credit Agreement contains a number of covenants that, among other things, place restrictions on matters customarily restricted in senior secured credit facilities, including restrictions on indebtedness (including guarantee obligations), liens, fundamental changes, sales or disposition of property or assets, investments (including loans, advances, guarantees and acquisitions), transaction with affiliates, dividends and other payments in respect of capital stock, optional payments and modifications of other material debt instruments, negative pledges and agreements restricting subsidiary distributions and changes in line of business. The 2007 Credit Agreement contains customary events of default, including cross-default to other material agreements, judgment default and change of control.

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

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

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

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

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

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Contractual Obligations

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

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

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

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

Off-Balance Sheet Arrangements

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

Employee Retirement Plans

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

Seasonality and Quarterly Results

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

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

Critical Accounting Policies and Estimates

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

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

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

Revenue Recognition

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

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

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

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

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

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

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

Accounts and Unbilled Receivables and Allowance for Doubtful Accounts

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

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

Income Taxes

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

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

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

Goodwill

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

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

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

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

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

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

Long-Lived Assets

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

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

Stock-Based Compensation

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

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

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

Recent Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

We operate in a number of international areas which exposes us to significant foreign currency exchange rate risk. We have significant international revenue, which is generally collected in local currency. As of December 31, 2012, we have no outstanding forward exchange contracts or other derivative instruments for hedging or speculative purposes. It is expected that our international revenues will continue to grow as European, Asian and other markets adopt sourcing solutions and as a result of our acquisition of Compass. We recorded a foreign exchange transaction loss of $0.2 million for the year ended December 31, 2012. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

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

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

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

Item 8. Financial Statements and Supplementary Data.

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

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

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2012, as required by the Rule 13a-15(b) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2012.

Management's Report on Internal Control Over Financial Reporting

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

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

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

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

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

(c) Code of Ethics.

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

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

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

Item 11. Executive Compensation

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

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

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

Item 13. Certain Relationships and Related Transactions and Director Independence

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

Item 14. Principal Accounting Fees and Services

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

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PART IV

Item 15. Exhibits and Financial Statement Schedule

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

Financial Statements of Information Services Group, Inc.:

(a)(2) Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts

(a)(3) Exhibits:

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

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Report of Independent Registered Public Accounting Firm

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

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

/s/ PricewaterhouseCoopers LLP

Houston, Texas
March 13, 2013

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INFORMATION SERVICES GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	December 31,	
	2012	**2011**
ASSETS		
Current assets		
Cash and cash equivalents	$ 23,499	$ 24,469
Accounts and unbilled receivables, net of allowance of $395 and $549, respectively	40,920	42,019
Deferred tax asset	1,213	1,885
Prepaid expense and other current assets	1,783	2,118
Total current assets		