Information Services Group Inc.
Form 10-K
March 08, 2010

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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, 2009

Or

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

For the transition period from to
Commission File Number 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
Units	The NASDAQ Stock Market LLC
Shares of Common Stock, $0.001 par value	The NASDAQ Stock Market LLC
Warrants	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 o 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. o

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 ý	Non-accelerated filer o (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, 2009, as reported on the NASDAQ Stock Market was approximately $77,094,432.

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 26, 2010, the registrant had outstanding 31,952,398 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 2010 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended December 31, 2009, 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;

ISG's relative dependence on clients which operate in the automotive sector (including its largest client) and in financial services;

ability to hire and retain enough qualified employees to support operations;

increases in wages in locations in which ISG has operations;

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- 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 in the sourcing industry;
- 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. 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.

This Annual Report also contains forward-looking statements attributed to third parties relating to their 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. Forward-looking statements contained in this Annual Report speak only as of the date of this Annual Report. Unless required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. 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

ISG is organized as a corporation under the laws of the State of Delaware. It was formed for the purpose of acquiring, through a merger, capital stock exchange, stock purchase, asset acquisition or other similar business combination, one or more domestic and/or foreign operating businesses. On February 6, 2007, ISG consummated an initial public offering (the "IPO") of its equity securities from which it received net proceeds of approximately $255.4 million.

On November 16, 2007, ISG completed the acquisition of TPI Advisory Services Americas, Inc. ("TPI"). TPI was the pioneer in developing the market for sourcing advisory services and has done more than almost any other firm to shape the current state of the outsourcing transaction market space, according to a January 2007 report prepared by Forrester Research, Inc. Since its founding, TPI has performed more than 3,500 engagements and has grown to become the leading independent full service outsourcing and offshoring advisory firm focusing on the design, implementation and management of sourcing strategies for major corporate clients. TPI is a fact-based sourcing advisory firm that provides independent analysis and advice to its clients on which services should be sourced and the best provider to use. TPI provides industry knowledge and advice to its clients to help them implement substantial and sustainable improvements in business support operations through a combination of insourcing, offshoring, shared services and outsourcing. Over its history, TPI has developed an integrated global advisory platform, which is distinguished by its comprehensive scope of services; industry expertise; proprietary data and market intelligence; and independence and objectivity.

The current mailing address of ISG's principal executive office is Information Services Group, Inc., Two Stamford Plaza, 281 Tresser Boulevard, Stamford, CT 06901, and its telephone number is (203) 517-3100.

Sourcing Industry

We serve the global sourcing industry, which is comprised of information technology and business process services and outsourcing. We provide our clients with sourcing advisory services that can be broadly defined as the delivery of the internal and external resources necessary to achieve strategic or operational objectives within this global market. Sourcing options are based on the location of the resources (domestic or offshore) as well as the source of the resources (internal or external).

Within the sourcing industry, the terms "outsourcing" and "offshoring" are frequently used synonymously. However, outsourcing refers to transitioning services to an external provider, whether domestic ("domestic outsourcing") or abroad ("offshore outsourcing"). Offshoring relates to the delivery of services from an offshore location and can be performed internally via a subsidiary or joint-venture ("captive offshore") or transitioned to an external party ("offshore outsourcing").

Information Technology Outsourcing

Information technology services are typically delivered via contracts that provide for multi-year relationships between service providers and clients and provide also for the management of all or part of a company's information technology infrastructure, software development and maintenance and operations. Responsibilities transferred to service providers often include managing servers, networks, personal computers, applications and data centers.

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Business Process Outsourcing

The business services industry typically supports the transfer of one or more discrete business functions to an external service provider. Such functions tend to be high-volume, automated activities, such as payroll processing or benefits administration. More recently, businesses have begun transferring entire business functions, such as human resources, finance and accounting, procurement or client care, to external service providers. The provision of business services has gained increasing importance and visibility in the services industry, as the cost savings it can generate have become a key component of improved competitive advantage and market leadership in an increasingly global economy.

Growth of Offshoring

Offshoring has contributed significantly to the growth in the sourcing market and has expanded the market for our services. Offshoring is broadly defined as the market for providing services to companies in countries with high labor costs (such as the United States and certain countries in Western Europe) by service providers located in countries with lower labor costs (such as India and China). Offshoring came to prominence in the 1980s as large American corporations developed captive offshore centers in order to reap the benefits of the low cost and highly-skilled labor. Since then, the growing capability and acceptance of a global delivery model as well as the inherent benefits of access to lower cost and highly-qualified labor and the sophistication of service providers' capabilities continue to drive the growth of offshore outsourcing. Offshore service providers have over time expanded their service offerings beyond information technology to include business processes and services, helping companies with core business strategies such as increasing revenue, expanding into new product and service areas and improving productivity.

Role of independent sourcing advisors

The demand for and role of independent sourcing advisors is driven by a number of factors. First, the importance of assessing, negotiating, implementing and managing service delivery models has been rising as outsourcing and offshoring have been increasingly utilized in businesses' operating strategies. Second, the scope and complexity of sourcing relationships have increased as organizations have moved from predominantly information technology outsourcing to business process outsourcing. Third, as the scope and availability of sourcing have increased, the duration of sourcing contracts have become shorter, requiring more frequent contract negotiations with service providers. Fourth, the inherent conflicts in the business models of sourcing advisors who represent clients and provide sourcing services highlight the value of independent advisors who provide guidance to companies. Finally, the expansion of the offshoring and outsourcing markets has added significant complexity to the market for these services, as clients seek optimized solutions to their needs.

Our Strengths

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 advisory firm with no material conflicting financial 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 21 years of experience, our client-facing advisors bring a wealth of industry and domain-specific knowledge and expertise to address our clients most complex sourcing needs and demands.

Proprietary data and market intelligence. We have assembled a comprehensive, up-to-date and sophisticated database consisting of proprietary market information gathered from our more

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than 3,500 engagements totaling over $300 billion in total contract value ("TCV"), as well as from other factual industry data sources.

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 and India makes us a truly global advisory firm able to consistently serve the strategic and implementation needs of our global clients. Our international operations accounted for approximately 42% of total revenues in 2009 and are expected to grow.

We believe that the strengths disclosed above are central to our ability to successfully deal with the challenges that we face. We face many challenges, which include, or may include: competition from sourcing service providers; the need to maintain and expand our product offerings; the need to retain existing, and attract future, key employees; the need to retain existing, and attract future, clients; the need to continue to secure new engagements; and, generally, any challenges to our ability to pursue the strategy discussed below under the caption, "Our Strategy."

We also face various risks, which are more fully described in the "Risk Factors", including, but not limited to: a decline in the growth rate of the sourcing advisory industry; loss of engagements; outside factors impacting operating results; failure to secure new engagements; maintenance of existing services and products and the introduction of new services and products; inability to respond to market trends; failure to protect intellectual property; failure to compete successfully; loss of key members of our management team; inability to attract skilled employees; loss of a key client; risks inherent in international business activities; currency rate fluctuations; and inability to maintain equity in our brand name.

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:

Pursue continued growth of existing service model. We expect the trend toward offshore delivery models through captive centers, joint ventures and outsourcing to play an increasing role in the growth of demand for our services. We plan to leverage our current operating platform to service the growing number of corporations utilizing outside advisors when negotiating, implementing and maintaining sourcing contracts. 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. Growth of the business process outsourcing and offshoring markets should provide market expansion opportunities for us. We expect to be well-positioned to potentially benefit from any increase by our clients of corporate "multi-sourcing" strategies, where clients seek one outside advisor to assist them in effectively balancing the concentration risks of third-party dependencies with the need for regular review and renewal of incumbent relationships.

Continue to 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 sourcing in these geographic regions. International sales (excluding the Americas) approximated 42%, 45%, and 34% of net sales for the years ended December 31, 2009, 2008, and 2007, respectively. We intend to continue to expand in Europe, Latin America and Asia Pacific and maintain our revenue growth in those markets.

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Expand into new industry sectors. We have been successful in expanding our presence across industries and into state government departments in the United States and national and provincial government units in the United Kingdom, Canada and Australia. Our management believes the government market, which currently has very low penetration, represents a potential opportunity. Industries possessing characteristics of regulatory oversight and increasing competition, and benefiting from standardization and automation, include healthcare, pharmaceuticals, and energy. We intend to continue to expand across these industries opportunistically as market opportunities present themselves.

Develop knowledge process outsourcing capabilities. To date, our emphasis has been on certain corporate-wide business functions such as information technology, human resources, and finance and accounting. However, we believe there is also a potential demand for knowledge process outsourcing. Clients for knowledge process outsourcing comprise those organizations that are challenged by the labor costs and skills shortages for activities that are inherently expertise-oriented, such as research, engineering, clinical trials, marketing and advertising and legal services. We are involved in early-stage knowledge process outsourcing engagements and plan to further develop this source of business in the future.

Provide greater post-implementation support services. McKinsey estimates historically that almost half of all outsourcing deals fail to realize expected cost or efficiency targets due to poor management and lack of experience. As companies begin to recognize the importance of managing the post-sourcing-transaction period, service governance has emerged as a potential revenue driver for us. We believe that our experience with outsourcing transactions makes us uniquely equipped to help our clients manage their outsourcing teams or act as a third-party administrator. Over 17% of our revenues were generated through service governance and related activities across information technology outsourcing and business processing outsourcing engagements during 2009. We will continue to pursue opportunities to leverage our experience to make service governance an even greater revenue generator for us. Sourcing management and governance engagements also provide a source of recurring revenue.

Productize market data assets. We believe that productizing our advisory methodologies and data represents an opportunity to achieve potential growth. There are a variety of potential services based on data we have collected over the course of our engagement history that could be of interest to existing and new clients. We expect to expand our data repository and associated benchmarking (costs and pricing) comparisons to broaden our scope beyond our current information technology emphasis, and we intend to introduce market pricing comparisons for human resources and finance and accounting services in the future.

Consider acquisition and other growth opportunities. The independent sourcing advisory market is highly fragmented. We believe we are well-positioned to leverage our leading market position 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.

Expand profit margins. We intend to focus on profitable revenue growth, increase utilization and pricing optimization. In addition, we will continue to seek to employ programs to minimize our selling, general and administrative costs.

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Our Services

For twenty-one years, our services have helped organizations address complex business challenges. The functional domain experience of our experts and deep empirical data helps clients better understand their sourcing options. The Company provides five key lines of service:

Operational assessment. We evaluate clients' operating costs and existing practices against various benchmarks and determine the benefits of changing their current service delivery approaches.

Strategy development. We determine potential cost savings and design the clients' most appropriate operating organizations, which lays the foundation for service process transformation and improvement. A given strategy typically includes a combination of the use of shared service centers, offshoring, insourcing and traditional outsourcing.

Negotiation and implementation. We help clients manage the negotiation and implementation of sourcing strategies, including supplier selection, contract negotiation and program management.

Transition support/execution. We support each transition phase when clients shift internal operations to new outsourcing providers.

Service governance. We monitor, manage and benchmark clients' sourcing relationships and shared service center operations.

Proprietary Data and Market Intelligence

We possess proprietary databases of sourcing-related market intelligence that are the product of extensive market research and client engagements. Our extensive data underpins our operational assessments, strategy development, and deal structuring and negotiations and also fuels our marketing programs. This data is proprietary, derived largely from those assignments that we have conducted during the last twenty years, enabling us to provide comprehensive comparative metrics to our clients.

Our comprehensive databases include proprietary market intelligence on key sourcing topics including:

comparative sourcing economics, benchmarking and best practices;

service provider profiles, including their global capabilities, performance metrics, strengths and weaknesses, organizations, contract awards and recent developments;

contract terms and templates, including pricing, governance, results, revisions, cancellations and renewals; and

sourcing industry trends, including transaction volumes, developments and innovations by industry, function, geography, client and provider.

We enhance our sourcing-related databases with data accumulated from each client engagement, thus improving our ability to compete for additional client engagements and advise subsequent clients based on updated market intelligence. We supplement our proprietary engagement data with outbound surveys and market research purchased from third parties. Industry service providers participate in the development of our databases, enhancing our ability to influence and educate prospective clients.

We believe that there may be opportunities in the future to acquire complementary advisory, research and database assets and businesses and the potential exists to combine our proprietary data assets with assets to be acquired in subsequent transactions to create products and services such as advisory and research services that could be sold via subscriptions, memberships and other such recurring revenue models. We also publish an overview of global outsourcing market activity called the TPI Index. Since its launch in 2002, the TPI Index has become an industry benchmark that is utilized and referenced by equity research analysts, service providers, clients and media outlets interested in the state of the global sourcing industry.

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Clients

We provide services to clients in numerous industries such as: financial services, telecom, healthcare and pharmaceuticals, manufacturing, transportation and travel and energy and utilities.

Competition

Competition in the sourcing 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 advisory firms offer similar services. However, these firms generally lack the benchmarking data, scale and diversity of expertise that we possess as a result of over twenty years of experience in the sourcing industry. 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 advisory market. However, since they do not focus exclusively on the sourcing market, they lack the depth of experience that sourcing advisory firms such as ISG possess. In addition, strategy consultants do not possess the sourcing implementation expertise or the benchmarking data capabilities that are critical to implementing and managing successful sourcing advisory projects. 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, 2009, the Company employed 439 people worldwide. These employees are organized into bands including: executive management, service leads, partner, director, senior advisor, advisor, analyst, technical specialist and functional technical support.

We recruit advisors from service providers, consulting firms and clients with direct sourcing 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. There are no collective bargaining agreements covering any of our employees.

ISG's voluntary advisor turnover rate ranged between 9% and 12% over the last three years.

Available Information

Our Internet address is *www.informationsg.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 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 2009 Annual Report to Stockholders are available free of charge at *www.informationsg.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 our key executives consisting of Mr. Connors, our Chairman and Chief Executive Officer; Mr. Berger, Executive Vice President, Chief Financial Officer; Mr. Doppelt, Executive Vice President, General Counsel and Corporate Secretary; and Mr. Gould, Executive Vice President. Although we currently intend to retain our existing management and may enter into employment or other compensation arrangements with them, the terms of which have not yet been determined, we cannot assure you that such individuals will remain with us for the immediate or foreseeable future. We do not have employment contracts with any of our current executives. The unexpected loss of the services of one or more of these executives could adversely affect our business.

If we are unable to maintain a current prospectus relating to the common stock underlying our warrants, our warrants may have little or no value and the market for our warrants may be limited.

No warrants will be exercisable and we will not be obligated to issue shares of common stock unless at the time a holder seeks to exercise such warrant, a prospectus relating to the common stock issuable upon exercise of the warrants is current and the common stock has been registered or qualified or deemed to be exempt under the securities laws of the state of residence of the holder of the warrants. Under the terms of the warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and us, we have agreed to use our reasonable best efforts to maintain a current prospectus relating to the common stock issuable upon exercise of our warrants until the expiration of our warrants. However, we cannot assure you that we will be able to do so. If the prospectus relating to the common stock issuable upon exercise of the warrants is not current or if the common stock is not qualified or exempt from qualification in the jurisdictions in which the holders of the warrants reside, our warrants may not be exercisable before they expire and we will not net-cash settle the warrants. Thus, our warrants may be deprived of any value. The market for our warrants may be limited, and the warrants may expire worthless. Even if warrant holders are not able to exercise their warrants because there is no current prospectus or the common stock is not qualified or exempt from qualification in the jurisdictions in which the holders of the warrants reside, we can exercise our redemption rights.

We may choose to redeem our outstanding warrants at a time that is disadvantageous to our warrant holders.

We may redeem the warrants issued as a part of our units (including warrants issued and outstanding as a result of the exercise of the purchase option that we agreed to sell to the underwriters in the IPO and the warrants sold in the private placement) at any time in whole and not in part, at a price of $0.01 per warrant, upon a minimum of 30 days' prior written notice of redemption, if and only if, the last sales price of our common stock equals or exceeds $11.50 per share for any 20 trading days within a 30-trading-day period ending three business days before we send the notice of redemption. Redemption of the warrants could force the warrant holders (i) to exercise the warrants and pay the exercise price therefore at a time when it may be disadvantageous for the holders to do so, (ii) to sell the warrants at the then current market price when they might otherwise wish to hold the warrants or (iii) to accept the nominal redemption price which, at the time the warrants are called for redemption, is likely to be substantially less than the market value of the warrants.

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Our outstanding warrants may be exercised in the future, which would increase the number of shares eligible for future resale in the public market and would result in dilution to our stockholders. This might have an adverse effect on the market price of the common stock.

Excluding 6.5 million warrants held collectively by three executive officers and one former executive officer of ISG (the "ISG Inside Stockholders"), outstanding redeemable warrants to purchase an aggregate of 24,147,323 shares of common stock as of December 31, 2009 became exercisable on January 31, 2008. Also, as part of the purchase consideration paid to MCP-TPI Holdings, LLC, a Texas limited liability company ("MCP-TPI"), ISG issued warrants exercisable beginning on November 16, 2008 into 5 million shares of ISG common stock at an exercise price of $9.18 per share. To the extent these warrants are exercised, additional shares of our common stock will be issued, which will result in dilution to our stockholders and increase the number of shares eligible for resale in the public market. In addition, we sold to the underwriters in the IPO an option to purchase up to 1,406,250 units at $9.60 per unit. The exercise of this option, and the exercise of the warrants included in the units issuable upon the exercise of this option, would lead to further dilution and a potential increase in the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of our shares.

If the private placement prior to the IPO was not conducted in compliance with applicable law, the ISG Inside Stockholders may have the right to rescind the warrants purchased in the private placement.

On January 31, 2007, we consummated a private placement of 6,500,000 warrants to an affiliate of ISG Inside Stockholders. Although we believe that we conducted the private placement in accordance with applicable law, there is a risk that the warrants should have been registered under the Securities Act of 1933, as amended, and applicable blue sky laws, in which case the securities may have been issued in violation of Section 5 of the Securities Act of 1933, as amended, and such applicable blue sky laws. Although the ISG Inside Stockholders have waived their respective rights, if any, to rescind their warrant purchases as a remedy to our failure to register these securities, their waiver may not be enforceable in light of the public policy underlying federal and state securities laws. If the existing stockholders bring a claim against us and successfully assert rescission rights, we may be required to refund an aggregate of $6.5 million, plus interest, to them.

To complete the acquisition, we incurred 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, 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 $71.8 million, a 1% increase in interest rates would result in a pre-tax impact on earnings of approximately $0.7 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, 2009, the total principal outstanding under the term loan facility was $71.8 million. There were no borrowings under the revolving credit facility during fiscal 2009.

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. Auditing Standard No. 5 provides the professional standards and related performance guidance for auditors to attest to, and report on, management's assessment of the effectiveness of internal control over financial reporting under Section 404. 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 may be open to interpretation. Therefore, our management's report on our internal controls over financial reporting may be difficult to prepare, and our auditors may not agree with our management's assessment.

While we currently believe our internal controls over financial reporting are effective, we are required to comply with Section 404 on an annual basis. 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 new requirements. Therefore, if we are unable to assert that our internal controls over financial reporting are effective in the future, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, our investors could lose confidence in

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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.

Our operating results have been adversely impacted by the worldwide economic crisis and credit tightening.

Beginning in the fourth quarter of 2008, worldwide economic conditions significantly deteriorated due to the credit crisis driven initially by the subprime mortgage crisis and other factors, including slower economic activity, recessionary concerns, increased energy costs, decreased consumer confidence, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns. 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 automobile and financial services industries, could have an adverse affect 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 sourcing activity 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;

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- seasonal trends;
- the 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 successful client acceptance of new services and products could have an adverse effect on our business results.

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. The range of sourcing options and number of service providers is expanding. This expansion is generating complexity in the industry which adds opportunity and risk to our business. Our clients regularly undergo frequent and often dramatic changes. That environment of rapid and continuous change presents significant challenges to our ability to provide our clients with current and timely analysis, strategies and advice on issues of importance to them. Meeting these challenges requires the commitment of substantial resources. Any failure to continue to respond to developments, technologies, and trends in a manner that meets market needs could have an adverse effect on our business results.

We may be unable to protect important intellectual property rights.

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

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

The market for our sourcing advisory services is competitive, highly fragmented and subject to rapid change. We face competition from many other providers of advisory and sourcing services ranging from large organizations to small firms and independent contractors that provide specialized services. Our competitors include any firm that provides sourcing advisory services, which may include a variety of consulting firms, service providers, niche sourcing advisors, strategy and law firms 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 issued restricted stock units ("RSUs") and stock appreciation rights ("SARs") 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 services. Therefore, our continued success depends in large part upon our ability to attract, develop, motivate, retain and train skilled advisors and other professionals who have advanced information technology and business processing domain expertise, financial analysis skills, project management experience and other similar abilities. We do not have non-competition agreements with many non-executive advisors. Consequently, these advisors could resign and join one of our competitors or provide sourcing advisory services to our clients through their own ventures.

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

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

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

In many industries in which we provide sourcing 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 (including those in the automobile sector) and could materially and adversely be affected if we lose one or more of our large clients.

Our 20 largest clients accounted for approximately 44% of revenue in 2009 and 48% in 2008. In particular, revenues from clients in the automobile sector collectively accounted for approximately 15% of our 2009 annual revenue. Although only General Motors accounts for more than 10% of our revenues, 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 which could negatively impact our future revenue and growth.

Approximately 42% of our revenues for 2009 and 45% for 2008 were derived from sales outside of the Americas. 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 affect 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 do not hold or issue forward exchange contracts or other derivative instruments for hedging or speculative purposes. The percentage of total revenues generated outside the Americas increased from 22% in 2004 to 42% in 2009. It is expected that our international revenues will continue to grow as European and Asian markets adopt sourcing solutions. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

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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 commercial general 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.

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

We have operated under the brand "TPI" for several years and have legally registered trademarks in certain appropriate jurisdictions. There are other entities providing advisory and similar technology-related services that use "Technology Partners" as, or as part of, their names. There can be no assurance that the resulting confusion and lack of brand-recognition in the marketplace created by this situation will not adversely affect our business.

Nevertheless, we believe that our "TPI" brand, including our independence, is 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 the TPI brand and may need to increase our marketing budget, hire additional marketing and public relations personnel, expend additional sums to protect the brand and otherwise increase expenditures to create and maintain client brand loyalty. If we fail to effectively promote and maintain the TPI brand 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. We do not share our space at our executive offices. 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, France, Germany, India, Japan, Netherlands, Sweden, China 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. Submission of Matters to a Vote of Security Holders

None.

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PART II

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

On February 1, 2007, our units began trading on the American Stock Exchange under the symbol "III.U". Each of our units consists of one share of common stock and one warrant. On February 12, 2007, the common stock and warrants underlying our units began to trade separately on the American Stock Exchange under the symbols "III" and "III.WS", respectively. Our securities were traded on the American Stock Exchange until January 31, 2008.

On February 1, 2008, our common stock, warrants and units began trading on The Nasdaq Stock Market LLC under the symbols "III", "IIIW" and "IIIIU", respectively. The following sets forth the high and low closing sales price of our common stock, warrants and units, as reported on the American Stock Exchange or The Nasdaq Stock Market LLC for the periods shown:

	Common Stock		Warrants		Units	
	High	Low	High	Low	High	Low
March 31, 2009	$ 3.48	$ 2.80	$ 0.08	$ 0.05	$ 4.00	$ 1.94
June 30, 2009	3.72	2.63	0.15	0.04	3.04	2.81
September 30, 2009	4.13	2.60	0.14	0.06	3.29	2.77
December 31, 2009	3.95	2.86	0.12	0.04	3.21	2.14

	Common Stock		Warrants		Units	
	High	Low	High	Low	High	Low
March 31, 2008	$ 6.40	$ 5.35	$ 0.85	$ 0.60	$ 7.65	$ 5.51
June 30, 2008	5.45	4.67	0.62	0.30	6.10	4.86
September 30, 2008	5.03	4.21	0.54	0.25	5.60	3.92
December 31, 2008	5.05	2.65	0.41	0.03	6.00	1.94

On February 26, 2010, the last reported sale price for our common stock, warrants and units on The Nasdaq Stock Market was $2.97 per share, $0.05 per warrant and $3.00 per unit, respectively.

As of December 31, 2009, there were 358 holders of record of 31,799,927 ISG common stock.

Dividend Policy

We have not paid any dividends on our common stock to date. It is the current intention of ISG's 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. 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.

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 ISG stockholders. The following table lists information regarding outstanding options and shares reserved for future issuance under our 2007 Equity Incentive Plan as of December 31, 2009.

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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	3,242,466	$ 5.12	1,356,340
Not Approved by Stockholders			
Total	3,242,466	$ 5.12	1,356,340

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

(2) Includes 1,026,034 shares available for future issuance under the Company's Employee Stock Purchase Plan.

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative 34 months total stockholder return on our Common Stock from February 12, 2007 (the day our common stock began publicly trading) through December 31, 2009, 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 February 12, 2007 in our Common Stock and in each of the indices and, in each case, assumes reinvestment of all dividends.

COMPARISON OF 34 MONTH CUMULATIVE TOTAL RETURN*

Among Information Services Group Inc., The NASDAQ Composite Index,
The Russell 2000 Index And A Peer Group

*
$100 invested on 2/12/07 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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Measurement Periods	ISG	NASDAQ	Russell 2000	Peer Group(a)
February 2007	$ 100.14	$ 100.00	$ 100.00	$ 105.44
March 2007	$ 101.08	$ 100.16	$ 101.07	$ 108.54
April 2007	$ 103.39	$ 104.17	$ 102.89	$ 111.46
May 2007	$ 104.34	$ 107.44	$ 107.10	$ 119.23
June 2007	$ 103.66	$ 107.91	$ 105.53	$ 116.23
July 2007	$ 103.39	$ 105.37	$ 98.32	$ 108.08
August 2007	$ 102.71	$ 107.37	$ 100.54	$ 117.40
September 2007	$ 103.66	$ 110.27	$ 102.27	$ 120.06
October 2007	$ 102.17	$ 116.79	$ 105.20	$ 120.73
November 2007	$ 91.19	$ 108.59	$ 97.65	$ 117.32
December 2007	$ 92.82	$ 108.27	$ 97.59	$ 121.22
January 2008	$ 78.46	$ 97.53	$ 90.93	$ 103.71
February 2008	$ 72.49	$ 92.76	$ 87.56	$ 111.63
March 2008	$ 69.92	$ 92.61	$ 87.93	$ 113.65
April 2008	$ 70.19	$ 98.21	$ 91.61	$ 115.27
May 2008	$ 65.99	$ 102.64	$ 95.82	$ 114.88
June 2008	$ 65.04	$ 93.45	$ 88.44	$ 117.42
July 2008	$ 57.72	$ 93.57	$ 91.72	$ 127.87
August 2008	$ 66.80	$ 94.88	$ 95.03	$ 136.76
September 2008	$ 66.40	$ 83.49	$ 87.46	$ 123.72
October 2008	$ 37.26	$ 68.94	$ 69.26	$ 103.32
November 2008	$ 41.73	$ 62.04	$ 61.07	$ 95.04
December 2008	$ 46.07	$ 63.99	$ 64.62	$ 94.35
January 2009	$ 43.36	$ 60.03	$ 57.43	$ 79.05
February 2009	$ 43.09	$ 56.27	$ 50.45	$ 66.31
March 2009	$ 41.60	$ 62.02	$ 54.95	$ 77.51
April 2009	$ 40.24	$ 69.35	$ 63.45	$ 89.28
May 2009	$ 37.26	$ 71.91	$ 65.36	$ 87.83
June 2009	$ 40.79	$ 74.47	$ 66.32	$ 89.18
July 2009	$ 47.29	$ 80.25	$ 72.71	$ 94.07
August 2009	$ 53.93	$ 81.76	$ 74.79	$ 78.01
September 2009	$ 54.07	$ 86.24	$ 79.11	$ 83.03
October 2009	$ 48.78	$ 83.35	$ 73.74	$ 80.26
November 2009	$ 43.63	$ 87.53	$ 76.05	$ 84.37
December 2009	$ 42.95	$ 92.43	$ 82.17	$ 84.86

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

Securities Purchased Under Stock Repurchase Program

As of December 31, 2009, ISG repurchased 12.1 million shares of common stock under a stock repurchase plan approved by the Board of Directors on October 16, 2007. This program includes the repurchase of common shares, units and/or warrants. On November 14, 2007, the ISG Board of Directors authorized an additional repurchase program of up to $15.0 million. There were no repurchases that were made during the three months ended December 31, 2009. As of December 31, 2009, there was $10.1 million available under this repurchase program.

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Item 6. Selected Financial Data

The following historical information was derived from the audited consolidated financial statements of ISG and its subsidiaries for the years ended December 31, 2009, 2008, 2007 and the period beginning with ISG's inception (July 20, 2006) through December 31, 2006. The information for ISG for the year ended December 31, 2007 includes operations for TPI from November 17, 2007 through December 31, 2007. 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 the future performance of ISG.

	Years Ended			Period from July 20, 2006 (inception) to
	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006
	(dollars in thousands, except per share data)			
Statement of Operations Data:				
Revenues	$ 132,744	$ 174,795	$ 18,901	$
Depreciation and amortization	9,562	10,000	910	2
Operating income (loss)(1)	814(1)	(57,642)(2)	(1,664)	(51)
Interest expense	(4,550)	(6,928)	(1,174)	(4)
Interest income	262	1,300	10,453	
Foreign currency transaction (loss) gain	(140)	578	84	
Income tax benefit (provision)	778	4,783	(3,226)	
Net (loss) income	(2,836)	(57,909)	4,473	(55)
Basic weighted average common shares	31,491	31,282	36,465	7,096
Net (loss) income per common share basic	(0.09)	(1.85)	0.12	(0.01)
Diluted weighted average common shares	31,491	31,282	38,376	7,096
Net (loss) income per common share diluted	(0.09)	(1.85)	0.12	(0.01)
Cash Flow Data:				
Cash provided by (used in):				
Operating activities	$ 4,056	$ 20,481	$ 5,921	$ (47)
Investing activities ities	$ (1,239)	$ (1,634)	$ (203,630)	$ (48)
Financing activities ities	$ (22,080)	$ (3,939)	$ 244,367	$ 184
Balance Sheet Data (at period end)				
Total assets	$ 241,973	$ 279,588	$ 357,290	$ 817
Debt	$ 71,813	$ 94,050	$ 95,000	$
Shareholders' equity (deficit)	$ 131,625	$ 130,581	$ 190,788	$ (49)

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

(2) As a result of its goodwill and intangible asset impairment assessments, ISG 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.

The following historical information was derived from the audited consolidated financial statements of TPI and its subsidiaries for the period from January 1, 2007 through November 16, 2007

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and as of and for the years ended December 31, 2006 and December 31, 2005. 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 the future performance of TPI.

	Period From January 1, 2007 to November 16, 2007	Years Ended December 31, 2006	2005
	(dollars in thousands)		
Statement of Operations Data:			
Revenues	$ 153,751	$ 161,503	$ 146,127
Operating expenses:			
Direct costs and expenses for advisors	91,368	95,562	83,690
Selling, general, and administrative	45,287	50,585	45,100
Profit shares program compensation(1)	58,175		
Depreciation and amortization	1,969	2,437	1,929
Operating (loss) income	(43,048)	12,919	15,408
Interest income	204	108	44
Interest expense	(3,200)	(3,821)	(3,398)
Loss on extinguishment of debt		(527)	
Foreign currency transaction gain (loss)	335	(136)	(411)
Income (loss) before taxes	(45,709)	8,543	11,643
Income tax provision	(4,948)	(3,457)	(5,176)
Net (loss) income	(50,657)	5,086	6,467
Cash Flow Data:			
Cash provided by (used in):			
Operating activities	$ 3,248	$ 3,437	$ 5,945
Investing activities	$ (1,157)	$ (777)	$ (5,469)
Financing activities	$ (613)	$ 261	$ 700
Balance Sheet Data: (end of period)			
Cash and cash equivalents		$ 9,454	$ 5,939
Total assets		$ 48,821	$ 47,680
Total stockholders' equity (deficit)		$ 572	$ (7,519)

(1) Concurrent with the ISG's acquisition of TPI on November 16, 2007, TPI recorded $58.2 million in non-cash compensation charges related to their Management Share Unit and A2 Profit Participation Share programs.

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 ISG's 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."

ISG Overview

ISG was organized as a corporation under the laws of the State of Delaware on July 20, 2006. On November 16, 2007, ISG completed the acquisition of TPI, the largest independent sourcing advisory firm in the world. For the periods prior to the acquisition, ISG was a special purpose acquisition company and, therefore, had no operations. Following the acquisition of TPI, ISG transitioned from being a special-purpose acquisition company to an operating company.

ISG's reported results for the fiscal year ended December 31, 2007 include the operations of TPI for a six-week period from November 17, 2007 to December 31, 2007.

Because ISG had no operations prior to its acquisition of TPI, TPI is considered the accounting predecessor to ISG. Therefore, the standalone results of TPI's operations for the forty-six week period from January 1, 2007 to the consummation of the acquisition on November 16, 2007 are presented.

Results of Operations for the Years Ended December 31, 2009 and December 31, 2008

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.

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

Geographical information for the segment is as follows:

	Years Ended December 31,			
Geographic Area	**2009**	**2008**	**Change**	**Percent Change**
		(in thousands)		
Americas	$ 77,007	$ 96,548	$ (19,541)	(20.2)%
Europe	44,696	64,485	(19,789)	(30.7)%
Asia Pacific	11,041	13,762	(2,721)	(19.8)%
Total revenues	$ 132,744	$ 174,795	$ (42,051)	(24.1)%

The net decrease in revenues of $42.1 million or 24% in 2009 was attributable principally to a 20% decrease in Americas revenues to $77.0 million and a 29% decrease in international revenues to $55.7 million. The decrease in revenues is primarily due to lower levels of sourcing activity, particularly in the U.S. and Europe, attributable to uncertainty and delayed decision making by clients resulting from the prolonged worldwide economic downturn and the impact of foreign currency translation to U.S dollars on reported results. Declines in information technology ("IT") and business process outsourcing ("BPO") related sourcing activity were the primary contributors to this year-over-year decline. Billable staff at December 31, 2009 totaled 328, as compared to 342 at December 31, 2008.

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Operating Expenses

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

Operating Expenses	Years Ended December 31, 2009	2008	Change	Percent Change
	(in thousands)			
Direct costs and expenses for advisors	$ 67,674	$ 96,311	$ (28,637)	(29.7)%
Selling, general and administrative	47,894	51,972	(4,078)	(7.8)%
Goodwill impairment charge		49,363	(49,363)	(100.0)%
Intangible asset impairment charge	6,800	24,791	(17,991)	(72.6)%
Depreciation and amortization	9,562	10,000	(438)	(4.4)%
Total operating expenses	$ 131,930	$ 232,437	$ (100,507)	(43.2)%

The decrease in direct costs of $28.6 million or 30% was principally attributable to lower compensation due to a lower level of advisory staff, reduced provisions for performance based bonus programs and lower levels of client reimbursable expenses. Foreign currency translation also reduced costs in 2009 compared with the same 2008 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 Company financial and individual targets, and is accrued monthly throughout the year based on management estimates of target achievement. Statutory and elective pension plans are offered to employees as appropriate. Direct costs also include employee taxes, health insurance, workers compensation and disability insurance.

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

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

The Company maintains 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.

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

The decrease of $4.1 million or 8% in selling and general and administrative ("SG&A") expenses was principally attributable to cost reductions of $2.4 million related to headcount and fixed and variable compensation levels, $1.1 million related to spending for outside professional services,

$0.7 million related to travel expenses, $0.6 million related to training, client development activity and the impact of foreign currency translation to U.S dollars on reported results. This reduction was partially offset by an increase of $1.1 million for severance charges, $0.8 million in share-based compensation, $0.3 million in computer related expenses and $0.2 million in bad debt reserves.

Depreciation and Amortization Expense

This decrease of $0.4 million was primarily due to the reduction of amortization expense for intangible assets impaired as part of the Company's intangible assets impairment testing conducted in 2008. The Company's fixed assets consist of furniture, fixtures, equipment (mainly personal computers) and leasehold improvements. Depreciation expense is generally computed by applying the straight-line method over the estimated useful lives of assets. The Company also capitalizes 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.

The Company amortizes its intangible assets (e.g. client relationships and databases) over their estimated useful lives. Goodwill and trademark and trade names related to acquisitions is not amortized but is subject to annual impairment testing.

Impairment of goodwill and intangible assets

As a result of declining revenue, driven by a global recession which has impacted and reduced sourcing industry activity, the Company determined a triggering event had occurred requiring a goodwill and indefinite-lived intangibles impairment test be performed in the third quarter of 2009. The Company recorded a non-cash impairment charge of $6.8 million associated with indefinite-lived intangible assets. During the fourth quarter of 2008, the Company also recorded non-cash impairment charges of $49.4 million associated with goodwill and $24.8 million related to intangible assets as a result of its annual impairment testing.

Other (Expense), Net

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

	Years Ended December 31,			
	2009	**2008**	**Change**	**Percent Change**
	(in thousands)			
Interest income	$ 262	$ 1,300	$ (1,038)	(79.8)%
Interest expense	(4,550)	(6,928)	2,378	34.3%
Foreign currency (loss) gain	(140)	578	(718)	(124.2)%
Total other (expense), net	$ (4,428)	$ (5,050)	$ 622	12.3%

The decrease of $0.6 million was primarily the result of lower interest expense primarily due to $22.2 million of debt repayments partially offset by foreign currency related losses and lower interest income.

Income Tax Expense

The Company's 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. The Company recorded an income tax benefit for 2009 of $0.8 million. The Company's effective tax rate for the year ended December 31, 2009 was 21.5% compared to 7.6% for the year ended December 31, 2008. The increase in the effective rate was primarily due to the impact of the goodwill impairment recorded in 2008 and the derecognition of deferred tax asset previously recorded on stock awards and booking of valuation allowance on foreign net operating losses in 2009.

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Results of Operations for the Years Ended December 31, 2008 and December 31, 2007

ISG's financials for the year ended December 31, 2008 are not comparable to the year ended December 31, 2007 because the year ended December 31, 2007 comprised of only 6 weeks of operations for TPI as compared to 52 weeks for the year ended December 31, 2008. Also, ISG's financials for the year ended December 31, 2008 are not comparable to TPI's financials for the year ended December 31, 2007 since TPI's financials for the year ended December 31, 2007 comprised of only 46 weeks versus 52 weeks for ISG's financials for the year ended December 31, 2008.

Revenues

Revenues for the year ended December 31, 2008 was $174.8 million as compared to $18.9 million for the year ended December 31, 2007 which was primarily attributable to TPI being included in the results of operations for only six weeks during 2007. TPI's revenue for the 46 Week Period of 2007 was $153.8 million. The net increase of $2.1 million or 1.2% in 2008 was attributable principally to a 15% increase from international operations offset by an 8% revenue decline in the Americas region. The increase in ISG's international operations was fueled by the continuing expansion of demand for advisory services to support growing sourcing activity by companies in these regions. The decrease in revenues in the Americas was driven by lower booking activity in the third and fourth quarter of 2008 attributable primarily to uncertainty and delayed decision making by clients resulting from the U.S. economic downturn. Billable staff at December 31, 2008 totaled 342, as compared to 360 at December 31, 2007.

Operating Expenses

Direct costs were $96.3 million (55% of revenue) in 2008 as compared to $12.2 million (65% of revenue) which were primarily attributable to the last six weeks of ISG's 2007 operations consisting primarily of compensation related costs for revenue-generating professionals and client-related reimbursable expenses. TPI's direct costs for the 46 Week Period of 2007 were $91.4 million. The net decrease of $7.3 million or 7.0% was principally the result of cost reduction actions taken under the Value Creation Plan ("VCP") program in 2008, somewhat offset by investments in new product and service offerings and an increase in provisions for performance based bonuses.

SG&A expenses of $52.0 million in 2008 as compared to $7.4 million which were primarily attributable to the last six weeks of ISG's 2007 operations consist primarily of personnel costs related to sales and marketing staff, training and professional development programs, and general and administrative expenses for corporate staff and billable advisors. TPI's SG&A expenses for the 46 Week Period of 2007 were $45.3 million. The net decrease of $0.7 million in SG&A for fiscal 2008 were due primarily to the factors outlined below:

- Selling and marketing expenses decreased approximately $3.2 million due primarily to a reduction in staffing level;

- Expenses for training and professional development decreased approximately $0.7 million due to the increased efficiencies in the planning and execution of training-related events and other timing related factors; and

- General and administrative expenses increased approximately $3.2 million attributable to increased stock based compensation expense of $2.0 million, increased provisions of $1.7 million for performance based variable incentive bonuses and higher professional fees of $0.5 million. These were partially offset by decrease of $0.8 million in severance payments and a $0.3 million reduction in staffing level.

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Depreciation and Amortization Expense

Depreciation and amortization expense for 2008 was $10.0 million as compared to $0.9 million in 2007 which was primarily attributable to TPI only being included for only six weeks of operations in 2007.

TPI's depreciation and amortization expense for the 46 Week Period of 2007 was $2.0 million. This net increase of $7.1 million in the fiscal 2008 is primarily attributable to the amortization of intangible assets acquired in connection with the acquisition of TPI.

Impairment of goodwill and intangible assets

The Company recorded a non-cash impairment charge of $49.4 million associated with goodwill and $24.8 million related to intangible assets as a result of its annual impairment test during the fourth quarter of 2008. The impairment primarily resulted from the sustained decline in the market value of Company's common stock during the fourth quarter as well as the challenging macro-economic factors impacting industry conditions, actual results and our projections.

Other Income (Expense), Net

Other expense, net, for 2008 totaled $5.1 million consisting mainly of interest expense incurred in conjunction with ISG's debt facilities as compared to other income, net of $9.4 million for 2007, which consists mainly of interest income accumulated on cash balances raised through the IPO of ISG which were used primarily for the Acquisition. Other expense, net for TPI for the 46 Week Period of 2007 was $2.7 million, which was primarily interest expense, related to its debt facilities.

Income Tax Expense

Income tax benefit for 2008 was $4.8 million. The Company's effective tax rate for the year ended December 31, 2008 was 7.6% compared to 41.9% for the year ended December 31, 2007. The decrease in the effective rate was primarily due to the impact of the goodwill impairment recorded in the fourth quarter of 2008.

Liquidity and Capital Resources

Liquidity

The Company's 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.

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The following table summarizes ISG's cash flows for the years ended December 31, 2009, 2008 and 2007:

	Years Ended (in thousands) December 31, 2009	December 31, 2008	December 31, 2007
Net cash provided by (used in):			
Operating activities	$ 4,056	$ 20,481	$ 5,921
Investing activities, including acquisitions	(1,239)	(1,634)	(203,630)
Financing activities	(22,080)	(3,939)	244,367
Effect of exchange rate changes on cash	903	(939)	430
Net (decrease) increase in cash and cash equivalents	$ (18,360)	$ 13,969	$ 47,088

As of December 31, 2009, the Company's liquidity and capital resources included cash and cash equivalents of $42.8 million compared to $61.1 million as of December 31, 2008, a net decrease of $18.4 million, which was primarily attributable to the following:

- Our operating activities provided net cash of $4.1 million for the year ended December 31, 2009. Net cash provided from operations is primary attributable to net income, adjusted for non-cash charges totaling approximately $12.0 million. Our cash collections in 2009 provided cash from operations of approximately $2.9 million was more than offset by payments of $1.2 million for severance payments and $8.9 million for the payout of bonuses earned during 2008;

- capital expenditures for property, plant and equipment of $1.2 million; and

- payment of principal on the Company's term loan debt of $22.2 million.

Capital Resources

On November 16, 2007, in connection with the acquisition of TPI, International Consulting Acquisition Corp., a wholly-owned indirect subsidiary of ISG (the "Borrower"), entered into a senior secured credit facility comprised of a $95.0 million term loan facility and a $10.0 million revolving credit facility (collectively referred to as the 2007 Credit Agreement). On November 16, 2007, the Borrower borrowed $95.0 million under the term loan facility to finance a portion of the purchase price for the TPI acquisition and to pay transaction costs. The material terms of the 2007 Credit Agreement are as follows:

- The 2007 Credit Agreement has a maturity date of seven years from the closing of the TPI acquisition.

- The 2007 Credit Agreement is secured by all of the equity interests owned by the newly formed holding company of the Borrower, International Advisory Holdings Corp. ("Holdings") and its direct and indirect domestic subsidiaries and, subject to agreed exceptions, its direct and indirect "first-tier" foreign subsidiaries and a perfected first priority security interest in all of Holdings' and its direct and indirect domestic subsidiaries' tangible and intangible assets.

- Holdings and the Borrower's existing direct and indirect subsidiaries and future wholly-owned domestic subsidiaries serve as guarantors to the Borrower's obligations under the 2007 Credit Agreement.

- At the Borrower's option, the 2007 Credit Agreement bears interest at a rate per annum equal to either (i) the "Base Rate" (which is the higher of (a) the rate publicly announced from time to time by the administrative agent as its "prime rate" and (b) the Federal Funds Rate plus

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0.5% per annum), plus the applicable margin (as defined below) or (ii) Eurodollar Rate (adjusted for maximum reserves) as determined by the Administrative Agent, plus the applicable margin. The applicable margin shall be a percentage per annum equal to 2.5% for the term loans and the revolving loans maintained as Base Rate loans or 3.5% for the term loans and revolving loans maintained as Eurodollar loans.

Mandatory repayments of term loans shall be required from (subject to agreed exceptions) (i) 100% of the proceeds from asset sales by Holdings and its subsidiaries, (ii) 100% of the net proceeds from issuances of debt by Holdings and its subsidiaries, (iii) so long as the total leverage ratio is 3.0 to 1.0 or higher, 50% of annual excess cash flow of Holdings and its subsidiaries and (iv) 100% of the net proceeds from insurance recovery and condemnation events of Holdings and its subsidiaries.

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. In addition, the Borrower is 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 EBITDA.

The 2007 Credit Agreement contains customary events of default, including cross-default to other material agreements, judgment default and change of control.

As of December 31, 2009, the total principal outstanding under the term loan facility was $71.8 million. There were no borrowings under the revolving credit facility during fiscal 2009.

Under the 2007 Credit Agreement, the Company is required to hedge at least 40% of borrowings outstanding under the term loan facility. Subsequent to December 31, 2007, the Company entered into an agreement to cap the interest rate at 7% on $38.0 million of the LIBOR component of our borrowings under the term loan facility for a period of three years. The expense related to this interest rate cap was nominal.

On June 29, 2009, the Company made a voluntary principal prepayment of $12.0 million against its outstanding term loan balance of $93.8 million. In conjunction with this prepayment, our lenders consented to the following conditions: (1) agreement to execute the Company's UK tax planning strategy to reduce future potential cash taxes, (2) exclusion of the impact in the calculation of EBITDA of up to $5.0 million of restructuring charges relating to the Borrower's previously announced 2009 restructuring plan through December 31, 2009 and (3) exclusion of the impact in the calculation of EBITDA of establishing, if necessary, a reserve in respect of certain accounts receivable and work in progress due from General Motors Corporation for worked performed on or before June 1, 2009.

On September 11, 2009, our lenders agreed to amend the total leverage ratio (as defined) for the remaining life of the 2007 Credit Agreement to provide the Company with greater financing flexibility in return for additional debt repayments. In accordance with the terms of the amended 2007 Credit Agreement, the Company made $5.0 million of principal repayments on September 30, 2009 and December 31, 2009 to reduce the outstanding term loan balance to $71.8 million. The principal repayments were made from excess cash balances generated through the Company's normal business operations. An additional mandatory principal repayment of $2.0 million is due on March 31, 2010. The remaining 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 the Company's contractual obligations as of December 31, 2009, and the timing and effect that such obligations are expected to have on the Company's 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	$ 86,140	$ 4,947	$ 8,804	$ 72,389	$
Operating lease obligations	3,588	1,119	1,914	555	
Total	$ 89,728	$ 6,066	$ 10,718	$ 72,944	$

Excluded from the above table is a $0.2 million liability (or reserve) for uncertain tax positions TPI has taken or is expected to take on its tax returns. The reserve was recorded as a result of TPI's adoption of accounting standard related to accounting for uncertainty in income taxes on January 1, 2007 and recorded by the Company in its purchase accounting for TPI.

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

Off-Balance Sheet Arrangements

ISG does 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

The Company maintains 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 the Company 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 $7,350, 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, 2009, December 31, 2008 and the 46 Week Period ended November 16, 2007, TPI contributed $1.6 million, $1.5 million and $5.9 million, respectively, to the Plan. These amounts were invested by the participants in a variety of investment options under an arrangement with a third party asset manager. All current and future financial risks associated with the gains and losses on investments are borne by Plan participants.

Seasonality and Quarterly Results

The negotiation of sourcing transactions and, as a result, our revenue and earnings are subject to seasonal fluctuations. As a result of year-end holidays, macro-economic factors and client budget and spending patterns, our revenues have historically been weighted toward the second half of each year. Our earnings track this revenue seasonality and are also impacted by the timing of the adoption of annual price increases and certain costs and, as a result, have historically been higher in the second half of each year. Due to the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

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Critical Accounting Policies and Estimates

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

The Company believes 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, the Company has found the application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

The Company's accounting policies are more fully described in Note 2 "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements." The Company has identified the following critical accounting policies:

Revenue Recognition

In accordance with the provisions of accounting standard for 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.

The Company principally derives revenues from fees for services generated on a project-by-project basis. Prior to the commencement of a project, the Company reaches 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 the Company's 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 the Company has 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 the Company's 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 or deferred until the end of the contract term and recognized when our obligations have been fulfilled with the customer. The pattern of revenue recognition for the proportional contracts is recognized on the proportional performance method of accounting based on the ratio of labor hours incurred to estimated total labor hours, which the Company considers 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 the Company's original estimate as a result of an increase in project scope or unforeseen events. On regular basis, the Company reviews 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. The Company believes it has a demonstrated 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 the Company's 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 the Company through the effective date of the termination. In addition, from time to time, the Company enters into agreements with clients that limit the Company's right to enter into business relationships with specific competitors of that client for a specific time period. These provisions typically prohibit the Company 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. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of clients to pay fees or for disputes that affect its ability to fully collect billed accounts receivable. The allowance for these risks is prepared by reviewing the status of all accounts and recording reserves on a specific identification method based on previous experiences and historical bad debts. However, our actual experience may vary significantly from these estimates. If the financial condition of our clients were to deteriorate, resulting in their inability or unwillingness to pay their invoices, we may need to record additional allowances or write-offs in future periods. To the extent the provision relates to a client's inability or unwillingness to make required payments, the provision is recorded as bad debt expense, which is classified within selling, general and administrative expense in the accompanying consolidated statement of operations.

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.

Direct Costs and Expenses for Advisors

Direct costs and expenses for advisors include payroll expenses and advisory fees directly associated with the generation of revenues and other program expenses. Direct costs and expenses for advisors are expensed as incurred.

Direct costs and expenses for advisors also include expense accruals for discretionary bonus payments. Bonus accrual levels are adjusted throughout the year based on actual and projected individual and company performance.

Income Taxes

The Company uses 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. The Company reviews its deferred tax assets for recovery. A valuation allowance is established when the Company believes 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 the Company's tax provision in the period of change.

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In June 2006, the Financial Accounting Standards Board ("FASB") issued authoritative guidance for uncertain income tax positions recognized in an enterprise's financial statements in accordance with the Income Tax Topic of the Accounting Standards Codification ("ASC"). This interpretation requires companies to 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. We adopted this guidance on January 1, 2007.

Business Combinations

In December 2007, the FASB revised the authoritative guidance for business combinations, establishing principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired (including goodwill), the liabilities assumed, and any noncontrolling interest in the acquiree. Subsequently, on April 1, 2009, the FASB amended and clarified certain aspects of its authoritative guidance on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. We apply the FASB authoritative guidance to all business combinations for which the acquisition date is on or after January 1, 2009, and to certain future income tax effects related to our prior business combinations, should they arise. In these acquisitions, tangible and intangible assets acquired and liabilities assumed are recorded at fair value and goodwill is recognized for any difference between the price of the acquisition and our fair value determination.

Goodwill and Intangible Assets

The Company's goodwill represents the cost of businesses acquired less the fair value of the net assets acquired at the date of acquisition. The primary other identifiable intangible assets of the Company with indefinite lives are trademark and trade name. These assets are not amortized but rather tested for impairment at least annually by applying a fair-value based test in accordance with accounting and disclosure requirement for goodwill and other intangible assets. This test is performed by the Company during its fourth fiscal quarter or more frequently if the Company believes impairment indicators are present.

The provisions require that we perform a two-step impairment test on goodwill. In the f1px solid #000000">

Balance at September 30

$0.1 $0.1 $21.7 $21.9 $22.6

Amounts due within one year refer to provisions where expenditure is expected to arise within one year of the balance sheet date. Severance charges are recognized in the income statement as restructuring costs along with other restructuring costs. Remediation costs are recognized in cost of goods sold.

Severance

A charge of $0.7 million was recognized in respect of a reduction in EMEA ($0.5 million) and Americas headcount ($0.2 million).

Other restructuring

The $1.2 million charge relates to United Kingdom site clearance ($0.6 million), U.S. site clearance ($0.3 million) and relocation of our European Headquarters to the Ellesmere Port site ($0.3 million).

Remediation

The remediation provision represents the fair value of the Company s liability recognized under FAS 143, *Accounting for Asset Retirement Obligations*. The accretion expense recognized under FAS 143 in the first nine months of 2008 was $1.8 million.

INNOSPEC INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company records environmental liabilities when they are probable and costs can be estimated reasonably. The Company has to anticipate the program of work required and the associated future costs, and has to comply with environmental legislation in the relevant countries. The Company views the costs of vacating our main United Kingdom site as a contingent liability because there is no present intention to exit the site. The Company has further determined that, due to the uncertain product life of TEL, particularly in the market for aviation gas, there exists such uncertainty as to the timing of such cash flows that it is not possible to estimate these flows sufficiently reliably to recognize a provision.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Oil for Food Program and related investigations

On February 7, 2006, the Securities and Exchange Commission (SEC) notified the Company that it had commenced an investigation to determine whether any violations of law had occurred in connection with certain transactions conducted by or involving the Company, including those conducted by its wholly owned indirect Swiss subsidiary, Alcor Chemie Vertriebs GmbH (Alcor), under the United Nations Oil for Food Program (OFFP) between June 1, 1999 and December 31, 2003. As part of its investigation, the SEC issued a subpoena requiring the production of certain documents, including documents relating to these transactions, by the Company and Alcor. Upon receipt of the SEC s notification and initial subpoena, the Company undertook a review of its participation in the OFFP.

On October 10, 2007 and November 1, 2007, the SEC served two additional subpoenas on the Company. These additional subpoenas required the production of documents relating primarily to the OFFP, but also relating to transactions conducted by the Company or its subsidiaries with state owned or state controlled entities between June 1, 1999 and the date of such subpoenas, concerning the use of foreign agents and the possibility of extra-contractual payments to secure business with foreign governmental entities in the context of the Foreign Corrupt Practices Act and other U.S. laws. In a co-ordinated investigation, the Company was also notified by the U.S. Department of Justice (DOJ) regarding the possibility of violations of relevant laws within the scope of matters covered by the SEC subpoenas as well as additional preliminary inquiries regarding compliance with anti-trust laws applicable to U.S. and international tetra-ethyl lead markets. The subjects into which the SEC and DOJ have inquired include areas that concern certain former and current executives of the Company, including the current CEO. The Company, and its officers and directors, are cooperating with the SEC and DOJ investigations.

On February 19, 2008, the Board of Directors of the Company formed a committee comprised of the chairmen of the Board, the Audit Committee and the Nominating and Governance Committee, all of whom were independent directors. The chairman of the Nominating and Governance Committee retired as a director of the Company effective May 6, 2008, though his services have been retained in an independent capacity as a member of the committee. Counsel to the Company, providing assistance to the committee has, on behalf of the committee, conducted and will continue to conduct an investigation into the circumstances giving rise to the SEC and DOJ investigations. Counsel reports directly to the committee and assists in connection with communications and interactions with the SEC and DOJ.

On March 5, 2008, a letter was received by the Company from the DOJ in which a request for a wider and more detailed range of documents was made. The Company and its officers and directors intend to continue to co-operate with the SEC and DOJ.

Separately, on May 21, 2008, the United Kingdom s Serious Fraud Office (SFO) notified Innospec Limited, a wholly owned subsidiary of the Company, that it had commenced an investigation into contracts

INNOSPEC INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

involving British companies under the OFFP. As part of this investigation, the SFO has asked the Company to produce documents in respect of the Company s participation in the OFFP between January 1, 1996 and December 31, 2003. Following receipt of the SFO s notice the Company has instructed counsel to advise and assist in relation to the investigation and the Company intends to co-operate with the SFO. On October 16, 2008, the Company was notified that the scope of the SFO s investigation would extend to matters relating to overseas agents that are already the subject of the DOJ and SEC investigations.

While the outcome of the OFFP investigations remains uncertain, a number of companies which have been the subject of OFFP investigations have been required to disgorge profits and pay civil fines and penalties, including up to $30 million in respect of investigations by U.S. regulators. As a result of information discovered in the course of the investigations, we expect that we will be required to disgorge profits and pay fines and penalties relating to the OFFP that could be of similar or greater magnitude.

Also, significant additional disgorgements, penalties and fines could result from the SEC, DOJ and SFO s investigations relating to matters beyond just the OFFP. However, at this time, management is not able to reasonably estimate the aggregate amount of any such disgorgements, fines and penalties.

Because of the uncertainties associated with the ultimate outcome of these investigations and the costs to the Company of responding and participating in them, no assurance can be given that the ultimate costs and sanctions that may be imposed upon us will not have a material adverse effect on our results of operations, financial position and cash flows from operating activities. At December 31, 2007 we had accrued $3.7 million in respect of probable future legal and other professional expenses and provided no additional accruals in respect of this matter. As part of our continuing commitment to co-operate with the SEC and DOJ and to respond to requests for documents, including the request for documents set out in the DOJ letter dated March 5, 2008, we accrued a further $6.8 million during the quarter ended March 31, 2008 in respect of probable future legal and other professional expenses. During the quarter ended June 30, 2008, the Company provided no additional accruals in respect of these matters.

Working with the committee of the Board of Directors, counsel to the Company and its other professional advisors, the Company has kept the amount of such provision under review. During the quarter ended September 30, 2008 the Company has accrued an additional $8.7 million in respect of probable legal and other professional fees and expenses. This additional accrual of $8.7 million has been made on the basis of the Company s current best estimate of anticipated probable legal and other professional fees and expenses. However, should the underlying assumptions prove incorrect or should any of the DOJ, SEC and/or the SFO alter the scope of the investigations, then the actual costs incurred by the Company could differ materially from current estimates. The provision for probable future legal and other professional fees and expenses amounts to $8.6 million at September 30, 2008. The Company will keep the amount of such provision under review.

Bycosin disposal

Voluntary disclosure of possible violations of the Cuban Assets Control Regulations to the Office of Foreign Assets Control. Given the international scope of its operations, the Company is subject to laws of many different jurisdictions, including laws relating to the imposition of restrictions on trade and investment with various entities, persons and countries, some of which laws are conflicting. In 2004 the Company reviewed, as it does periodically, aspects of its operations in respect of such restrictions, and determined to dispose of certain non-core, non-U.S. subsidiaries of Bycosin AB. Bycosin s non-U.S. subsidiaries had been engaged in transactions and activities involving Cuban persons and entities before the acquisition of the Bycosin Group by the Company in June 2001, and such subsidiaries were continuing to engage in such transactions and activities at the time of the disposal of the non-core Fuel Specialties business and related assets in November 2004. On

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INNOSPEC INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 15, 2004, Bycosin AB, a wholly-owned subsidiary of the Company organized under the laws of Sweden (now known as Innospec Sweden AB, the Seller), entered into a Business and Asset Purchase Agreement (the Agreement) with Pesdo Swedcap Holdings AB (the Purchaser), Håkan Byström and others as the Purchaser s guarantors, and Octel Petroleum Specialties Limited (now known as Innospec Fuel Specialties Limited) as the Seller s guarantor, and completed the all-cash transaction contemplated thereby (together with related transactions, the Transaction). The Agreement provided for, among other things: (i) the disposal of certain non-core Fuel Specialties business and related manufacturing and other assets of the Seller; and (ii) the supply and distribution of certain power products to certain geographic regions. The net consideration paid by the Purchaser was approximately US$2.9 million.

Following completion of the Transaction, the Company made a voluntary disclosure to the U.S. Office of Foreign Assets Control (OFAC) regarding transactions and activities engaged in by certain non-U.S. subsidiaries of the Company. Disclosures, amongst other items, included that the aggregate monetary value of the transactions involving Cuban persons and entities conducted by the Company s non-U.S. subsidiaries since January 1999 was approximately $26.6 million.

At this time, however, management believes that it would be speculative and potentially misleading for the Company to predict the specific nature or amount of penalties that OFAC might eventually assess against it. While penalties could be assessed on different bases, if OFAC assessed penalties against the Company on a performance of contracts basis , the applicable regulations provide for penalties, in the case of civil violations of the Cuban Assets Control Regulations (31 CFR. Part 515) (CACR), of the lesser of $65,000 per violation or the value of the contract. Since January 1999, non-U.S. subsidiaries of the Company have entered into 43 contracts with Cuban entities, each of which could be considered a separate violation of the CACR by OFAC. OFAC may take the position that the CACR should be interpreted or applied in a different manner, potentially even to permit the assessment of penalties equal to or greater than the value of the business conducted with Cuban persons or entities.

The Company has considered the range of possible outcomes and potential penalties payable. In accordance with the Company s accounting policies, provision has been made for management s current best estimate of the potential liability, including anticipated legal costs. However, should the underlying assumptions prove incorrect, the actual outcome could differ materially from management s current expectations. Management is not able to estimate the amount of any additional loss, if any.

If the Company or its subsidiaries (current or former) were found not to have complied with the CACR, the Company believes that it could be subject to fines or other civil or criminal penalties which could be material.

Other legal matters

We are involved from time to time in claims and legal proceedings that result from, and are incidental to, the conduct of our business including product liability claims. There are no other material pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of their property is subject, other than ordinary, routine litigation incidental to their respective businesses.

Guarantees

The Company and certain of the Company s consolidated subsidiaries are contingently liable for certain obligations of affiliated companies primarily in the form of guarantees of debt and performance under contracts entered into as a normal business practice. This included guarantees of non-U.S. excise taxes and customs duties. As at September 30, 2008, such contingent liabilities amounted to $5.9 million.

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INNOSPEC INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the terms of the guarantee arrangements, generally the Company would be required to perform should the affiliated company fail to fulfil its obligations under the arrangements. In some cases, the guarantee arrangements have recourse provisions that would enable the Company to recover any payments made under the terms of the guarantees from securities held of the guaranteed parties assets.

The Company and its affiliates have numerous long-term sales and purchase commitments in their various business activities, which are expected to be fulfilled with no adverse consequences material to the Company.

Indemnities and warranties

In connection with the disposal of Octel Waste Management Limited on June 26, 2003, the Company provided certain warranties. The Company would be required to perform should the contingent liabilities in respect of the warranties become actual and could be required to make maximum future payments of £3.59 million ($6.4 million). There are no recourse provisions enabling recovery of any amounts from third parties nor are any assets held as collateral in respect of the warranties.

NOTE 12 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2008, the FASB issued FASB Staff Position FAS 142-3, *Determination of Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for the Company as of January 1, 2009. The Company does not believe that the adoption of FSP FAS 142-3 will have a material impact on its financial statements.

In March 2008, the FASB issued FAS 161, *Disclosures about Derivative Instruments and Hedging Activities*. FAS 161 requires enhanced disclosures surrounding the use and financial reporting of derivative instruments and hedging activities. This statement is effective for the Company as of January 1, 2009. The Company is currently evaluating the impact that the adoption of FAS 161 will have on its financial statements.

In December 2007, the FASB issued FAS 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for the Company as of January 1, 2009. The Company does not believe that the adoption of FAS 160 will have a material impact on its financial statements.

In December 2007, the FASB issued FAS 141R, *Business Combinations a replacement of FASB Statement No. 141*, which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is effective for the Company beginning January 1, 2009, and will change the accounting for business combinations on a prospective basis.

Effective January 1, 2008 the Company partially adopted FAS 157, *Fair Value Measurements* in respect of our pension plan assets and derivative instruments and this had no material impact on the Company s financial statements. The fair values of our pension plan assets and derivative instruments are valued based on quoted

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INNOSPEC INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prices available in active markets for identical assets or liabilities (level 1 measurement) and have not changed on adoption of FAS 157. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 permits companies that have not already issued either interim or annual financial statements reflecting its adoption to delay the effective adoption date in respect of non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FAS 157. Non-financial assets and non-financial liabilities would include all assets and liabilities other than those meeting the definition of a *financial asset* or *financial liability* as defined in FAS 159. The non-recurring, non-financial assets and liabilities for which FAS 157 has been deferred for adoption by the Company are property, plant and equipment, goodwill, intangible assets and plant closure provisions.

As defined in FAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). As permitted under FAS 157, the Company utilizes a mid-market pricing convention for valuing the majority of its assets and liabilities measured and reported at fair value. The Company utilizes market data or assumptions that market participants would use 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 Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. FAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). As required by FAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Effective January 1, 2008, the Company adopted FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. FAS 159 expands the scope of what entities may carry at fair value by offering an irrevocable option to record many types of financial assets and liabilities at fair value. The Company chose not to implement this option, accordingly the adoption of FAS 159 had no material impact on the Company s financial statements.

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ITEM 2 Management s Discussion and Analysis of Financial Condition and Results of Operations for the Three and Nine Months Ended September 30, 2008 and 2007

This discussion should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto.

CRITICAL ACCOUNTING ESTIMATES

Our objective is to clearly present our financial information in a manner that enhances the understanding of our sources of earnings and cash flows together with our financial position. We aim to achieve this by disclosing information required by the SEC together with further information that provides insight into our businesses.

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses Innospec s consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements 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 the reported amounts of revenues and expenses during the reporting period. On an on-going basis management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The policies and estimates that the Company considers the most critical in terms of complexity and subjectivity of assessment are those related to contingencies, environmental liabilities, goodwill, intangible assets (net of amortization), pensions, and deferred tax asset valuation allowance and uncertain income tax positions. These policies, with the exception of contingencies discussed below, have been discussed in the Company s 2007 Annual Report on Form 10-K.

Contingencies

The Company discloses information concerning contingent liabilities for which an unfavorable outcome is more than remote. The Company will record any loss related to contingent liabilities at such time as an unfavorable outcome becomes probable and the amount can be reasonably estimated. When the reasonable estimate is a range the recorded loss will be the best estimate within the range. If no amount in the range is a better estimate than any other amount the minimum amount of the range will be recorded. The Company records its legal and other related professional expenses within selling, general and administrative expenses as and when the associated course of action is committed to.

As discussed in Note 11 to the Unaudited Interim Consolidated Financial Statements, and Item 1 within Part II Other Information, the Company is subject to Securities and Exchange Commission, U.S. Department of Justice and United Kingdom Serious Fraud Office investigations into its involvement in the United Nations Oil for Food Program. Because of the uncertainties associated with the ultimate outcome of these investigations and the costs to the Company of responding and participating in them, no assurance can be given that the ultimate costs and sanctions that may be imposed upon us will not have a material adverse effect on our results of operations, financial position and cash flows from operating activities.

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RESULTS OF OPERATIONS

(in millions)	Three Months Ended September 30 2008	Three Months Ended September 30 2007	Nine Months Ended September 30 2008	Nine Months Ended September 30 2007
Net sales				
Fuel Specialties	$ 114.2	$ 93.8	$ 323.1	$ 265.6
Active Chemicals	37.0	33.0	110.4	101.0
Octane Additives	7.3	16.2	39.0	63.1
	$ 158.5	$ 143.0	$ 472.5	$ 429.7
Gross profit				
Fuel Specialties	$ 35.6	$ 31.5	$ 107.3	$ 90.4
Active Chemicals	4.1	5.9	10.9	19.1
Octane Additives	3.7	8.2	18.0	33.6
	$ 43.4	$ 45.6	$ 136.2	$ 143.1
Operating income				
Fuel Specialties	$ 19.2	$ 16.3	$ 58.0	$ 45.0
Active Chemicals	(0.3)	1.5	(2.6)	5.1
Octane Additives	(7.3)	2.3	(6.8)	16.7
FAS 158/87 pension (charge)	(0.6)	(1.1)	(1.8)	(3.4)
Corporate costs	(4.9)	(5.1)	(20.5)	(15.8)
	6.1	13.9	26.3	47.6
Restructuring charge	(0.3)	(0.9)	(1.9)	(2.9)
Impairment of Octane Additives business goodwill	(1.1)	(2.4)	(3.2)	(10.1)
Profit on disposal			0.4	
Total operating income	4.7	10.6	21.6	34.6
Other net (expense)/income	(5.0)	1.4	(5.8)	3.0
Interest expense	(1.6)	(2.7)	(4.9)	(7.0)
Interest income	0.2	0.4	0.9	2.0
(Loss)/income before income taxes and minority interest	$ (1.7)	$ 9.7	$ 11.8	$ 32.6

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Three months to September 30, 2008:

(in millions except ratios)	2008	2007	Change	
Net sales:				
Fuel Specialties	$ 114.2	$ 93.8	$ 20.4	+22%
Active Chemicals	37.0	33.0	4.0	+12%
Octane Additives	7.3	16.2	(8.9)	-55%
	$ 158.5	$ 143.0	$ 15.5	+11%
Gross profit:				
Fuel Specialties	$ 35.6	$ 31.5	$ 4.1	+13%
Active Chemicals	4.1	5.9	(1.8)	-31%
Octane Additives	3.7	8.2	(4.5)	-55%
	$ 43.4	$ 45.6	$ (2.2)	-5%
Gross margin (%)				
Fuel Specialties	*31.2*	*33.6*	-2.4	
Active Chemicals	*11.1*	*17.9*	-6.8	
Octane Additives	*50.7*	*50.6*	+0.1	
Aggregate	*27.4*	*31.9*	-4.5	
Operating expenses:				
Fuel Specialties	$ (15.7)	$ (14.6)	$ (1.1)	+8%
Active Chemicals	(4.1)	(4.0)	(0.1)	+3%
Octane Additives	(9.9)	(2.3)	(7.6)	+330%
FAS 158/87 pension charge	(0.6)	(1.1)	0.5	-45%
Corporate costs	(4.9)	(5.1)	0.2	-4%
	$ (35.2)	$ (27.1)	$ (8.1)	+30%

Fuel Specialties

Net sales: the year on year increase of 22% was spread across the markets in which we operate as follows the Americas (up 15%), Europe, Middle East and Africa (EMEA) (up 39%), Asia Pacific (ASPAC) (up 8%) and TEL for use in aviation gasoline (Avtel) (up 4%). This growth was due to higher volumes (up 13 percentage points), price and product mix (up 7 percentage points) and the favorable impact of exchange rates (up 2 percentage points).

Americas benefited from a richer price and product mix (up 12 percentage points), as we passed some raw material cost increases onto our customers, and higher volume (up 3 percentage points).

EMEA benefited from strong sales of heating, performance and refinery products. Growth was focused in volume (up 19 percentage points), the favorable impact of exchange rates (up 15 percentage points) and to a lesser extent price and product mix (up 5 percentage points).

The relatively smaller ASPAC business benefited from greater sales of lower value products resulting in increased volumes (up 43 percentage points) offset by unfavorable price and product mix (down 35 percentage points).

The strong Avtel business performance was primarily due to a richer sales mix (up 11 percentage points) offset by lower volume (down 7 percentage points).

Gross margin: the year on year decrease of 2.4 percentage points reflects the lower proportion of higher margin Avtel sales and the significant increase in raw material and energy costs.

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Operating expenses: the year on year increase in operating expenses was $1.1 million or 8%. This increase was considerably less than the 22% sales growth as we continued to leverage the infrastructure of this business and benefited from the recent relative strength of the U.S. dollar on our European Union euro denominated cost base. In addition, research and development expenses have been driven higher to support this expanding business increasing by $0.3 million or 12% between the corresponding periods.

Active Chemicals

Net sales: the year on year increase of 12% was spread across the markets in which we operate as follows the Americas (up 10%), EMEA (up 9%) and ASPAC (up 52%). This growth was due to volume (up 8 percentage points), the favorable impact of exchange rates (up 3 percentage points) and price and product mix (up 1 percentage point).

The Americas benefited from higher volumes (up 7 percentage points) of fragrance and personal care products and a richer price and product mix (up 3 percentage points).

EMEA also benefited from higher volumes (up 4 percentage points) of fragrance and personal products and the favorable impact of exchange rates (up 5 percentage points).

Our ASPAC business currently represents less than 10% of our overall Active Chemicals business reflecting the early stage of its development. Notwithstanding this, sales benefited from higher volumes (up 51 percentage points) of fragrance, personal care and polymers products. The favorable impact of exchange rates (up 5 percentage points) was marginally greater than the poorer price and product mix (down 4 percentage points).

Gross margin: the year on year decline of 6.8 percentage points reflects the significant increase in raw material and energy costs suffered across all the markets in which we operate. In addition, gross margin was adversely impacted by lower utilization in our United Kingdom and U.S. plants.

Operating expenses: the year on year increase on operating expenses was $0.1 million or 3%. This increase was considerably less than the 12% sales growth as we continued to leverage the infrastructure of this business.

Octane Additives

Net sales: net sales declined 55% despite volumes declining only 49%. This reflected a poorer sales mix despite moderate price increases in 2008. In both 2008 and 2007 sales were focused in the Middle East and Africa.

Gross margin: the year on year increase in gross margin was 0.1 percentage points. Moderate price increases achieved in 2008 have favorably impacted gross margin and limited the adverse impact of the poorer sales mix and lower TEL production volumes on the fixed cost base of the manufacturing site at Ellesmere Port, United Kingdom.

Operating expenses: excluding the impact of $8.7 million of legal and other professional expenses accrued, relating to the SEC and DOJ s investigations of the United Nations Oil for Food Program, the year on year decrease in operating expenses was $1.1 million or 48% primarily in respect of reduced selling, general and administration costs.

Other Income Statement Captions

FAS 158/87 pension charge: this non-cash charge has declined by $0.5 million because, unlike the corresponding period in 2007, there was no amortization of net actuarial losses required.

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Corporate costs: year on year corporate costs decreased by $0.2m due to the favorable impact of the relative strength of the U.S. dollar on our predominantly British pound sterling cost base.

Restructuring charge: restructuring costs are comprised of the following:

(in millions)	2008	2007
United Kingdom site clearance	$ 0.3	$ 0.3
Relocation of our European Headquarters to the Ellesmere Port site	0.1	0.6
U.S. site clearance	0.1	
Release of over accrual in respect of reduction in EMEA headcount	(0.2)	
	$ 0.3	$ 0.9

Amortization of intangible assets: the amortization charge has declined by a net $2.5 million from $4.6 million to $2.1 million. The reduction is due to the absence of the Veritel intangible asset amortization charge in 2008 since it was fully amortized as at December 31, 2007.

Impairment of Octane Additives business goodwill: the 2007 charge was higher than that recognized in 2008 primarily due to the higher operating income and associated cash flows in 2007. Since the end of the first quarter of 2007, we have updated the estimates used in the detailed forecast model to calculate the impairment charges to include effective April 1, 2007 the fact that we will no longer be sharing with Ethyl the profits from the sale of TEL outside North America.

Interest expense (net): the net interest charge decreased by $0.9 million in 2008 to $1.4 million. This decrease was primarily due to the fact that average net debt decreased by approximately $8 million between the corresponding periods from $88 million to $80 million. The net interest charge also benefited from the U.S. base interest rates declining between the corresponding periods and a $0.3 million reduction in the deferred finance costs amortization charge.

Other net income/(expense): in 2008 other net (expense) of $5.0 million related to net foreign exchange losses on foreign currency forward contracts and on translation of net assets in our European business. In 2007 other net income comprised $1.5 million of net foreign exchange gains offset by $0.1 million of net sundry other expenses.

Income taxes: the effective rate of tax for the quarter is (64.7)%, compared to 41.7% in 2007, including the revised assumption in the quarter that significant legal and other professional expenses may be tax deductible.

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Nine months to September 30, 2008:

(in millions except ratios)	2008	2007	Change	
Net sales:				
Fuel Specialties	$ 323.1	$ 265.6	$ 57.5	+22%
Active Chemicals	110.4	101.0	9.4	+9%
Octane Additives	39.0	63.1	(24.1)	-38%
	$ 472.5	$ 429.7	$ 42.8	+10%
Gross profit:				
Fuel Specialties	$ 107.3	$ 90.4	$ 16.9	+19%
Active Chemicals	10.9	19.1	(8.2)	-43%
Octane Additives	18.0	33.6	(15.6)	-46%
	$ 136.2	$ 143.1	$ (6.9)	-5%
Gross margin (%)				
Fuel Specialties	*33.2*	*34.0*	-0.8	
Active Chemicals	*9.9*	*18.9*	-9.0	
Octane Additives	*46.2*	*53.2*	-7.0	
Aggregate	*28.8*	*33.3*	-4.5	
Operating expenses:				
Fuel Specialties	$ (47.5)	$ (43.9)	$ (3.6)	+8%
Active Chemicals	(12.5)	(12.9)	0.4	-3%
Octane Additives	(21.4)	(7.2)	(14.2)	+197%
FAS 158/87 pension charge	(1.8)	(3.4)	1.6	-47%
Corporate costs	(20.5)	(15.8)	(4.7)	+30%
	$ (103.7)	$ (83.2)	$ (20.5)	+25%

Fuel Specialties

Net sales: the year on year increase of 22% was spread across the markets in which we operate as follows the Americas (up 18%), EMEA (up 30%), ASPAC (up 21%) and Avtel (up 6%). This growth was due to volume (up 11 percentage points), price and product mix (up 7 percentage points) and the favorable impact of exchange rates (up 4 percentage points).

Americas benefited from strong sales of refinery products. Growth was focused in volume (up 11 percentage points) and a richer price and product mix (up 7 percentage points).

EMEA benefited from strong sales of heating, performance and refinery products. Growth was focused in volume (up 15 percentage points), the favorable impact of exchange rates (up 10 percentage points) and to a lesser extent price and product mix (up 5 percentage points).

ASPAC benefited from strong sales of detergent, refinery and marine products. Growth was focused in volume (up 17 percentage points), price and product mix (up 3 percentage points) and to a lesser extent the favorable impact of exchange rates (up 1 percentage point).

The Avtel business growth was primarily due to a richer sales mix (up 14 percentage points) offset by lower volume (down 8 percentage points). The results in the corresponding period last year were positively impacted by the more favorable pricing allowed, and the volumes sold, under the Ethyl settlement.

Gross margin: the year on year decrease of 0.8 percentage points reflects the lower proportion of higher margin Avtel sales and the significant increase in raw material and energy costs.

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Operating expenses: excluding the impact of $1.9 million of one-time professional fees in 2007 the year on year increase in operating expenses was $5.5 million or 13%. The underlying 13% increase was less than the 22% sales growth as we continued to leverage the infrastructure of this business. This was achieved despite the adverse impact of, until recently, the relative weakness of the U.S. dollar on our European Union euro denominated cost base and higher personnel-related costs. In addition, research and development expenses have been driven higher to support this expanding business increasing by $1.5 million or 20% between the corresponding periods.

Active Chemicals

Net sales: the year on year increase of 9% was spread across the markets we operate as follows the Americas (up 7%), EMEA (up 7%) and ASPAC (up 39%). This growth was due to volume (up 7 percentage points) and the favorable impact of exchange rates (up 4 percentage points) offset by price and product mix (down 2 percentage points).

The Americas benefited from higher volume (up 12 percentage points), due to strong sales of fragrance and personal care products, offset by a poorer price and product mix (down 5 percentage points).

EMEA benefited primarily from the favorable impact of exchange rates (up 8 percentage points) and a richer price and product mix (up 1 percentage point) offset by lower volume (down 2 percentage points). Strong personal care and polymer product sales were offset by lower household, industrial and institutional product sales.

Our ASPAC business currently represents less than 10% of our overall Active Chemicals business reflecting the early stage of its development. Notwithstanding this, sales benefited from higher volumes (up 47 percentage points) of fragrance, personal care and polymers products. The favorable impact of exchange rates (up 6 percentage points) was more than offset by the poorer price and product mix (down 14 percentage points).

Gross margin: the year on year decline of 9.0 percentage points reflects price and product mix, primarily in respect of the greater proportion in 2008 of lower margin polymer sales, and the significant increase in raw material and energy costs suffered across all the markets in which we operate. In addition, gross margin was adversely impacted by lower utilization and manufacturing efficiencies in our U.S. and United Kingdom plants.

Operating expenses: the year on year decrease in operating expenses was $0.4 million or 3%. This decrease was achieved despite the 9% sales growth primarily due to lower personnel-related costs.

Octane Additives

Net sales: net sales declined 38% despite volumes declining only 33%. This reflected a poorer sales mix despite moderate price increases in 2008. In both 2008 and 2007 sales were focused in the Middle East and Africa.

Gross margin: the year on year decrease in gross margin was 7.0 percentage points. Following the settlement regarding the TMAs effective April 1, 2007 the profit share with Ethyl from this business which was charged within cost of goods sold has ceased. The cessation of the TMAs and moderate price increases achieved in 2008 have favorably impacted gross margin and limited the adverse impact of the poorer sales mix and lower TEL production volumes on the fixed cost base of the manufacturing site at Ellesmere Port, United Kingdom.

Operating expenses: excluding the impact of $15.5 million of legal and other professional expenses, relating to the SEC and DOJ s investigations of the United Nations Oil for Food Program, the year on year decrease in operating expenses was $1.3 million or 18% primarily in respect of reduced general and administration costs.

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Other Income Statement Captions

FAS 158/87 pension charge: this non-cash charge has declined by $1.6 million because, unlike the corresponding period in 2007, there was no amortization of net actuarial losses required.

Corporate costs: year on year corporate costs increased $4.7 million due to higher personnel-related costs and the expensing of $3.9 million of advisory and financing costs related to two large potential acquisitions that the Company is now not pursuing.

Restructuring charge: restructuring costs are comprised of the following:

(in millions)	2008	2007
United Kingdom site clearance	$ 0.6	$ 1.1
Reduction in EMEA headcount	0.5	0.4
Relocation of our European Headquarters to the Ellesmere Port site	0.3	0.7
U.S. site clearance	0.3	
Reduction in Americas headcount	0.2	
Additional payments in respect of the former CEO		0.3
Sundry other restructuring		0.4
	$ 1.9	$ 2.9

Amortization of intangible assets: the amortization charge has declined by a net $6.1 million from $12.3 million to $6.2 million. Of this reduction $7.5 million is due to the absence of the Veritel intangible asset amortization charge in 2008 since it was fully amortized as at December 31, 2007. This reduction has been offset by the amortization expense of $1.4 million in respect of the Ethyl intangible asset effective April 1, 2007.

Impairment of Octane Additives business goodwill: the 2007 charge was higher than that recognized in 2008 primarily due to the higher operating income and associated cash flows in 2007. Since the end of the first quarter of 2007, we have updated the estimates used in the detailed forecast model to calculate the impairment charges to include effective April 1, 2007 the fact that we will no longer be sharing with Ethyl the profits from the sale of TEL outside North America.

Profit on disposal: in May 2008 the Company recognized $0.4 million profit following the disposal of surplus U.S. real estate.

Interest expense (net): the net interest charge decreased by $1.0 million in 2008 to $4.0 million. This was despite the fact that average net debt increased by approximately $6 million between the corresponding periods from $63 million to $69 million. This decrease primarily reflects the fact that U.S. base interest rates declined between the corresponding periods and a $0.6 million reduction in the deferred finance costs amortization charge.

Other net income/(expense): in 2008 other net (expense) of $5.8 million related to net foreign exchange losses of $5.5 million and net sundry other expenses of $0.3 million. The losses relate to net losses on foreign currency forward contracts and on translation of net assets in our European business. In 2007 other net income comprised $3.6 million of net foreign exchange gains offset by $0.6 million of net sundry other expenses.

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Income taxes: tax relief is not available on the charge for impairment of Octane Additives business goodwill and accordingly we believe that the change in the effective rate of tax to 36.4% in 2008 from 43.4% in 2007 is best explained by adjusting for this non-deductible charge. This adjusted effective tax rate has decreased by 4.4 percentage points due to the positive impact of taxable profits in different geographical locations.

(in millions)	2008	2007
Income before income taxes	$ 11.8	$ 32.5
Add back Impairment of Octane Additives business goodwill	3.2	10.1
	$ 15.0	$ 42.6
Income taxes	$ 4.3	$ 14.1
Adjusted effective tax rate	28.7%	33.1%

LIQUIDITY AND FINANCIAL CONDITION

Working Capital

In the first nine months of 2008 our working capital (defined by the Company as accounts receivable, inventories, prepaid expenses, accounts payable and accrued liabilities rather than total current assets less total current liabilities) increased by $20.1 million. The $3.8 million decline in accounts receivable and prepaid expenses was focused heavily in our Octane Additives business as it collected significant year end receivables. The $19.7 million increase in inventories was focused in our growth Fuel Specialties business following the decision to build certain product inventories of strategic importance. In the third quarter of 2008 we accrued a further $8.7 million in respect of probable future legal and other professional expenses relating to the SEC and DOJ s investigations of the United Nations Oil for Food Program (OFFP). Our accounts payable and accrued liabilities reflect these accruals. Due to the uncertainties associated with the OFFP and related investigations and the potential for imposition of disgorgements, penalties and fines in the future, we may make additional accruals in future quarters.

Cash

At September 30, 2008 and December 31, 2007 we had cash and cash equivalents of $15.2 million and $24.3 million respectively

Debt

At September 30, 2008 we had a finance facility which provides for borrowings by us of up to $155.0 million including a term loan of $55.0 million and revolving credit facility of $100.0 million. The revolving credit facility can be drawn down upon until the finance facility expires on June 12, 2009. The finance facility also contains terms which, if breached, would result in the loan becoming repayable on demand. It requires, among other matters, compliance with two financial covenant ratios. These ratios are (1) the ratio of net debt to EBITDA and (2) the ratio of net interest to EBITA. EBITDA and EBITA are non U.S. GAAP measures of liquidity defined in the finance facility. In the event that the ratio of net debt to EBITDA exceeds 2.0 then in addition to these covenants, the finance facility also requires a look forward test and an additional financial covenant ratio in the form of net operating cash flow before finance costs to scheduled debt amortization and interest costs. This look forward test was not applicable to the Company throughout the period to September 30, 2008 due to such ratio not being exceeded.

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As of September 30, 2008, the Company had $92.0 million of debt outstanding under its finance facility and was in compliance with all financial covenants therein. The debt profile as at September 30, 2008, including the finance facility, is set out below:

(in millions)	
2008	$
2009	92.0
2010	
2011	
	92.0
Current portion of long-term debt	(92.0)
Long-term debt, net of current portion	$

The Company expects to need to refinance some of the existing debt before the end of this current finance facility. The Company has commenced discussions, in the fourth quarter of 2008, with its current syndicate of lending banks regarding a new finance facility. Due to the recent disruptions in the credit and global financial markets the availability of funds may be limited and we, and third parties with whom we do business, may incur increased costs associated with securing financing. Should the Company be unable to secure financing on satisfactory terms this may adversely impact continuing operations.

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

The Company operates manufacturing and blending facilities, offices and laboratories around the world, though the largest manufacturing facility is located in the United Kingdom. The Company sells a range of specialty chemicals to customers around the world. The Company uses floating rate debt to finance these global operations. Consequently, the Company is subject to business risks inherent in non-U.S. activities, including political and economic uncertainty, import and export limitations, and market risk related to changes in interest rates and foreign exchange rates. The political and economic risks are mitigated by the stability of the countries in which the Company s largest operations are located. Credit limits, ongoing credit evaluation and account monitoring procedures are used to minimize bad debt risk. Collateral is not generally required.

The Company uses derivatives, including interest rate swaps, commodity swaps and foreign currency forward exchange contracts, in the normal course of business to manage market risks. The derivatives used in hedging activities are considered risk management tools and are not used for trading purposes. In addition, the Company enters into derivative instruments with a diversified group of major financial institutions in order to monitor the exposure to non-performance of such instruments. The Company s objective in managing exposure to changes in interest rates is to limit the impact of such changes on earnings and cash flows and to lower overall borrowing costs. The Company s objective in managing the exposure to changes in foreign exchange rates is to reduce volatility on earnings and cash flows associated with such changes.

The Company offers fixed prices for some long-term sales contracts. As manufacturing costs and raw materials are subject to variability the Company uses commodity swaps to hedge the price of some raw materials thus reducing volatility on earnings and cash flows. The derivatives are considered risk management tools and are not used for trading purposes. The Company s objective is to manage its exposure to fluctuating prices of raw materials.

The Company s exposure to market risk has been discussed in the Company s 2007 Annual Report on Form 10-K and, other than those matters discussed in Part II, Item 1A below, there have been no significant changes since that time.

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ITEM 4 Controls and Procedures
Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report the Company carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the Exchange Act)).

Based upon this evaluation of disclosure controls and procedures, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of September 30, 2008, in timely making known material information relating to the Company and the Company s consolidated subsidiaries required to be disclosed in the Company s reports filed or submitted under the Exchange Act.

Changes in Internal Controls over Financial Reporting

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This results in refinements to processes throughout the Company. However, there has been no change in the Company s internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1 Legal Proceedings
Oil for Food Program and related investigations

On February 7, 2006, the Securities and Exchange Commission (SEC) notified the Company that it had commenced an investigation to determine whether any violations of law had occurred in connection with certain transactions conducted by or involving the Company, including those conducted by its wholly owned indirect Swiss subsidiary, Alcor Chemie Vertriebs GmbH (Alcor), under the United Nations Oil for Food Program (OFFP) between June 1, 1999 and December 31, 2003. As part of its investigation, the SEC issued a subpoena requiring the production of certain documents, including documents relating to these transactions, by the Company and Alcor. Upon receipt of the SEC s notification and initial subpoena, the Company undertook a review of its participation in the OFFP.

On October 10, 2007 and November 1, 2007, the SEC served two additional subpoenas on the Company. These additional subpoenas required the production of documents relating primarily to the OFFP, but also relating to transactions conducted by the Company or its subsidiaries with state owned or state controlled entities between June 1, 1999 and the date of such subpoenas, concerning the use of foreign agents and the possibility of extra-contractual payments to secure business with foreign governmental entities in the context of the Foreign Corrupt Practices Act and other U.S. laws. In a co-ordinated investigation, the Company was also notified by the U.S. Department of Justice (DOJ) regarding the possibility of violations of relevant laws within the scope of matters covered by the SEC subpoenas as well as additional preliminary inquiries regarding compliance with anti-trust laws applicable to U.S. and international tetra-ethyl lead markets. The subjects into which the SEC and DOJ have inquired include areas that concern certain former and current executives of the Company, including the current CEO. The Company, and its officers and directors, are cooperating with the SEC and DOJ investigations.

On February 19, 2008, the Board of Directors of the Company formed a committee comprised of the chairmen of the Board, the Audit Committee and the Nominating and Governance Committee, all of whom were independent directors. The chairman of the Nominating and Governance Committee retired as a director of the Company effective May 6, 2008, though his services have been retained in an independent capacity as a member of the committee. Counsel to the Company, providing assistance to the committee has, on behalf of the

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committee, conducted and will continue to conduct an investigation into the circumstances giving rise to the SEC and DOJ investigations. Counsel reports directly to the committee and assists in connection with communications and interactions with the SEC and DOJ.

On March 5, 2008, a letter was received by the Company from the DOJ in which a request for a wider and more detailed range of documents was made. The Company and its officers and directors intend to continue to co-operate with the SEC and DOJ.

Separately, on May 21, 2008, the United Kingdom s Serious Fraud Office (SFO) notified Innospec Limited, a wholly owned subsidiary of the Company, that it had commenced an investigation into contracts involving British companies under the OFFP. As part of this investigation, the SFO has asked the Company to produce documents in respect of the Company s participation in the OFFP between January 1, 1996 and December 31, 2003. Following receipt of the SFO s notice the Company has instructed counsel to advise and assist in relation to the investigation and the Company intends to co-operate with the SFO. On October 16, 2008, the Company was notified that the scope of the SFO s investigation would extend to matters relating to overseas agents that are already the subject of the DOJ and SEC investigations.

While the outcome of the OFFP investigations remains uncertain, a number of companies which have been the subject of OFFP investigations have been required to disgorge profits and pay civil fines and penalties, including up to $30 million in respect of investigations by U.S. regulators. As a result of information discovered in the course of the investigations, we expect that we will be required to disgorge profits and pay fines and penalties relating to the OFFP that could be of similar or greater magnitude.

Also, significant additional disgorgements, penalties and fines could result from the SEC, DOJ and SFO s investigations relating to matters beyond just the OFFP. However, at this time, management is not able to reasonably estimate the aggregate amount of any such disgorgements, fines and penalties.

Because of the uncertainties associated with the ultimate outcome of these investigations and the costs to the Company of responding and participating in them, no assurance can be given that the ultimate costs and sanctions that may be imposed upon us will not have a material adverse effect on our results of operations, financial position and cash flows from operating activities. At December 31, 2007 we had accrued $3.7 million in respect of probable future legal and other professional expenses and provided no additional accruals in respect of this matter. As part of our continuing commitment to co-operate with the SEC and DOJ and to respond to requests for documents, including the request for documents set out in the DOJ letter dated March 5, 2008, we accrued a further $6.8 million during the quarter ended March 31, 2008 in respect of probable future legal and other professional expenses. During the quarter ended June 30, 2008, the Company provided no additional accruals in respect of these matters.

Working with the committee of the Board of Directors, counsel to the Company and its other professional advisors, the Company has kept the amount of such provision under review. During the quarter ended September 30, 2008 the Company has accrued an additional $8.7 million in respect of probable legal and other professional fees and expenses. This additional accrual of $8.7 million has been made on the basis of the Company s current best estimate of anticipated probable legal and other professional fees and expenses. However, should the underlying assumptions prove incorrect or should any of the DOJ, SEC and/or the SFO alter the scope of the investigations, then the actual costs incurred by the Company could differ materially from current estimates. The provision for probable future legal and other professional fees and expenses amounts to $8.6 million at September 30, 2008. The Company will keep the amount of such provision under review.

Bycosin disposal

Voluntary disclosure of possible violations of the Cuban Assets Control Regulations to the Office of Foreign Assets Control. Given the international scope of its operations, the Company is subject to laws of many different jurisdictions, including laws relating to the imposition of restrictions on trade and investment with various entities, persons and countries, some of which laws are conflicting. In 2004 the Company reviewed, as it does periodically, aspects of its operations in respect of such restrictions, and determined to dispose of certain non-core, non-U.S. subsidiaries of Bycosin AB. Bycosin s non-U.S. subsidiaries had been engaged in transactions and activities involving Cuban persons and entities before the acquisition of the Bycosin Group by the Company in June 2001, and such subsidiaries were continuing to engage in such transactions and activities at the time of the disposal of the non-core Fuel Specialties business and related assets in November 2004. On November 15, 2004, Bycosin AB, a wholly-owned subsidiary of the Company organized under the laws of Sweden (now known as Innospec Sweden AB, the Seller), entered into a Business and Asset Purchase Agreement (the Agreement) with Pesdo Swedcap Holdings AB (the Purchaser), Håkan Byström and others as the Purchaser s guarantors, and Octel Petroleum Specialties Limited (now known as Innospec Fuel Specialties Limited) as the Seller s guarantor, and completed the all-cash transaction contemplated thereby (together with related transactions, the Transaction). The Agreement provided for, among other things: (i) the disposal of certain non-core Fuel Specialties business and related manufacturing and other assets of the Seller; and (ii) the supply and distribution of certain power products to certain geographic regions. The net consideration paid by the Purchaser was approximately US$2.9 million.

Following completion of the Transaction, the Company made a voluntary disclosure to the U.S. Office of Foreign Assets Control (OFAC) regarding transactions and activities engaged in by certain non-U.S. subsidiaries of the Company. Disclosures, amongst other items, included that the aggregate monetary value of the transactions involving Cuban persons and entities conducted by the Company s non-U.S. subsidiaries since January 1999 was approximately $26.6 million.

At this time, however, management believes that it would be speculative and potentially misleading for the Company to predict the specific nature or amount of penalties that OFAC might eventually assess against it. While penalties could be assessed on different bases, if OFAC assessed penalties against the Company on a performance of contracts basis , the applicable regulations provide for penalties, in the case of civil violations of the Cuban Assets Control Regulations (31 CFR. Part 515) (CACR), of the lesser of $65,000 per violation or the value of the contract. Since January 1999, non-U.S. subsidiaries of the Company have entered into 43 contracts with Cuban entities, each of which could be considered a separate violation of the CACR by OFAC. OFAC may take the position that the CACR should be interpreted or applied in a different manner, potentially even to permit the assessment of penalties equal to or greater than the value of the business conducted with Cuban persons or entities.

The Company has considered the range of possible outcomes and potential penalties payable. In accordance with the Company s accounting policies, provision has been made for management s current best estimate of the potential liability, including anticipated legal costs. However, should the underlying assumptions prove incorrect, the actual outcome could differ materially from management s current expectations. Management is not able to estimate the amount of any additional loss, if any.

If the Company or its subsidiaries (current or former) were found not to have complied with the CACR, the Company believes that it could be subject to fines or other civil or criminal penalties which could be material.

Patent actions

The Company is actively opposing certain third party patents in various regions of the world. The actions are part of the Company s ongoing management of its intellectual property portfolio. The Company does not believe that any of these actions will have a material effect on the financial condition or results of operations of the Company.

Other legal matters

We are involved from time to time in claims and legal proceedings that result from, and are incidental to, the conduct of our business including product liability claims. There are no other material pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of their property is subject, other than ordinary, routine litigation incidental to their respective businesses.

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ITEM 1A Risk Factors

Information regarding risk factors appears in Item 1A of the Company s 2007 Annual Report on Form 10-K, and there have been no material changes in the risk factors facing the Company since that time except as discussed below.

Recent disruptions in the credit markets, and concerns about global economic growth, have had a significant adverse impact on global financial markets and contributed to a decline in our stock price and corresponding market capitalization. Almost fifty per cent of the Company s common stock is held by three stockholders. A decision by any of these stockholders to sell all or a significant part of its stockholding in the Company as a consequence of current economic conditions or otherwise could result in a significant decline in the Company s stock price.

Credit agreements

On December 13, 2005 the Company entered into an agreement with a syndicate of banks for a new term loan of $100 million repayable over three and one half years which will expire on June 12, 2009. An additional revolving credit facility of $100 million was also agreed which will expire on June 12, 2009. There was $92.0 million outstanding under this finance facility at September 30, 2008.

The Company expects to need to refinance some of the existing debt before the end of this current finance facility. The Company has commenced discussions, in the fourth quarter of 2008, with its current syndicate of lending banks regarding a new finance facility. Due to the recent disruptions in the credit and global financial markets the availability of funds may be limited and we, and third parties with whom we do business, may incur increased costs associated with securing financing. Should the Company be unable to secure financing on satisfactory terms this may adversely impact continuing operations.

Pensions

The Company s principal pension arrangement is a contributory defined benefit pension plan (the Plan) in the United Kingdom though it does also have other much smaller pension arrangements in the United Kingdom and overseas. The Company accounts for the Plan in accordance with FAS 87, *Employers Accounting for Pensions*, FAS 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans* and FAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*. At December 31, 2007 the underlying plan asset value and projected benefit obligation were $889.1 million and $854.3 million, respectively, resulting in a surplus of $34.8 million.

Movements in the underlying plan asset value and projected benefit obligation are dependent on actual return on investments and pay awards as well as our assumptions in respect of the discount rate, annual member mortality rates, future return on assets, future pay escalation, future pension increases and future inflation. We develop these assumptions after considering advice from a major global actuarial consulting firm. A change in any one of these assumptions could impact the plan asset value, projected benefit obligation and pension cost recognized in the income statement. Further information on the Plan is provided in Note 6 of the Notes to the Consolidated Financial Statements and Item 7 of the Company s 2007 Annual Report on Form 10-K.

Due to the significant adverse impact on global financial markets the value of Plan assets have declined. In addition, the factors used to develop the discount rate assumption have fluctuated in a manner which would result in a significant increase in the discount rate from that used at the end of 2007. Unless the financial markets recover significantly during the fourth quarter of 2008, these changes in Plan asset values and assumptions will affect our pension calculations as at December 31, 2008, and may adversely impact future cash contributions required to be made by the Company and pension cost recognized in the income statement in 2009.

We currently do not however intend to modify the provisions of the Plan or investment strategy for the Plan assets. The pension obligation is long-term in nature as is the investment philosophy pursued.

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Counterparty creditworthiness

The Company sells a range of specialty chemicals to customers around the world. Credit limits, ongoing credit evaluation and account monitoring procedures are used to minimize bad debt risk. Collateral is not generally required. The Company uses derivatives, including interest rate swaps, commodity swaps and foreign currency forward exchange contracts, in the normal course of business to manage market risks. The Company enters into derivative instruments with a diversified group of major financial institutions in order to monitor the exposure to non-performance of such instruments.

The Company remains subject to market and credit risks including the ability of counterparties to meet their contractual obligations and the potential non-performance of counterparties to deliver contracted commodities or services at the contracted price. Due to the recent disruptions in the credit and global financial markets the ability of counterparties to meet their contractual obligations may be reduced.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

(c) No purchases of equity securities by the issuer or affiliated purchasers were made during the quarter.

Repurchases of common stock are held as treasury shares unless reissued under equity compensation plans.

During January 2008 the Company re-purchased 104,300 shares at a cost of $1.6 million.

On March 3, 2008 the Company announced that the Board of Directors had authorized a further stock re-purchase plan under Rule 10b5-1 to repurchase up to an additional $8.0 million of common stock. This plan commenced on March 3, 2008 and completed on April, 29, 2008.

The Company has not, within the last three years, made any sales of unregistered securities.

ITEM 3 Defaults Upon Senior Securities

None.

ITEM 4 Submission of Matters to a Vote of Security Holders

None.

ITEM 5 Other Information

The Company was initially unable to file this quarterly report on Form 10-Q because of its review with its independent registered public accounting firm, PricewaterhouseCoopers LLP, of the accounting treatment of contract related provisions of $6.3 million, or $4.5 million after income taxes. The Company had previously announced net income of $3.9 million for the quarter ended September 30, 2008 based on the reversal of those contract related provisions and their inclusion in net income. On completion of the review those contract related provisions of $6.3 million have now been excluded from net income, and offset against the cost of intangible assets, resulting in a net loss of $0.6 million for the quarter ended September 30, 2008.

ITEM 6 Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 13, 2008	By	/s/ PAUL W. JENNINGS **Paul W. Jennings** **President and Chief Executive Officer**
Date: November 13, 2008	By	/s/ IAN P. CLEMINSON **Ian P. Cleminson** **Executive Vice President and Chief Financial Officer**

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