Information Services Group Inc.
Form 10-Q
November 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No o

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

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

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

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

Class	**Outstanding at October 24, 2014**
Common Stock, $0.001 par value	36,706,834 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)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 21,633	$ 35,085
Accounts receivable, net of allowance of $259 and $352, respectively	44,595	38,688
Deferred tax asset	389	825
Prepaid expense and other current assets	2,467	2,116
Total current assets	69,084	76,714
Restricted cash	189	54
Furniture, fixtures and equipment, net	3,571	3,213
Goodwill	36,519	34,691
Intangible assets, net	19,854	22,093
Other assets	3,426	3,109
Total assets	$ 132,643	$ 139,874
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 7,105	$ 6,024
Current maturities of long-term debt	3,656	3,375
Deferred revenue	3,894	3,944
Accrued expenses	14,433	21,189
Total current liabilities	29,088	34,532
Long-term debt, net of current maturities	50,559	53,371
Deferred tax liability		2,432
Other liabilities	6,196	6,296
Total liabilities	85,843	96,631
Commitments and contingencies (Note 7)		
Redeemable noncontrolling interest	656	
Stockholders equity		
Preferred stock, $.001 par value; 10,000 shares authorized; none issued		
	38	38

Common stock, $.001 par value, 100,000 shares authorized; 37,943 shares issued and 36,801 shares outstanding at September 30, 2014 and 37,943 shares issued and 37,122 outstanding at December 31, 2013				
Additional paid-in-capital		209,685		208,602
Treasury stock (1,142 and 821 common shares, respectively, at cost)		(5,111)		(2,796)
Accumulated other comprehensive loss		(3,540)		(2,448)
Accumulated deficit		(154,928)		(160,153)
Total stockholders equity		46,144		43,243
Total liabilities, redeemable noncontrolling interest and stockholders equity	$	132,643	$	139,874

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenues	$ 53,258	$ 51,371	$ 156,387	$ 157,542
Operating expenses				
Direct costs and expenses for advisors	31,487	30,733	92,796	92,467
Selling, general and administrative	16,136	16,987	48,758	50,761
Depreciation and amortization	1,863	1,854	5,501	5,600
Operating income	3,772	1,797	9,332	8,714
Interest income	3	3	12	15
Interest expense	(502)	(660)	(1,524)	(2,108)
Gain on extinguishment of debt				79
Bargain purchase gain			146	
Foreign currency transaction (loss) gain	(75)	(29)	(112)	(18)
Income before taxes	3,198	1,111	7,854	6,682
Income tax provision	808	700	2,277	2,863
Net income	2,390	411	5,577	3,819
Net income attributable to noncontrolling interest	37		56	
Net income attributable to ISG	$ 2,353	$ 411	$ 5,521	$ 3,819
Weighted average shares outstanding:				
Basic	37,039	36,781	37,214	36,723
Diluted	38,740	38,830	38,813	38,712
Earnings per share attributable to ISG:				
Basic	$ 0.06	$ 0.01	$ 0.15	$ 0.10
Diluted	$ 0.06	$ 0.01	$ 0.14	$ 0.10
Comprehensive income:				
Net income	$ 2,390	$ 411	$ 5,577	$ 3,819
Foreign currency translation, net of tax (expense) benefit of $(795), $(360), $(669) and $219, respectively	(1,297)	564	(1,092)	(381)
Comprehensive income	1,093	975	4,485	3,438
Comprehensive income attributable to noncontrolling interest	37		56	
Comprehensive income attributable to ISG	$ 1,056	$ 975	$ 4,429	$ 3,438

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash flows from operating activities		
Net income	$ 5,577	$ 3,819
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation expense	1,340	1,211
Amortization of intangibles	4,161	4,389
Amortization of deferred financing costs	114	176
Gain on extinguishment of debt		(79)
Bargain purchase gain	(146)	
Tax benefit from stock issuances	(423)	(575)
Compensation costs related to stock-based awards	2,069	3,018
Change in fair value of contingent consideration	403	564
Changes in accounts receivable allowance	(41)	(46)
Deferred tax benefit	(950)	(1,085)
Loss on disposal of furniture, fixtures and equipment	14	25
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(5,988)	(6,813)
Prepaid expense and other current assets	(667)	(875)
Accounts payable	989	1,205
Deferred revenue	(50)	(468)
Accrued liabilities	(8,557)	3,553
Net cash (used in) provided by operating activities	(2,155)	8,019
Cash flows from investing activities		
Acquisitions, net of cash acquired	(890)	
Restricted cash	(135)	(1)
Purchase of furniture, fixtures and equipment	(1,702)	(1,580)
Net cash used in investing activities	(2,727)	(1,581)
Cash flows from financing activities		
Proceeds from debt		55,000
Principal payments on borrowings	(2,531)	(58,306)
Payment of contingent consideration	(1,633)	
Equity securities repurchased	(4,301)	(2,954)
Debt issuance costs		(754)
Tax benefit from stock issuances	423	575
Proceeds from issuance of ESPP shares	410	279
Net cash used in financing activities	(7,632)	(6,160)
Effect of exchange rate changes on cash	(938)	(200)
Net (decrease) increase in cash and cash equivalents	(13,452)	78
Cash and cash equivalents, beginning of period	35,085	23,499

Cash and cash equivalents, end of period	$	21,633	$	23,577
Supplemental disclosures of cash flow information:				
Noncash financing activities:				
Issuance of treasury stock for vested restricted stock units awards	$	1,605	$	646
Liability to CCI Sellers	$	747	$	
Noncash investing activity:				
Accretion of noncontrolling interest	$	23	$	

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

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements as of September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial statements and pursuant to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are considered necessary for a fair presentation of the financial position of the Company as of September 30, 2014, the results of operations for the three and nine months ended September 30, 2014 and 2013 and the cash flows for the nine months ended September 30, 2014 and 2013. The condensed consolidated balance sheet as of December 31, 2013 has been derived from the Company s audited consolidated financial statements. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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, 2013, which are included in the Company s 2013 Annual Report on Form 10-K filed with the SEC.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the proportional performance method of accounting affect the amounts of revenues, expenses, unbilled receivables and deferred revenue. Numerous internal and external factors can affect estimates. Estimates are also used for but not limited to: allowance for doubtful accounts, useful lives of furniture, fixtures and equipment, depreciation expense, contingent consideration, fair value assumptions in analyzing goodwill and intangible asset impairments, income taxes and deferred tax asset valuation, and the valuation of stock based compensation.

Fair Value

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

Fair value is the price that would be received upon a sale of an asset or paid upon a transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). Market participants can use market data or assumptions in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable. The use of unobservable inputs is intended to allow for fair value determinations in situations where there is little, if any, market activity for the asset or liability at the measurement date. Under the fair-value hierarchy:

- Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market;

- Level 2 measurements include quoted market prices for identical assets or liabilities in an active market that have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets; and

- Level 3 measurements include those that are unobservable and of a highly subjective measure.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

The Company held investments in cash equivalent money market funds of $20,000 at September 30, 2014 and December 31, 2013. The Company considers the fair value of cash equivalent money market funds to be classified within Level 1 of the fair value hierarchy.

The Company s financial instruments include outstanding borrowings of $54.2 million at September 30, 2014 and $56.7 million at December 31, 2013, which are carried at amortized cost. The fair values of these instruments are classified within Level 3 of the fair value hierarchy. The fair value of the Company s outstanding borrowings is approximately $54.3 million and $56.8 million at September 30, 2014 and December 31, 2013, respectively. The fair values of these instruments have been estimated using a discounted cash flow analysis based on the Company s incremental borrowing rate for similar borrowing arrangements. The incremental borrowing rate used to discount future cash flows ranged from 2.66% to 2.74% at September 30, 2014.

The Company s contingent consideration liability was $4.8 million and $4.1 million at September 30, 2014 and December 31, 2013, respectively. The Company paid $1.6 million related to the STA contingent consideration during the second quarter of 2014. The Company also increased the STA contingent consideration liability by $0.1 million and $0.4 million for the three and nine months ended September 30, 2014, respectively, based on the latest estimates of future profit level due to completion of new projects. On April 15, 2014, the Company recorded a liability of $2.0 million representing the fair value of the contingent consideration related to the acquisition of CCI Consulting Pty Ltd (CCI). The fair value measurement of this contingent consideration is classified within Level 3 of the fair value hierarchy and reflects the Company s own assumptions in measuring fair values using the income approach. In developing these estimates, the Company considered certain performance projections, historical results, and industry trends. This amount was estimated through a valuation model that incorporated probability-weighted assumptions related to the achievement of these milestones and thus the likelihood of the Company making payments. These cash outflow projections have been discounted using a rate ranging from 2.3% to 13.5%, which is the after-tax cost of debt financing for market participants.

Recently Issued Accounting Pronouncements

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

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

In April 2014, the FASB issued new accounting guidance regarding reporting discontinued operations and disclosures of disposals of components of an entity, which raises the threshold for determining which disposals are required to be presented as discontinued operations and modifies related disclosure requirements. The standard is applied prospectively and is effective in 2015 with early adoption permitted. The Company does not believe the adoption of this guidance will impact its consolidated financial statements or disclosures.

In May 2014, the FASB issued new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue. Under the guidance, revenue is recognized when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for public entities with annual and interim reporting periods beginning after December 15, 2016. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. We are currently assessing the effects this guidance may have on our consolidated financial statements, as well as the method of transition that we will use in adopting the new standard.

In August 2014, the FASB issued guidance on management s responsibility to assess an entity s ability to continue as a going concern and provide related footnote disclosures in certain circumstances. The guidance is effective for the Company s interim and annual periods beginning after December 15, 2016. The Company does not believe the adoption of this guidance will impact its consolidated financial statements or disclosures.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

NOTE 4 ACQUISITION

CTP Acquisition

On March 17, 2014, Compass Holding BV, a wholly-owned subsidiary of ISG entered into an Agreement with Convergent Technologies Partners S.p.A. (CTP) whereby Compass Holding BV acquired 51% of CTP s share capital for $1.0 million, which included $0.7 million of cash acquired, providing the Company with control over CTP. CTP became a subsidiary of the Company on the date of acquisition. At the same time CTP acquired 100% interest of Compass Management Consulting Italy Compass Italy , a subsidiary of Compass Holding BV for $0.3 million. The selling of Compass Italy and acquisition of CTP are treated as linked transaction and accordingly recorded on a net basis. The Company is consolidating the financial results of CTP in its consolidated financial statements and accordingly, reported revenues, costs and expenses, assets and liabilities, and cash flows include 100% of CTP, with the 49% noncontrolling interest share reported as net income attributable to noncontrolling interest in the consolidated statements of operations, and redeemable noncontrolling interest on the consolidated balance sheets.

CTP is a leading management consulting firm providing specialized IT and operational strategies and solutions to Italy s public sector. The agreement with CTP extends our global penetration into the public sector, building on our successful public sector businesses in North America, Australia and the UK. It also provides new growth opportunities for the Company to serve both public and private sector organizations in Italy with our combined resources.

The parties also executed a put and call option agreement for the transfer to ISG of all of the outstanding CTP s share capital that it does not own, exercisable upon certain conditions. The remaining 49% ownership in CTP is held by a third party. The third party representing the redeemable non-controlling interest in the subsidiary holds put rights for the remaining interest in CTP and the Company holds call rights with respect to such remaining interest. The put right provides the third party an option to sell its ownership interest to the Company after December 31, 2016 at a price based on four times the average of Earning Before Interests, Taxes, Depreciation and Amortization (EBITDA) and for the year 2015 and year 2016 as resulting from CTP s approved financial statements for the year 2015 and year 2016 at the time of the exercise. Because the redeemable non-controlling interest in CTP has a redemption feature, as a result of the put option, the Company has classified the redeemable non-controlling interest in CTP in the mezzanine section of the Condensed Consolidated Balance Sheet. The redeemable non-controlling interest will be accreted to the redemption value by recording a corresponding adjustment to accumulated deficit at the end of each reporting period.

The following table summarizes the consideration transferred to acquire CTP and the amounts of identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the redeemable noncontrolling interest in CTP at the acquisition date:

Fair value of consideration transferred

Cash	$	697
Redeemable noncontrolling interest*		501
Total fair value transferred	$	1,198

* Equivalent to 49% of CTP s share capital discounted for lack of control and marketability based on third party research.

Recognized amounts of identifiable assets acquired and liabilities assumed as of March 17, 2014:

Cash	$	734
Accounts receivable		565
Other assets		436
Intangible assets		139
Accounts payable		(65)
Accrued expenses and other		(465)
Net assets acquired	$	1,344
Bargain purchase gain	$	(146)

This bargain purchase gain resulted as the fair value of the net assets acquired exceeded the consideration transferred. The excess resulted from the fact that the seller was motivated to sell.

Costs associated with this acquisition are included in the selling, general and administrative expenses in the condensed consolidated statement of comprehensive income and totaled $0.2 million during the nine months ended September 30, 2014.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

This business combination was accounted for under the acquisition method of accounting, and as such, the aggregate purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values as of the closing dates. Based on the valuation and other factors as described above, the purchase price assigned to intangible assets and the amortization period were as follows:

		Purchase Price Allocation	Asset Life
Amortizable intangible assets:			
Customer relationships	$	56	10 years
Certified Methodology (patent)		83	3 years
Total intangible assets	$	139	

CCI Acquisition

On April 15, 2014, Technology Partners International, Inc., a wholly-owned subsidiary of ISG, executed an Asset Purchase Agreement (the CCI Agreement) with CCI, and consummated the acquisition of all of the assets and assumption of certain liabilities of CCI.CCI is a Melbourne, Australia-based research firm that measures and analyzes customer satisfaction in business-to-business relationships. The agreement with CCI extends our global penetration into recurring revenue businesses in Asia Pacific. CCI s products are a natural complement to our Assess capabilities that analyze service performance and cost metrics.

Under the terms of the CCI Agreement, ISG acquired the assets for cash consideration of AU$1.9 million, of which AU$1.0 million was paid at closing and AU$0.9 million will be paid in April 2015. In addition, the sellers under the CCI Agreement (the CCI Sellers) are eligible to receive a minimum of AU$0 and a maximum up to AU$3.0 million of earn-out payments for fiscal years 2014-2016 if certain earnings targets are met. Finally, the CCI Sellers were granted 50,000 ISG Restricted Shares that will vest if certain target revenues of ISG and its affiliates are met.

The following table summarizes the consideration transferred to acquire CCI and the amounts of identified assets acquired and liabilities assumed at the acquisition date:

The preliminary allocable purchase price consists of the following:

Cash	$	934
Post-completion installment payment		800

Restricted stock*		237
Contingent consideration		1,989
Working capital adjustment		(56)
Total allocable purchase price	$	3,904

* 50,000 shares at $4.74 at close of market on 4/15/2014

Recognized amounts of identifiable assets acquired and liabilities assumed as of April 15, 2014:

Cash	$	7
Accounts receivable		275
Other assets		18
Intangible assets		1,887
Accounts payable		(27)
Accrued expenses and other		(203)
Net assets acquired	$	1,957
Goodwill(1)	$	1,947

(1) Goodwill of approximately $1.9 million acquired in the acquisition is deductible for tax purposes.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

Costs associated with this acquisition are included in the selling, general and administrative expenses in the condensed consolidated statement of comprehensive income and totaled $0.2 million during the nine months ended September 30, 2014. This business combination was accounted for under the acquisition method of accounting, and as such, the aggregate purchase price was allocated on a preliminary basis to the assets acquired and liabilities assumed based on estimated fair values as of the closing dates. The purchase price allocations will be finalized after the completion of the valuation of certain intangible assets and any adjustments to the preliminary purchase price allocations are not expected to have a material impact on the Company s results of operations. Based on the valuation and other factors as described above, the purchase price assigned to intangible assets and the amortization period were as follows:

		Purchase Price Allocation	Asset Life
Amortizable intangible assets:			
Customer relationships	$	1,270	20 years
Databases		495	10 years
Backlog		122	2 years
Total intangible assets	$	1,887	

The Condensed Consolidated Financial Statements include the results of the CTP and CCI acquisition subsequent to the closing. Had the acquisition occurred as of January 1, 2013, the impact on the Company s results of operations would not have been material.

NOTE 5 NET INCOME PER COMMON SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. The 250,000 contingently issuable shares related to the acquisition of STA Consulting as well as 50,000 contingently issuable shares related to the acquisition of CCI were excluded from basic and diluted earnings per share since the contingencies have not been met as of the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would share in the net income of the Company. For the three and nine months ended September 30, 2014, the effect of 0.1 million stock appreciation rights (SARs) have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation. For the three and nine months ended September 30, 2013, the effect of 0.1 million SARs have not been considered in the diluted earnings per share calculation, since the market price of the Company s common stock was less than the exercise price during the period in the computation. In addition, 0.03 million and 0.8 million restricted shares have not been considered in the diluted earnings per share calculation for the three and nine months ended September 30, 2013, as the effect would be anti-dilutive.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic:				
Net income attributable to ISG	$ 2,353	$ 411	$ 5,521	$ 3,819