

Information Services Group Inc.
Form 10-Q
August 09, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to

Commission File Number 001-33287

INFORMATION SERVICES GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-5261587
(I.R.S. Employer
Identification No.)

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**Two Stamford Plaza
281 Tresser Boulevard
Stamford, CT 06901**

(Address of principal executive offices and zip code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Class	Outstanding at July 27, 2012
Common Stock, \$0.001 par value	36,186,442 shares

FORWARD-LOOKING STATEMENTS

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

PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)****INFORMATION SERVICES GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands, except par value)**

	June 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 14,153	\$ 24,469
Accounts receivable, net of allowance of \$607 and \$549, respectively	47,734	42,851
Deferred tax asset	3,513	3,330
Prepaid expense and other current assets	3,447	2,118
Total current assets	68,847	72,768
Restricted cash	50	51
Furniture, fixtures and equipment, net	3,123	2,954
Goodwill	34,691	34,691
Intangible assets, net	31,495	35,070
Other assets	566	945
Total assets	\$ 138,772	\$ 146,479
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 4,729	\$ 4,089
Current maturities of long-term debt	8,500	7,000
Deferred revenue	3,003	4,604
Accrued expenses	14,237	16,748
Total current liabilities	30,469	32,441
Long-term debt, net of current maturities	58,063	63,063
Deferred tax liability	9,062	10,305
Other liabilities	4,670	4,786
Total liabilities	102,264	110,595
Commitments and contingencies (Note 7)		
Stockholders equity		
Preferred stock, \$.001 par value; 10,000 shares authorized; none issued		
Common stock, \$.001 par value, 100,000 shares authorized; 36,675 shares issued and 36,107 shares outstanding at June 30, 2012 and 36,675 shares issued and 36,276 outstanding at December 31, 2011	37	37

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Additional paid-in-capital	205,125	204,076
Treasury stock (568 and 399 shares, at cost)	(751)	(450)
Accumulated other comprehensive loss	(2,615)	(2,247)
Accumulated deficit	(165,288)	(165,532)
Total stockholders' equity	36,508	35,884
Total liabilities and stockholders' equity	\$ 138,772	\$ 146,479

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 50,474	\$ 50,253	\$ 96,756	\$ 90,911
Operating expenses				
Direct costs and expenses for advisors	29,450	27,718	56,796	51,948
Selling, general and administrative	16,487	17,163	33,095	36,067
Depreciation and amortization	2,256	2,859	4,413	5,570
Operating income (loss)	2,281	2,513	2,452	(2,674)
Interest income	12	5	26	35
Interest expense	(958)	(793)	(1,711)	(1,675)
Foreign currency transaction gain	87	163	7	200
Income (loss) before taxes	1,422	1,888	774	(4,114)
Income tax (benefit) provision	606	1,201	530	(2,756)
Net income (loss)	\$ 816	\$ 687	\$ 244	\$ (1,358)
Weighted average shares outstanding:				
Basic	36,122	36,376	36,235	36,240
Diluted	37,962	38,379	37,155	36,240
Earnings (loss) per share:				
Basic	\$ 0.02	\$ 0.02	\$ 0.01	\$ (0.04)
Diluted	\$ 0.02	\$ 0.02	\$ 0.01	\$ (0.04)
Comprehensive income (loss):				
Net income (loss)	\$ 816	\$ 687	\$ 244	\$ (1,358)
Foreign currency translation, net of tax	(742)	217	(368)	1,226
Comprehensive income (loss)	\$ 74	\$ 904	\$ (124)	\$ (132)

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities		
Net income (loss)	\$ 244	\$ (1,358)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation expense	838	729
Amortization of intangibles	3,575	4,841
Amortization of deferred financing costs	330	167
Compensation costs related to stock-based awards	1,524	1,627
Bad debt expense	217	586
Deferred tax benefit	(1,268)	(3,837)
Loss (gain) on disposal of furniture, fixtures and equipment	8	(15)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(5,335)	(13,960)
Prepaid expense and other current assets	(1,280)	585
Accounts payable	610	(970)
Deferred revenue	(1,601)	453
Accrued liabilities	(665)	(4,638)
Net cash used in operating activities	(2,803)	(15,790)
Cash flows from investing activities		
Acquisitions, net of cash acquired	(24)	(13,684)
Restricted cash	1	5,750
Proceeds from sale of furniture, fixtures and equipment		20
Purchase of furniture, fixtures and equipment	(1,033)	(686)
Net cash used in investing activities	(1,056)	(8,600)
Cash flows from financing activities		
Principal payments on borrowings	(3,500)	(4,000)
Payment of contingent consideration	(2,000)	
Equity securities repurchased	(938)	
Proceeds from issuance of ESPP shares	162	137
Net cash used in financing activities	(6,276)	(3,863)
Effect of exchange rate changes on cash	(181)	808
Net decrease in cash and cash equivalents	(10,316)	(27,445)
Cash and cash equivalents, beginning of period	24,469	40,301
Cash and cash equivalents, end of period	\$ 14,153	\$ 12,856
Supplemental disclosures of cash flow information:		
Noncash financing activities:		
Issuance of common stock for acquisition		7,980

Issuance of convertible debt for acquisition

6,250

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

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands, except per share data)

(unaudited)

NOTE 1 DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

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

The registration statement for the Company's initial public offering (the Offering) was declared effective on January 31, 2007. The Company consummated the Offering on February 6, 2007. The Company's management had broad discretion with respect to the specific application of the net proceeds of the Offering, although substantially all of the net proceeds of the Offering were to be applied toward consummating a business combination with (or acquisition of) an operating business in the information services industry. This operating company was subsequently identified as TPI Advisory Services Americas, Inc., a Texas corporation (TPI).

On November 16, 2007 (the TPI Acquisition Date), we consummated the acquisition of TPI, pursuant to a Purchase Agreement dated April 24, 2007, as amended on September 30, 2007, by and between MCP-TPI Holdings, LLC, a Texas limited liability company (MCP-TPI), and the Company. For accounting purposes, the TPI acquisition has been treated as a business combination. The results of TPI are included in the consolidated financial statements subsequent to the TPI Acquisition Date.

On January 4, 2011, the Company completed the acquisition of Compass. Compass is a premier independent global provider of business and information technology benchmarking, performance improvement, data and analytics services. It was founded in 1980 and headquartered in the United Kingdom and has 180 employees in 16 countries serving nearly 250 clients worldwide. Compass uses benchmarking to support fact-based decision making, analysis to optimize cost reduction, and tools and techniques to manage business performance. For accounting purposes, the acquisition of Compass has been treated as a business combination.

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

During the fourth quarter of 2011, we merged our individual corporate brands into one globally integrated business under the ISG brand. 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 .

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements as of June 30, 2012 and for the three and six months ended June 30, 2012 and 2011, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial statements and pursuant to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are considered necessary for a fair presentation of the financial position of the Company as of June 30, 2012, the results of operations for the three and six months ended June 30, 2012 and 2011 and the cash flows for the six months ended June 30, 2012 and 2011. The condensed consolidated balance sheet as of December 31, 2011 has been derived from the Company s audited consolidated financial statements. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with GAAP have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2011, which are included in the Company s 2011 Form 10-K filed with the SEC.