PIMCO NEW YORK MUNICIPAL INCOME FUND II
Form N-CSR
July 28, 2015
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-21078

**PIMCO New York Municipal Income Fund II**

**(Exact name of registrant as specified in charter)**

**1633 Broadway, New York, NY 10019**

**(Address of principal executive offices)**

**William G. Galipeau**

**Treasurer**

**650 Newport Center Drive**

**Newport Beach, CA 92660**

**(Name and address of agent for service)**

Copies to:

**David C. Sullivan**

**Ropes & Gray LLP**

**Prudential Tower**

**800 Boylston Street**

**Boston, MA 02199**

Registrant s telephone number, including area code: (844) 337-4626

Date of fiscal year end: May 31

Date of reporting period: May 31, 2015

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ( OMB ) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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**Item 1. Reports to Shareholders.**

The following is a copy of the report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940, as amended (the 1940 Act ) (17 CFR 270.30e-1).

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Your Global Investment Authority

**PIMCO Closed-End Funds**

# Annual Report

*May 31, 2015*

PIMCO Municipal Income Fund II

PIMCO California Municipal Income Fund II

PIMCO New York Municipal Income Fund II

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**Letter from the Chairman of the Board & President**

Dear Shareholder:

Despite periods of volatility, municipal bonds produced positive results during the fiscal year ended May 31, 2015. Even though portions of the U.S. economy were highly resilient and the unemployment rate declined, longer-term Treasury yields moved lower during the reporting period. Investor demand for municipal securities was positive overall during the period.

## For the 12-month reporting period ended May 31, 2015

After first expanding, the U.S. economy hit a soft patch as the reporting period progressed. Looking back, U.S. gross domestic product ( GDP ), which represents the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, expanded at a 4.6% annual pace during the second quarter of 2014 and accelerated to a 5.0% annual pace during the third quarter of 2014 its strongest growth rate since the third quarter of 2003. GDP then expanded at an annual pace of 2.2% during the fourth quarter of 2014. Decelerating growth was partially attributed to an upturn in imports and moderating federal government spending. According to the Commerce Department, GDP contracted at an annual pace of 0.2% for the first quarter of 2015. This was attributed to contractions in exports, nonresidential fixed investment and state and local government spending. In addition, consumer spending decelerated, as it grew a modest 2.1% during the first quarter of 2015 versus 4.4% for the fourth quarter of 2014.

Federal Reserve ( Fed ) monetary policy remained accommodative during the reporting period. However, the central bank appeared to be moving closer to raising interest rates for the first time since 2006. As expected, following its meeting in October 2014, the Fed announced that it had concluded its asset purchase program. Then, at its March 2015 meeting, the Fed eliminated the word patient from its official statement regarding when it may start raising rates. Finally, at its meeting in June, after the reporting period had ended, the Fed said that it currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

The municipal bond market generated a positive return during the 12-month reporting period ended May 31, 2015. The overall municipal market, as measured by the Barclays Municipal Bond Index, posted positive returns during nine of the 12 months of the reporting period. Supporting the municipal market during those months were generally improving fundamentals, attractive valuations and falling longer-term interest rates. In addition, investor demand was largely strong. The municipal market s only setbacks occurred in February, April and May 2015, as interest rates moved higher and negatively impacted bond prices. The Barclays Municipal Bond Index gained 3.18% during the 12 months ended May 31, 2015. In comparison, the overall taxable fixed income market, as measured by the Barclays U.S. Aggregate Bond Index, gained 3.03%.

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## Outlook

PIMCO s baseline view is that the U.S. is on track for solid growth in the range of 2.5% to 3% in 2015. This outlook reflects the firm s expectation for robust consumption growth, supported by a strengthening labor market and a boost to real income from low commodity prices. However, against this positive outlook for consumption, PIMCO is weighing the potential negatives of sluggish export growth held back by the stronger U.S. dollar, as well as the likelihood that capital expenditures will be held back by a slowdown in investment in the energy sector. While PIMCO believes that headline inflation may briefly turn negative due to the year-over-year decline in oil prices, the firm expects core inflation to bottom out near current levels and to rebound later in 2015. These conditions should allow the Fed to begin the process of normalizing short-term interest rates later this year. That said, in PIMCO s view, this interest rate hike cycle will differ from previous ones both in terms of pace slower and in terms of the destination lower. PIMCO s outlook for the municipal market remains positive due to improving credit fundamentals and favorable pre-tax equivalent valuations. However, PIMCO remains cautious given the potential for interest rate volatility, additional supply pressures and negative credit headlines.

In the following pages of this PIMCO Closed-End Funds Annual Report, please find specific details regarding investment performance and a discussion of factors that most affected the Funds performance over the 12-month reporting period ended May 31, 2015.

Thank you for investing with us. We value your trust and will continue to work diligently to meet your investment needs. If you have questions regarding any of your PIMCO Closed-End Funds investments, please contact your financial advisor or call the Funds shareholder servicing agent at (844) 33-PIMCO or (844) 337-4626. We also invite you to visit our website at pimco.com/investments to learn more about our views and global thought leadership.

We remain dedicated to serving your investment needs.

Sincerely,

| | |
|---|---|
| Hans W. Kertess<br>Chairman of the Board of Trustees | Peter G. Strelow<br>President |

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## Important Information About the Funds

We believe that bond funds have an important role to play in a well-diversified investment portfolio. It is important to note, however, that in an environment where interest rates trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by a Fund are likely to decrease in value. A number of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). Accordingly, changes in interest rates can be sudden, and there is no guarantee that Fund Management will anticipate such movement.

As of the date of this report, interest rates in the U.S. are at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with rising interest rates. This is especially true since the Federal Reserve Board has concluded its quantitative easing program. Further, while the U.S. bond market has steadily grown over the past three decades, dealer inventories of corporate bonds have remained relatively stagnant. As a result, there has been a significant reduction in the ability of dealers to make markets in corporate bonds. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets, which could result in increased losses to a Fund. Bond funds and individual bonds with a longer duration (a measure of the sensitivity of a security s price to changes in interest rates) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations. In addition, in the current low interest rate environment, the market price of the Funds common shares may be particularly sensitive to changes in interest rates or the perception that there will be a change in interest rates.

The use of derivatives may subject the Funds to greater volatility than investments in traditional securities. The Funds may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, call risk, credit risk, management risk and the risk that a Fund could not close out a position when it would be most advantageous to do so. Certain derivative transactions may have a leveraging effect on a Fund. For example, a small investment in a derivative instrument may have a significant impact on a Fund s exposure to interest rates, currency exchange rates or other investments. As a result, a relatively small price movement in a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility in a Fund s net asset value. A Fund may engage in such transactions regardless of whether the Fund owns the asset, instrument or components of the index underlying a derivative instrument. A Fund may invest a significant portion of its assets in these types of instruments. If it does, a Fund s investment exposure could far exceed the value of its portfolio securities and its investment performance could be primarily dependent upon securities it does not directly own.

A Fund s use of leverage creates the opportunity for increased income for the Fund s common shareholders, but also creates special risks. Leverage is a speculative technique that may expose a Fund to greater risk and increased costs. If shorter-term interest rates rise relative to the rate of return on a Fund s portfolio, the interest and other costs to the Fund of leverage could exceed the rate of return on the debt obligations and other investments held by the Fund, thereby reducing return to the Fund s common shareholders. In addition, fees and expenses of any form of leverage used by a Fund will be borne entirely by its common shareholders (and not by preferred shareholders, if any) and will reduce the investment return of the Fund s common shares. There can be no assurance that a Fund s use of leverage will result in a higher yield on its common shares, and it may result in losses. Leverage creates several major types of risks for a Fund s common shareholders,

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including: (1) the likelihood of greater volatility of net asset value and market price of the Fund s common shares, and of the investment return to the Fund s common shareholders, than a comparable portfolio without leverage; (2) the possibility either that the Fund s common share dividends will fall if the interest and other costs of leverage rise, or that dividends paid on the Fund s common shares will fluctuate because such costs vary over time; and (3) the effects of leverage in a declining market or a rising interest rate environment, as leverage is likely to cause a greater decline in the net asset value of the Fund s common shares than if the Fund were not leveraged and may result in a greater decline in the market value of the Fund s common shares.

There is a risk that a Fund investing in a tender option bond program will not be considered the owner of a tender option bond for federal income tax purposes, and thus will not be entitled to treat such interest as exempt from federal income tax. Certain tender option bonds may be illiquid or may become illiquid as a result of, among other things, a credit rating downgrade, a payment default or a disqualification from tax-exempt status. Regulators recently finalized rules implementing Section 619 (the Volcker Rule ) and Section 941 (the Risk Retention Rules ) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Both the Volcker Rule and the Risk Retention Rules apply to tender option bond programs and may require that such programs be restructured. At this time, the full impact of these rules is not certain, however, in response to these rules, industry participants have begun to explore various structuring alternatives for existing and new trusts. For example, under a new tender option bond structure, a Fund would structure and sponsor a tender option bond trust. As a result, a Fund would be required to assume certain responsibilities and risks as the sponsor of the tender option bond trust. Because of the important role that tender option bond programs play in the municipal bond market, it is possible that implementation of these rules and any resulting impact may adversely impact the municipal bond market and the Funds. For example, as a result of the implementation of these rules, the municipal bond market may experience reduced demand or liquidity and increased financing costs. A Fund s investment in the securities issued by a tender option bond trust may involve greater risk and volatility than an investment in a fixed rate bond, and the value of such securities may decrease significantly when market interest rates increase. Tender option bond trusts could be terminated due to market, credit or other events beyond the Funds control, which could require the Funds to reduce leverage and dispose of portfolio investments at inopportune times and prices. A Fund may use a tender option bond program as a way of achieving leverage in its portfolio, in which case the Fund will be subject to leverage risk.

High-yield bonds (commonly referred to as junk bonds ) typically have a lower credit rating than other bonds. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. Further, markets for lower-rated bonds are typically less liquid than for higher-rated bonds, and public information is usually less abundant in such markets. Thus, high-yield investments increase the chance that a Fund will lose money on its investment. Mortgage-related and asset-backed securities represent ownership interests in pools of mortgages or other assets such as consumer loans or receivables. As a general matter, mortgage-related and asset-backed securities are subject to interest rate risk, extension risk, prepayment risk, and credit risk. These risks largely stem from the fact that returns on mortgage-related and asset-backed securities depend on the ability of the underlying assets to generate cash flow.

A Fund may hold defaulted securities that may involve special considerations including bankruptcy proceedings, other regulatory and legal restrictions affecting the Fund s ability to trade, and the availability of prices from independent pricing services or dealer quotations. Defaulted securities are

**Important Information About the Funds (Cont.)**

often illiquid and may not be actively traded. Sale of securities in bankrupt companies at an acceptable price may be difficult and differences compared to the value of the securities used by a Fund could be material.

Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely floating rate securities will not generally increase in value if interest rates decline. Inverse floating rate securities may decrease in value if interest rates increase. Inverse floating rate securities may also exhibit greater price volatility than a fixed rate obligation with similar credit quality. When a Fund holds variable or floating rate securities, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the NAV of the Funds shares.

A Fund that concentrates its investments in California municipal bonds may be affected significantly by economic, regulatory or political developments affecting the ability of California issuers to pay interest or repay principal. Certain issuers of California municipal bonds have experienced serious financial difficulties in the past and reoccurrence of these difficulties may impair the ability of certain California issuers to pay principal or interest on their obligations. Provisions of the California Constitution and State statutes that limit the taxing and spending authority of California governmental entities may impair the ability of California issuers to pay principal and/or interest on their obligations. While California s economy is broad, it does have major concentrations in high technology, aerospace and defense-related manufacturing, trade, entertainment, real estate and financial services, and may be sensitive to economic problems affecting those industries. Future California political and economic developments, constitutional amendments, legislative measures, executive orders, administrative regulations, litigation and voter initiatives could have an adverse effect on the debt obligations of California issuers.

A Fund that concentrates its investments in New York municipal bonds may be affected significantly by economic, regulatory or political developments affecting the ability of New York issuers to pay interest or repay principal. While New York s economy is broad, it does have concentrations in the financial services industry, and may be sensitive to economic problems affecting that industry. Certain issuers of New York municipal bonds have experienced serious financial difficulties in the past and a reoccurrence of these difficulties may impair the ability of certain New York issuers to pay principal or interest on their obligations. The financial health of New York City affects that of the State, and when New York City experiences financial difficulty it may have an adverse effect on New York municipal bonds held by a Fund. The growth rate of New York has at times been somewhat slower than the nation overall. The economic and financial condition of New York also may be affected by various financial, social, economic and political factors.

The common shares of the Funds trade on the New York Stock Exchange. As with any stock, the price of a Fund s common shares will fluctuate with market conditions and other factors. If you sell your common shares of a Fund, the price received may be more or less than your original investment. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The common shares of a Fund may trade at a price that is less than the initial offering price and/or the net asset value of such shares. Further, if a Fund s shares trade at a price that is more than the initial offering price and/or the net asset value of such shares, including at a substantial premium and/or for an extended period of time, there is no assurance that any such

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premium will be sustained for any period of time and will not decrease, or that the shares will not trade at a discount to net asset value thereafter.

The Funds may be subject to various risks in addition to those described above. Some of these risks may include, but are not limited to, the following: asset allocation risk, credit risk, stressed securities risk, distressed and defaulted securities risk, corporate bond risk, market risk, issuer risk, liquidity risk, equity securities and related market risk, mortgage-related and other asset-backed securities risk, extension risk, prepayment risk, privately issued mortgage-related securities risk, mortgage market/subprime risk, foreign (non-U.S.) investment risk, emerging markets risk, currency risk, redenomination risk, non-diversification risk, management risk, municipal bond risk, tender option bond risk, inflation-indexed security risk, senior debt risk, loans, participations and assignments risk, reinvestment risk, real estate risk, U.S. Government securities risk, foreign (non-U.S.) government securities risk, valuation risk, segregation and cover risk, focused investment risk, credit default swaps risk, event-linked securities risk, counterparty risk, preferred securities risk, confidential information access risk, other investment companies risk, private placements risk, inflation/deflation risk, regulatory risk, tax risk, recent economic conditions risk, market disruptions and geopolitical risk, potential conflicts of interest involving allocation of investment opportunities, repurchase agreements risk, securities lending risk, zero-coupon bond and payment-in-kind securities risk, portfolio turnover risk, smaller company risk, short sale risk and convertible securities risk. A description of certain of these risks is available in the Notes to Financial Statements of this Report.

On each Fund Summary page in this Shareholder Report the Common Share Average Annual Total Return table and Common Share Cumulative Return (if applicable) measure performance assuming that all dividend and capital gain distributions were reinvested. Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions. Total return for a period of more than one year represents the average annual total return. Performance at market price will differ from results at NAV. Although market price returns tend to reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about a Fund, market conditions, supply and demand for a Fund s shares, or changes in a Fund s dividends. Performance shown is net of fees and expenses.

The following table discloses the commencement of operations of each Fund:

| Name of Fund | Commencement of Operations |
|---|---|
| PIMCO Municipal Income Fund II | 06/28/02 |
| PIMCO California Municipal Income Fund II | 06/28/02 |
| PIMCO New York Municipal Income Fund II | 06/28/02 |

An investment in a Fund is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Funds.

PIMCO has adopted written proxy voting policies and procedures ( Proxy Policy ) as required by

Rule 206(4)-6 under the Investment Advisers Act of 1940. The Proxy Policy has been adopted by the Funds as the policies and procedures that PIMCO will use when voting proxies on behalf of the

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### Important Information About the Funds (Cont.)

Funds. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of each Fund, and information about how each Fund voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Funds at (844) 33-PIMCO (844-337-4626), on the Funds website at www.pimco.com/investments, and on the Securities and Exchange Commission s ( SEC ) website at http://www.sec.gov.

Each Fund files a complete schedule of its portfolio holdings with the SEC for the first and third quarters of its fiscal year on Form N-Q. A copy of each Fund s Form N-Q is available on the SEC s website at http://www.sec.gov and may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C., and is available without charge, upon request by calling the Funds at (844) 33-PIMCO (844-337-4626) and on the Funds website at www.pimco.com/investments. Updated portfolio holdings information about a Fund will be available at www.pimco.com/closedendfunds approximately 15 calendar days after such Fund s most recent fiscal quarter end, and will remain accessible until such Fund files a Form N-Q or a shareholder report for the period which includes the date of the information. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

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## PIMCO Municipal Income Fund II

Symbol on NYSE - **PML**

### Allocation Breakdown

| | |
|---|---|
| California | 13.8% |
| New York | 13.4% |
| Texas | 12.4% |
| Arizona | 8.4% |
| Illinois | 6.6% |
| Pennsylvania | 5.5% |
| New Jersey | 5.2% |
| Ohio | 5.2% |
| Other | 29.5% |

% of Investments, at value as of 05/31/15

### Fund Information (as of May 31,2015)[1]

| | |
|---|---|
| Market Price | $12.19 |
| NAV | $12.11 |
| Premium/(Discount) to NAV | 0.66% |
| Market Price Distribution Yield [2] | 6.40% |
| NAV Distribution Yield [2] | 6.44% |
| Regulatory Leverage Ratio [3] | 35% |

### Average Annual Total Return [1] for the period ended May 31, 2015

| | 1 Year | 5 Year | 10 Year | Commencement of Operations (06/28/02) |
|---|---|---|---|---|
| Market Price | 6.15% | 9.05% | 4.78% | 5.32% |
| NAV | 8.15% | 9.68% | 4.88% | 5.67% |

All Fund returns are net of fees and expenses.

[1] Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Total return, market price, NAV, market price distribution yield, and NAV distribution yield will fluctuate with changes in market conditions. For performance current to the most recent month-end, visit www.pimco.com or call (844) 33-PIMCO.

[2] Distribution yields are not performance and are calculated by annualizing the most recent distribution per share and dividing by the NAV or Market Price, as applicable, as of the reported date. Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital (ROC) of your investment in the Fund. Because the distribution rate may include a ROC, it should not be confused with yield or income. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the composition of distributions. Please visit www.pimco.com for most recent Section 19 Notice, if applicable. Final determination of a distribution s tax character will be made on Form 1099 DIV sent to shareholders each January.

[3] Represents regulatory leverage outstanding, as a percentage of total managed assets. Regulatory leverage may include preferred shares, tender option bond transactions, reverse repurchase agreements, and other borrowings (collectively Regulatory Leverage ). Total managed assets refer to total assets (including assets attributable to Regulatory Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Leverage).

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Portfolio Insights

- » PIMCO Municipal Income Fund II s primary investment objective is to seek current income exempt from federal income tax.
- » The Fund s overweight to effective duration (or sensitivity to changes in market interest rates) contributed to performance, as municipal yields moved lower across the yield curve during the reporting period.
- » An overweight to the revenue-backed sector contributed to performance, as the sector outperformed the overall municipal market during the reporting period.
- » An overweight to the industrial revenue sector contributed to performance, as the sector outperformed the overall municipal market during the reporting period.
- » Exposure to the health care sector contributed to performance, as the sector outperformed the overall municipal market during the reporting period.
- » An underweight to the transportation sector detracted from performance, as the sector outperformed the overall municipal market during the reporting period.
- » An underweight to the education sector detracted from performance, as the sector outperformed the overall municipal market during the reporting period.

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**PIMCO California Municipal Income Fund II** Symbol on NYSE - **PCK**

Allocation Breakdown

| | |
|---|---|
| California | 97.8% |
| Short-Term Instruments | 0.8% |
| New Jersey | 0.7% |
| New York | 0.7% |

% of Investments, at value as of 05/31/15

Fund Information (as of May 31,2015)[1]

| | |
|---|---|
| Market Price | $9.75 |
| NAV | $8.69 |
| Premium/(Discount) to NAV | 12.20% |
| Market Price Distribution Yield [2] | 6.62% |
| NAV Distribution Yield [2] | 7.42% |
| Regulatory Leverage Ratio [3] | 41% |

Average Annual Total Return [1] for the period ended May 31, 2015

| | 1 Year | 5 Year | 10 Year | Commencement of Operations (06/28/02) |
|---|---|---|---|---|
| Market Price | 9.85% | 9.11% | 3.48% | 4.09% |
| NAV | 8.64% | 10.80% | 3.05% | 4.04% |

All Fund returns are net of fees and expenses.

[1] Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Total return, market price, NAV, market price distribution yield, and NAV distribution yield will fluctuate with changes in market conditions. For performance current to the most recent month-end, visit www.pimco.com or call (844) 33-PIMCO.

[2] Distribution yields are not performance and are calculated by annualizing the most recent distribution per share and dividing by the NAV or Market Price, as applicable, as of the reported date. Distributions may be comprised of ordinary income, net capital gains, and/or a return of capital (ROC) of your investment in the Fund. Because the distribution rate may include a ROC, it should not be confused with yield or income. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income, the Fund will notify shareholders of the estimated composition of such distribution through a Section 19 Notice. Please refer to the most recent Section 19 Notice, if applicable, for additional information regarding the composition of distributions. Please visit www.pimco.com for most recent Section 19 Notice, if applicable. Final determination of a distribution s tax character will be made on Form 1099 DIV sent to shareholders each January.

[3] Represents regulatory leverage outstanding, as a percentage of total managed assets. Regulatory leverage may include preferred shares, tender option bond transactions, reverse repurchase agreements, and other borrowings (collectively Regulatory Leverage ). Total managed assets refer to total assets (including assets attributable to Regulatory Leverage that may be outstanding) minus accrued liabilities (other than liabilities representing Leverage).

Portfolio Insights

- PIMCO California Municipal Income Fund II s primary investment objective is to seek current income exempt from federal and California income tax.
- The Fund s overweight to effective duration (or sensitivity to changes in market interest rates) contributed to performance, as municipal yields moved lower across the yield curve during the reporting period.
- An overweight to the revenue-backed sector contributed to performance, as the sector outperformed the overall municipal market during the reporting period.
- An overweight to the tobacco sector contributed to performance, as the sector outperformed the overall municipal market during the reporting period.
- Exposure to the health care sector contributed to performance, as the sector outperformed the overall municipal market during the reporting period.
- An underweight to the education sector detracted from performance, as the sector outperformed the overall municipal market during the reporting period.
- An underweight to the transportation sector detracted from performance, as the sector outperformed the overall municipal market during the reporting period.
- An underweight to the water and sewer utility sector detracted from performance, as the sector outperformed the overall municipal market during the reporting period.

**PIMCO New York Municipal Income Fund II** Symbol on NYSE - **PNI**

Allocation Breakdown

| | |
|---|---|
| New York | 94.8% |
| Short-Term Instruments | 3.0% |
| Ohio | 0.6% |
| Louisiana | 0.6% |
| Florida | 0.5% |
| Other | 0.5% |

% of Investments, at value as of 05/31/15

Fund Information (as of May 31,2015)[1]

| | |
|---|---|
| Market Price | $12.32 |
| NAV | $11.28 |
| Premium/(Discount) to NAV | 9.22% |
| Market Price Distribution Yield [2] | 6.45% |
| NAV Distribution Yield [2] | 7.05% |
| Regulatory Leverage Ratio [3] | 41% |

Average Annual Total Return [1] for the period ended May 31, 2015

| 1 Year | 5 Year | 10 Year | D9 ;border-right:1pt none #D9D9D9 ;padding:0pt;"> |
|---|---|---|---|

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $ 51,929 | $ 51,404 | $ 162,212 | $ 155,354 |
| Operating expenses | | | | |
| Direct costs and expenses for advisors | 30,959 | 30,093 | 98,433 | 93,089 |
| Selling, general and administrative | 16,613 | 16,405 | 52,428 | 49,826 |
| Depreciation and amortization | 1,741 | 1,752 | 5,386 | 5,308 |
| Operating income | 2,616 | 3,154 | 5,965 | 7,131 |
| Interest income | — | 2 | 24 | 11 |
| Interest expense | (596) | (419) | (1,590) | (1,357) |
| Foreign currency transaction (loss) gain | (38) | 24 | (300) | 424 |
| Income before taxes | 1,982 | 2,761 | 4,099 | 6,209 |
| Income tax provision | 1,226 | 975 | 2,331 | 2,497 |
| Net income | $ 756 | $ 1,786 | $ 1,768 | $ 3,712 |
| Net income attributable to noncontrolling interest | 24 | 8 | 123 | 147 |
| Net income attributable to ISG | $ 732 | $ 1,778 | $ 1,645 | $ 3,565 |
| Weighted average shares outstanding: | | | | |
| Basic | 35,707 | 37,315 | 36,219 | 37,182 |
| Diluted | 36,873 | 39,296 | 36,977 | 38,919 |
| Earnings per share attributable to ISG: | | | | |
| Basic | $ 0.02 | $ 0.05 | $ 0.05 | $ 0.10 |
| Diluted | $ 0.02 | $ 0.05 | $ 0.05 | $ 0.09 |
| Comprehensive income: | | | | |
| Net income | $ 756 | $ 1,786 | $ 1,768 | $ 3,712 |
| Foreign currency translation, net of tax (expense) benefit of $(22), $366, $44 and $996, respectively. | 100 | (542) | (9) | (1,784) |
| Comprehensive income | 856 | $ 1,244 | 1,759 | $ 1,928 |
| Comprehensive income attributable to noncontrolling interest | 24 | 8 | 123 | 147 |
| Comprehensive income attributable to ISG | $ 832 | $ 1,236 | $ 1,636 | $ 1,781 |

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

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Nine Months Ended September 30, 2016 | | 2015 | |
|---|---|---|---|---|
| Cash flows from operating activities | | | | |
| Net income | $ | 1,768 | $ | 3,712 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation expense | | 1,337 | | 1,322 |
| Amortization of intangible assets | | 4,049 | | 3,985 |
| Tax expense (benefit) from stock issuances | | 110 | | (203) |
| Amortization of deferred financing costs | | 130 | | 107 |
| Stock-based compensation | | 5,180 | | 3,640 |
| Change in fair value of contingent consideration | | (279) | | 220 |
| Changes in accounts receivable allowance | | (16) | | 166 |
| Deferred tax benefit | | (1,267) | | (1,148) |
| Loss on disposal of fixed assets | | — | | 2 |
| Changes in operating assets and liabilities, net of acquisitions: | | | | |
| Accounts receivable | | 2,341 | | (1,808) |
| Prepaid expense and other current assets | | (1,516) | | (2,712) |
| Accounts payable | | 38 | | (1,325) |
| Deferred revenue | | (1,408) | | (2,004) |
| Debt issuance costs | | 198 | | — |
| Accrued expenses | | (747) | | (2,475) |
| Net cash provided by operating activities | | 9,918 | | 1,479 |
| Cash flows from investing activities | | | | |

| | | | | |
|---|---|---|---|---|
| Acquisitions, net of cash acquired | | (1,862) | | (537) |
| Restricted cash | | 56 | | (28) |
| Purchase of furniture, fixtures and equipment | | (1,904) | | (1,057) |
| Net cash used in investing activities | | (3,710) | | (1,622) |
| Cash flows from financing activities | | | | |
| Proceeds from debt | | 13,500 | | — |
| Principal payments on borrowings | | (4,850) | | (2,028) |
| Proceeds from issuance of ESPP shares | | 444 | | 440 |
| Payment of contingent consideration | | (2,483) | | (2,322) |
| Installment payment for acquisition of CCI | | — | | (661) |
| Dividend paid | | — | | (5,189) |
| Debt issuance costs | | 9 | | — |
| Tax (expense) benefit from stock issuances | | (110) | | 203 |
| Equity securities repurchased | | (11,441) | | (2,534) |
| Net cash used in financing activities | | (4,931) | | (12,091) |
| Effect of exchange rate changes on cash | | 21 | | (1,147) |
| Net increase (decrease) in cash and cash equivalents | | 1,298 | | (13,381) |
| Cash and cash equivalents, beginning of period | | 17,835 | | 27,662 |
| Cash and cash equivalents, end of period | $ | 19,133 | $ | 14,281 |
| Supplemental disclosures of cash flow information: | | | | |
| Noncash financing activities: | | | | |
| Issuance of treasury stock for vested restricted stock awards | $ | 4,973 | $ | 3,625 |

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

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands, except per share data)

(unaudited)

## NOTE 1—DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

Information Services Group, Inc. (the “Company”) was founded in 2006 with the strategic vision to become a high-growth, leading provider of information-based advisory services. In 2007, we consummated our initial public offering and completed the acquisition of TPI Advisory Services Americas, Inc. (“TPI”). The Company is a leading technology insights, market intelligence and advisory services company serving more than 500 clients around the world to help them achieve operational excellence. Based in Stamford, Connecticut, the Company has more than 1,000 employees and operates in 21 countries.

## NOTE 2—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements as of September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015, have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements and pursuant to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are considered necessary for a fair statement of the financial position of the Company as of September 30, 2016, the results of operations for the three and nine months ended September 30, 2016 and 2015 and the cash flows for the nine months ended September 30, 2016 and 2015. The condensed consolidated balance sheet as of December 31, 2015 has been derived from the Company’s audited consolidated financial statements. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with GAAP have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2015, which are included in the Company’s 2015 Form 10-K filed with the SEC.

## NOTE 3—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Fair Value

The carrying value of the Company’s cash and cash equivalents, restricted cash, receivables, accounts payable, other current liabilities, and accrued interest approximated their fair values at September 30, 2016 and December 31, 2015 due to the short-term nature of these instruments.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

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

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

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

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

The following tables summarize assets and liabilities measured at fair value on a recurring basis at the dates indicated:

| | Basis of Fair Value Measurements September 30, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Cash equivalents | $ 20 | $ — | $ — | $ 20 |
| Total | $ 20 | $ — | $ — | $ 20 |
| | | | | |
| Liabilities: | | | | |
| Contingent consideration (1) | $ — | $ — | $ 6,727 | $ 6,727 |
| Foreign currency exchange forward contract (2) | — | 94 | — | 94 |
| | $ — | $ 94 | $ 6,727 | $ 6,821 |

| | Basis of Fair Value Measurements December 31, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Cash equivalents | $ 20 | $ — | $ — | $ 20 |
| Total | $ 20 | $ — | $ — | $ 20 |
| | | | | |
| Liabilities: | | | | |
| Contingent consideration (1) | $ — | $ — | $ 4,019 | $ 4,019 |

(1) The short-term portion is included in “Accrued expenses.” The long-term portion is included in “Other liabilities.”

(2) Included in “Accrued Expenses.”

The Company’s contingent consideration liability was $6.7 million and $4.0 million at September 30, 2016 and December 31, 2015, respectively. The fair value measurement of this contingent consideration is classified within Level 3 of the fair value hierarchy and reflects the Company’s own assumptions in measuring fair values using the income approach. In developing these estimates, the Company considered certain performance projections, historical results, and

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

industry trends. This amount was estimated through a valuation model that incorporated probability-weighted assumptions related to the achievement of these milestones and the likelihood of the Company making payments. These cash outflow projections have then been discounted using a rate ranging from 13.5% to 19.8%.

In January 2016, the Company entered into four foreign exchange forward contracts to partially hedge exposure to changes in foreign exchange rates. There is one remaining foreign exchange forward contract with a EUR notional of 3.0 million and USD notional of 3.3 million at September 30, 2016. The remaining contract is scheduled to settle at December 31, 2016. These contracts are marked-to-market with the resulting gains and losses recognized in earnings offsetting the gains and losses on the non-functional currency denominated monetary assets and liabilities being hedged. These derivative contracts are not designated as hedges and are carried at fair value, with changes in the fair value recorded to foreign currency transaction gain (loss) in the condensed consolidated statement of comprehensive income. We recognized a $0.1 million of unrealized loss on forward exchange contracts which is reflected on the foreign currency transaction gain (loss) line for the nine months ended September 30, 2016. The foreign currency exchange contracts agreement is valued using broker quotations or market transactions in either the listed or over-the-counter markets. These derivative instruments are classified within level 2.

The Company’s financial instruments include outstanding borrowings of $59.4 million at September 30, 2016 and $50.8 million at December 31, 2015, which are carried at amortized cost. The fair value of debt is classified within Level 3 of the fair value hierarchy. The fair value of the Company's outstanding borrowings is approximately $59.4 million and $50.8 million at September 30, 2016 and December 31, 2015, respectively. The fair values of debt have been estimated using a discounted cash flow analysis based on the Company's incremental borrowing rate for similar borrowing arrangements. The incremental borrowing rate used to discount future cash flows ranged from 3.16% to 3.48%. The Company also considered recent transactions of peer group companies for similar instruments with comparable terms and maturities as well as an analysis of current market conditions.

The following table represents the change in the contingent consideration liability during the nine months ended September 30, 2016 and 2015:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Beginning Balance | $ 4,019 | $ 4,825 |

| | | |
|---|---|---|
| Payment of contingent consideration | (2,483) | (2,322) |
| Acquisition | 4,841 | 986 |
| Change in fair value of contingent consideration | (279) | 220 |
| Accretion of contingent consideration | 568 | 172 |
| Unrealized gain (loss) related to currency translation | 61 | (233) |
| Ending Balance | $ 6,727 | $ 3,648 |

Recently Issued Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that outlines a single comprehensive model for entities to use in accounting for revenue. Under the guidance, revenue is recognized when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for public entities with annual and interim reporting periods beginning after December 15, 2016. On July 9, 2015, the FASB approved the deferral of the effective date of the new revenue guidance by one year to annual reporting periods beginning after December 15, 2017, with early adoption being permitted for annual periods beginning after December 15, 2016. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. In March 2016, the FASB issued an accounting standard update to clarify the implementation guidance on principal versus agent considerations. In

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

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April 2016, the FASB issued an accounting standard update to clarify the identification of performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. In May 2016, the FASB issued an accounting standard update to clarify guidance in certain areas and add some practical expedients to the guidance. The amendments in these 2016 updates do not change the core principle of the previously issued guidance in May 2014. The Company is currently assessing the effects this guidance may have on its consolidated financial statements, as well as the method of transition that the Company will use in adopting the new standard.

In April 2015, the FASB issued guidance require the presentation of debt issuance costs in financial statements as a direct reduction of related debt liabilities with amortization of debt issuance costs reported as interest expense. Under current U.S. GAAP standards, debt issuance costs are reported as deferred charges (i.e., as an asset). In August 2015, the FASB clarified the guidance that debt issuance costs related to line-of-credit arrangements could continue to be presented as an asset and be subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. This guidance is effective for annual periods, and interim periods within those fiscal years, beginning after December 15, 2015 and is to be applied retrospectively upon adoption. The Company adopted the guidance effective January 1, 2016 and presented $0.7 million and $0.6 million, respectively, of debt issuance costs as a direct deduction to the debt liability as of September 30, 2016 and December 31, 2015. This change in accounting principle did not have an impact on the Company’s results of operations, cash flows or stockholders’ equity.

In November 2015, the FASB issued an accounting standards update to simplify the presentation of deferred income taxes on the balance sheet. The update requires that all deferred tax assets and liabilities be classified as noncurrent. The current guidance that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is not impacted by this update. The provisions of the new standard are effective beginning January 1, 2017, for annual and interim periods and early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its results of operations, but will result in a reclassification of current net deferred tax on its balance sheet in future years. Adoption of the guidance as of September 30, 2016 would result in a reclassification of current net deferred tax of $2.0 million and $2.1 million as of September 30, 2016 and December 31, 2015, respectively.

In February 2016, the FASB issued guidance on accounting for leases which requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. The guidance requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases and will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The guidance requires the use of a modified retrospective approach. The Company is evaluating the impact of the guidance on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued amended guidance related to employee share-based payment accounting. The guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled and will be applied on a prospective basis. The guidance also requires presentation of excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity, and can be applied retrospectively or prospectively. The guidance increases the amount companies can withhold to cover income taxes on awards without triggering liability classification for shares used to satisfy statutory income tax withholding obligations and requires application of a modified retrospective transition method. The amended guidance will be effective for interim and annual periods beginning after December 15, 2016; early adoption is permitted if all provisions are adopted in the same period. The Company is evaluating the impact of the amended guidance on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued new guidance intended to reduce diversity in practice in how certain cash receipts and payments are classified in the statement of cash flows, including debt prepayment or extinguishment costs, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, and distributions from certain equity method investees. The guidance is effective for interim and annual periods beginning

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

after December 15, 2017, and early adoption is permitted. The guidance requires application using a retrospective transition method. The Company is evaluating the impact of the guidance on its consolidated financial statements and related disclosures.

## NOTE 4—ACQUISITIONS

### TracePoint Acquisition

On April 29, 2016 (the “TracePoint Acquisition Date”), a subsidiary of the Company executed an Asset Purchase Agreement with TracePoint Consulting LLC, a Georgia limited liability company (“TracePoint”) and consummated the acquisition of substantially all of the assets and assumed certain liabilities of TracePoint for a purchase price of up to $7.7 million.

The purchase price was comprised of $1.4 million of cash consideration paid at closing. TracePoint will also have the right to receive up to $6.3 million in additional consideration, of which $5.0 million to be paid 50% in cash and 50% in stock, with the remaining portion payable in cash, via earn-out payments for fiscal years 2016-2018, if certain financial targets are met.

The following table summarizes the consideration transferred to acquire TracePoint and the amounts of identified assets acquired and liabilities assumed as of the TracePoint Acquisition Date:

The preliminary allocable purchase price consists of the following:

| | |
|---|---|
| Cash | $ 1,418 |
| Contingent consideration | 3,936 |
| Total allocable purchase price | $ 5,354 |

Recognized amounts of identifiable assets acquired and liabilities assumed as of the TracePoint Acquisition Date:

| | |
|---|---|
| Cash | $ — |
| Accounts receivable | 1,099 |
| Other assets | 322 |
| Intangible assets | 1,243 |
| Accounts payable | (559) |
| Accrued expenses and other | (44) |
| Net assets acquired | $ 2,061 |
| | |
| Goodwill | $ 3,293 |

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

Costs associated with this acquisition are included in the selling, general and administrative expenses in the condensed consolidated statement of comprehensive income and totaled $0.1 million during the nine months ended September 30, 2016. This business combination was accounted for under the acquisition method of accounting, and as such, the aggregate purchase price was allocated on a preliminary basis to the assets acquired and liabilities assumed based on estimated fair values as of the closing date. The purchase price allocations will be finalized after the completion of the valuation of certain intangible assets and any adjustments to the preliminary purchase price allocations are not expected to have a material impact on the Company's results of operations. Based on the valuation and other factors as described above, the purchase price assigned to intangible assets and the amortization period were as follows:

| | Purchase Price Allocation | | Asset Life | |
|---|---|---|---|---|
| Amortizable intangible assets: | | | | |
| Customer relationships | $ | 1,222 | 15 | years |
| Non-compete | | 21 | 3 | years |
| Total intangible assets | $ | 1,243 | | |

Experton Group Acquisition

On February 29, 2016 (the "Experton Acquisition Date"), the Company executed a Sale and Purchase Agreement for all the shares of Experton Group AG ("the Agreement"), and consummated the acquisition of all the shares of Experton Group AG ("Experton Group"), a German Corporation. Experton Group is a subscription-based research, advisory and benchmarking firm based in Munich, Germany.

Under the terms of the Agreement, the Company acquired the shares for aggregate cash consideration of $0.6 million at closing and another $0.6 million of cash consideration to be paid one year from the Experton Acquisition Date. In addition, Experton Group is eligible to receive a minimum of $0 and a maximum of up to $1.2 million of earn-out payments for fiscal years 2016-2018, if certain revenue targets are met, payable in a combination of cash and stock consideration.

The following table summarizes the consideration transferred to acquire Experton Group and the amounts of identified assets acquired and liabilities assumed as of the Experton Acquisition Date:

The preliminary allocable purchase price consists of the following:

| | |
|---|---|
| Cash | $ 554 |
| Post-completion installment payment | 554 |
| Contingent consideration | 905 |
| Total allocable purchase price | $ 2,013 |

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

Recognized amounts of identifiable assets acquired and liabilities assumed as of the Experton Acquisition Date:

| | |
|---|---|
| Cash | $ 110 |
| Accounts receivable | 412 |
| Other assets | 57 |
| Intangible assets | 757 |
| Deferred income tax liability | (224) |
| Accounts payable | (51) |
| Accrued expenses and other | (521) |
| Net assets acquired | $ 540 |
| | |
| Goodwill | $ 1,473 |

During the second quarter of 2016, the Company recorded an adjustment to its preliminary purchase price allocation with respect to its acquisition of the Experton Group (as defined below) as well as related deferred tax effects, including reducing the amount allocated to intangible assets by $0.3 million.

Costs associated with this acquisition are included in the selling, general and administrative expenses in the condensed consolidated statement of comprehensive income and totaled $0.1 million during the nine months ended September 30, 2016. This business combination was accounted for under the acquisition method of accounting, and as such, the aggregate purchase price was allocated on a preliminary basis to the assets acquired and liabilities assumed based on estimated fair values as of the closing dates. The purchase price allocations will be finalized after the completion of the valuation of certain intangible assets and any adjustments to the preliminary purchase price allocations are not expected to have a material impact on the Company's results of operations. Based on the valuation and other factors as described above, the purchase price assigned to intangible assets and the amortization period were as follows:

| | Purchase Price Allocation | | Asset Life | |
|---|---|---|---|---|
| Amortizable intangible assets: | | | | |
| Customer relationships | $ | 735 | 10 | years |
| Non-compete | | 22 | 3 | years |
| Total intangible assets | $ | 757 | | |

The Condensed Consolidated Statements of Comprehensive Income include the results of Experton and TracePoint acquisitions subsequent to the closing. Had the acquisition occurred as of January 1, 2015, the impact on the Company's results of operations would not have been material.

NOTE 5—NET INCOME PER COMMON SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. The 50,000 contingently issuable shares related to the acquisition of CCI were excluded from basic and diluted earnings per share since the contingency has not been met as of the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would share in the net income of the Company. For the three and nine months ended September 30, 2016, the effect of 34,374 stock appreciation rights ("SARs") have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation, respectively. In addition, 0.1 million and 0.3 million restricted shares have not been considered in the diluted earnings per share calculation for the three and nine months ended September 30, 2016, as the effect would be anti-dilutive. For the three and nine months

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

ended September 30, 2015, the effect of 68,748 SARs have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Basic: | | | | |
| Net income attributable to ISG | $ 732 | $ 1,778 | $ 1,645 | $ 3,565 |
| Weighted average common shares | 35,707 | 37,315 | 36,219 | 37,182 |
| Earnings per share attributable to ISG | $ 0.02 | $ 0.05 | $ 0.05 | $ 0.10 |
| Diluted: | | | | |
| Net income attributable to ISG | $ 732 | $ 1,778 | $ 1,645 | $ 3,565 |
| Interest expense of convertible debt, net of tax | 1 | 21 | 21 | 60 |
| Net income, attributable to ISG, as adjusted | $ 733 | $ 1,799 | $ 1,666 | $ 3,625 |
| Basic weighted average common shares | 35,707 | 37,315 | 36,219 | 37,182 |
| Potential common shares | 1,166 | 1,981 | 758 | 1,737 |
| Diluted weighted average common shares | 36,873 | 39,296 | 36,977 | 38,919 |
| Diluted earnings per share attributable to ISG | $ 0.02 | $ 0.05 | $ 0.05 | $ 0.09 |

NOTE 6—INCOME TAXES

The Company's effective tax rate for the three and nine months ended September 30, 2016 was 61.9% and 56.9% based on pretax income of $2.0  million and $4.1 million, respectively.  The Company's effective tax rate for the quarter was greater than the statutory rate primarily due to non-deductible travel and entertainment expenses, increase in FIN 48 accruals, and the impact of current quarter losses in jurisdictions where the Company is currently precluded

from booking tax benefits. The effective tax rate was 35.3% and 40.2% for the three and nine months ended September 30, 2015, respectively. The difference is primarily due to the impact of current quarter losses in jurisdiction where the Company is currently precluded from booking tax benefits for the three months ended September 30, 2016.

As of September 30, 2016, the Company had total unrecognized tax benefits of approximately $1.9 million all of which would impact the Company's effective tax rate if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax provision in its condensed consolidated statement of operations. As of September 30, 2016, the Company's accrual of interest and penalties amounted to $0.6 million.

NOTE 7—COMMITMENTS AND CONTINGENCIES

The Company is subject to contingencies which arise through the ordinary course of business. All material liabilities of which management were aware are properly reflected in the financial statements at September 30, 2016 and December 31, 2015.

STA Consulting Contingent Consideration

The Company paid the remaining contingent liability of $1.7 million in April 2016 related to 2015 performance.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

CCI Contingent Consideration

As of September 30, 2016, the Company has recorded a liability of $0.6 million representing the remaining estimated fair value of contingent consideration related to the acquisition of CCI Consulting, and is classified as current and included in accrued expenses on the consolidated balance sheet. The Company paid $0.7 million in April 2016 related to 2015 performance and the remaining contingent liability is expected to be paid in the second quarter of 2017.

Saugatuck Contingent Consideration

As of September 30, 2016, the Company has recorded a liability of $0.9 million representing the estimated fair value of contingent consideration related to the acquisition of Saugatuck, of which $0.5 million is classified as current and included in accrued expenses on the consolidated balance sheet. The Company paid $0.2 million in February 2016 related to 2015 performance.

Experton Contingent Consideration

As of September 30, 2016, the Company has recorded a liability of $0.9 million representing the estimated fair value of contingent consideration related to the acquisition of Experton, of which $0.1 million is classified as current and included in accrued expenses on the consolidated balance sheet.

TracePoint Contingent Consideration

As of September 30, 2016, the Company has recorded a liability of $4.3 million representing the estimated fair value of contingent consideration related to the acquisition of TracePoint, of which $1.9 million is classified as current and included in accrued expenses on the consolidated balance sheet.

NOTE 8—GOODWILL

The changes in the carrying amount of goodwill for the period ended September 30, 2016 is as follows:

| | |
|---|---|
| Balance as of December 31, 2015 | $ 37,286 |
| Acquisition | 4,766 |
| Foreign currency impact | 112 |
| Balance as of September 30, 2016 | $ 42,164 |

NOTE 9—REDEEMABLE NONCONTROLLING INTEREST

The following provides a summary of activity in the noncontrolling interest account for the period ended September 30, 2016 relating to the acquisition of Convergent Technologies Partners:

| | |
|---|---|
| Balance as of December 31, 2015 | $ 939 |
| Net income attributable to noncontrolling interest | 123 |
| Accretion attributable to noncontrolling interest | 59 |
| Balance as of September 30, 2016 | $ 1,121 |

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

NOTE 10—SEGMENT AND GEOGRAPHICAL INFORMATION

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

Geographical revenue information for the segment is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | |
| Americas | $ 29,239 | $ 27,834 | $ 86,832 | $ 84,078 |
| Europe | 16,611 | 18,066 | 56,885 | 54,795 |
| Asia Pacific | 6,079 | 5,504 | 18,495 | 16,481 |
| | $ 51,929 | $ 51,404 | $ 162,212 | $ 155,354 |

The segregation of revenues by geographic region is based upon the location of the legal entity performing the services. The Company does not measure or monitor gross profit or operating income by geography for the purposes of making operating decisions or allocating resources.

NOTE 11—FINANCING ARRANGEMENTS AND LONG-TERM DEBT

On May 3, 2013 (the "Closing"), the Company entered into a five year senior secured credit facility (the "2013 Credit Agreement") comprised of a $45.0 million term loan facility and a $25.0 million revolving credit facility. On May 3, 2013, the Company borrowed $55.0 million under the 2013 Credit Agreement to refinance our existing debt under the Company's prior credit facility and to pay transaction costs.

On May 11, 2015, the Company amended the 2013 Credit Agreement to reduce annual mandatory principal payments, lower borrowing costs and extend the term of the 2013 Credit Agreement by two years, resulting in a maturity date of May 3, 2020. As a result of the amendment, the Term Loan is repayable in twenty consecutive quarterly installments of $562,500 each, commencing June 30, 2015. In addition, the amendment also allows the Company to prepay up to $3.5 million of the subordinated convertible notes issued in connection with the Company's acquisition of Compass in 2011.

On March 9, 2016, the Company amended the 2013 Credit Agreement.  The amendment increases the revolving line of credit commitment by $15.0 million to a total of $40.0 million and allows the Company to maintain its maximum consolidated total leverage ratio at 3.00 to 1.00 through the first quarter of 2017.

On April 29, 2016, the Company’s lenders agreed to amend the 2013 Credit Agreement to allow the Company to complete the acquisition of TracePoint Consulting LLC, a Georgia limited liability company (“TracePoint”).  In addition, the Company’s lenders agreed to allow the Company to exclude the acquisition from the Company’s $10.0 million fiscal year permitted acquisition basket and from the calculation of the Company’s Consolidated Fixed Charge Coverage ratio.

The material terms of the senior secured credit facility under the 2013 Credit Agreement, as amended, are as follows:

· The credit facility is secured by all of the equity interests owned by the Company, and its direct and indirect domestic subsidiaries and, subject to agreed exceptions, the Company's direct and indirect "first-tier" foreign subsidiaries and a perfected first priority security interest in all of the Company's and its direct and indirect domestic subsidiaries' tangible and intangible assets.

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INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

· The Company's direct and indirect existing and future wholly-owned domestic subsidiaries serve as guarantors to the Company's obligations under the senior secured facility.

· Mandatory repayments of term loans shall be required from (subject to agreed exceptions) (i) 100% of the proceeds from asset sales by the Company and its subsidiaries, (ii) 100% of the net proceeds from issuances of debt and equity by the Company and its subsidiaries, and (iii) 100% of the net proceeds from insurance recovery and condemnation events of the Company and its subsidiaries.

· The senior secured credit facility 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 Company is required to comply with a total leverage ratio and fixed charge coverage ratio. As of September 30, 2016, our maximum total leverage ratio was 3.00 to 1.00 and we were in compliance with all covenants contained in the 2013 Credit Agreement.

· The senior secured credit facility contains customary events of default, including cross-default to other material agreements, judgment default and change of control.

The Company is required under the 2013 Credit Agreement to establish a fixed or maximum interest rate covering a notional amount of not less than 50% of the aggregate outstanding indebtedness for borrowed money (other than the total revolving outstanding) for a period of three years from the Closing of our 2013 Credit Agreement. Subsequent to May 3, 2013, the Company entered into an agreement to cap the interest rate at 5% on the LIBOR component of its borrowings under the term loan facility until May 3, 2016. This interest rate cap was not designated for hedging or speculative purposes. The expense related to this interest rate cap was not material.

During the second quarter of 2016, the Company borrowed $13.5 million under the revolving credit facility to fund a modified Dutch auction tender offer for the Company’s shares and to retire a portion of the Compass convertible notes. As of September 30, 2016, the total principal outstanding under the term loan facility and revolving credit facility was $35.7 million and $23.5 million, respectively. Additional mandatory principal repayments totaling $0.6 million and $2.3 million will be due in 2016 and 2017, respectively.

In the first quarter of 2016, the Company adopted accounting guidance requiring debt issuance costs related to recognized debt liabilities to be presented in the balance sheet as a direct reduction from the debt liability rather than an asset. Accordingly, as of September 30, 2016, approximately $0.7 million of deferred debt issuance costs were presented as a direct reduction within Long-Term Debt on the Company's Consolidated Balance Sheets. Furthermore, the Company reclassified approximately $0.6 million of deferred debt issuance costs from Other Assets to Long-Term Debt as of December 31, 2015.

Compass Convertible Notes

On January 4, 2011, as part of the consideration for the acquisition of Compass, the Company issued an aggregate of $6.3 million in convertible notes to Compass (the "Notes"). The Notes mature on January 4, 2018 and interest is payable on the outstanding principal amount, computed daily, at the rate of 3.875% per annum on January 31 of each calendar year and on the seventh anniversary of the date of the Notes. The Notes were subject to transfer restrictions until January 31, 2013. If the price of the Company's common stock on the Nasdaq Global Market exceeds $4 per share for 60 consecutive trading days (the "Trigger Event"), a holder of the Notes may convert all (but not less than all) of the outstanding principal



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INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

amount of the Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. After the Trigger Event, the Company may prepay all or any portion of the outstanding principal amount of the Notes by giving a holder 30 days written notice.

On April 26, 2013, the Company settled a portion of the Notes. The payee agreed to accept from the Company an amount equal to $650,000 as satisfaction in full of all indebtedness of $1.1 million owing by the Company to such payee. As a result of this transaction, the Company recognized a gain of $0.5 million in the second quarter of 2013 representing the difference between the fair value of the consideration issued in the settlement transaction and the carrying value of the amounts due to the payee. This amount was recorded in Gain on Extinguishment of Debt in the accompanying consolidated statement of comprehensive income (loss).

On November 14, 2013, the Company's lenders agreed to amend the 2013 Credit Agreement to allow the Company to prepay the entire outstanding principal amount of the CPIV S.A. Convertible Note ("CPIV Note") plus accrued interest and exclude the CPIV Note prepayment from the calculation of our consolidated fixed charge coverage ratio. On November 25, 2013, the Company settled a portion of the Notes and prepaid the CPIV Note and the payee agreed to accept from the Company an amount equal to the principal of $1.7 million plus accrued interest as satisfaction in full of all indebtedness owing by the Company to such payee. Therefore, there was no gain or loss recorded as a result of this transaction.

On March 21, 2014, the Trigger Event occurred. As a result, a holder of the Notes may convert all (but not less than all) of the outstanding principal amount of the Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. In addition, ISG may elect to prepay all or any portion of the outstanding principal amount of the Notes by giving a holder 30 days written notice; however, such holder shall be given the opportunity to convert the outstanding principal amount into shares as described above. No holder of the Notes has the option to require cash payment as a result of the Trigger Event, hence the Notes are classified as non-current.

On May 6, 2016, the Company prepaid a convertible note in the amount of $3.2 million for principal and accrued interest as satisfaction in full of all indebtedness owed by the Company under such convertible note. No gain or loss was recorded as a result of this transaction. As a result of this transaction, the Company’s fully diluted shares outstanding reduced by 790,721 shares and the aggregate principal amount of convertible notes that remain outstanding is $0.2 million.

NOTE 12—SHARE REPURCHASE PROGRAM

On March 9, 2016, the Company's Board of Directors approved a new share repurchase authorization of up to $15 million. The repurchase program is expected to be executed over time. The shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions, pursuant to a Rule 10b5-1 repurchase plan or by other means in accordance with federal securities laws. The timing and the amount of any repurchases will be determined by the Company's management based on its evaluation of market conditions, capital allocation alternatives, and other factors. There is no guarantee as to the number of shares that will be repurchased, and the repurchase program may be extended, suspended or discontinued at any time without notice at the Company's discretion.

On March 10, 2016 the Company commenced a tender offer to purchase up to $12.0 million in value of shares of its common stock $0.001 par value per share (the "Shares"), at a price not greater than $4.00 nor less than $3.30 per Share, to the seller in cash, less any applicable withholding taxes and without interest (the "Offer"). The Offer expired on April 7, 2016. The Company conducted the Offer through a procedure commonly called a modified "Dutch auction". A modified "Dutch auction" tender offer allows stockholders to indicate how much stock and at what price within the specified offer range they wish to tender their stock.

Based on the final count for the tender offer, the Company accepted for payment an aggregate of 2,323,879 shares of its common stock, $0.001 par value per share on April 7, 2016, at a purchase price of $4.00 per share for an aggregate

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

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purchase price of approximately $9.3 million. As of September 30, 2016, there is $18.2 million remaining available for repurchase under the Company’s repurchase program.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as "may," "should," "could," "predict," "potential," "continue," "expect," "anticipate," "future "plan," "believe," "estimate," "forecast" and similar expressions (or the negative of such expressions.) Forward-looking statements include statements concerning 2016 revenue growth rates and capital expenditures. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, the volatility of our stock price, and current competitive conditions. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion in our 2015 Form 10-K titled "Risk Factors."

BUSINESS OVERVIEW

Information Services Group, Inc. (ISG) (NASDAQ: III) is a leading technology insights, market intelligence and advisory services company serving more than 500 clients around the world to help them achieve operational excellence. We support private and public sector organizations to transform and optimize their operational environments through research, benchmarking, consulting and managed services with a focus on information technology, business process transformation, program management services and enterprise resource planning. Clients look to us for unique insights and innovative solutions for leveraging technology, our deep data source, and more than five decades of experience of global leadership in information and advisory services. Based in Stamford, Connecticut, we have more than 1,000 employees and operate in 21 countries.

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

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

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

significant variations in utilization and revenues and present a challenge to optimal hiring and staffing. The volume of work performed for any particular client can vary widely from period to period.

NON-GAAP FINANCIAL PRESENTATION

This management's discussion and analysis presents supplemental measures of our performance that are derived from our consolidated financial information but are not presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We refer to these financial measures, which are considered "non-GAAP financial measures" under SEC rules, as adjusted EBITDA, adjusted net income, and adjusted earnings per diluted share, each as defined below. See "Non-GAAP Financial Measures" below for information about our use of these non-GAAP financial measures, including our reasons for including these measures and reconciliations of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

RESULTS OF OPERATIONS

NON-GAAP FINANCIAL MEASURES

We use non-GAAP financial measures to supplement the financial information presented on a GAAP basis. We provide adjusted EBITDA (defined as net income before net income attributable to noncontrolling interest, plus interest, taxes, depreciation and amortization, foreign currency transaction gains/losses, non-cash stock compensation, impairment charges for goodwill and intangible assets, interest on contingent consideration, tax indemnity receivable, gain on extinguishment of debt and bargain purchase gain), adjusted net income (defined as net income plus amortization of intangible assets, non-cash stock compensation, foreign currency transaction gains/losses and non-cash impairment charges for goodwill and intangible assets, interest on contingent consideration, gain on extinguishment of debt and bargain purchase gain, on a tax-adjusted basis) and adjusted net income as earnings per diluted share, excluding the net of tax effect of the items set forth in the table below, which are non-GAAP measures that the Company believes provide useful information to both management and investors by excluding certain expenses and financial implications of foreign currency translations, which management believes are not indicative of ISG's core operations. These non-GAAP measures are used by the Company to evaluate the Company's business strategies and management's performance. These non-GAAP financial measures exclude non-cash and certain other special charges that many investors believe may obscure the user's overall understanding of the Company's current financial performance and the Company's prospects for the future. We believe that these non-GAAP measures provide useful information to investors because they improve the comparability of the financial results between periods and provide for greater transparency of key measures used to evaluate the Company's performance.

| | Three Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Net income attributable to ISG | $ 732 | $ 1,778 |
| Net income attributable to noncontrolling interest | 24 | 8 |
| Interest expense (net of interest income) | 596 | 417 |
| Income taxes | 1,226 | 975 |
| Depreciation and amortization | 1,741 | 1,752 |
| Interest on contingent consideration | 373 | 36 |
| Foreign currency transaction | 38 | (24) |
| Non-cash stock compensation | 1,865 | 1,415 |
| Adjusted EBITDA | $ 6,595 | $ 6,357 |

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| | Three Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Net income attributable to ISG | $ 732 | $ 1,778 |
| Intangible amortization | 1,392 | 1,332 |
| Interest on contingent consideration | 373 | 36 |
| Foreign currency transaction | 38 | (24) |
| Non-cash stock compensation | 1,865 | 1,415 |
| Tax effect (1) | (1,394) | (1,048) |
| Adjusted net income | $ 3,006 | $ 3,489 |

| | Three Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Earnings per diluted share attributable to ISG | $ 0.02 | $ 0.05 |
| Intangible amortization | 0.04 | 0.03 |
| Interest on contingent consideration | 0.01 | 0.00 |
| Foreign currency transaction | 0.00 | 0.00 |
| Non-cash stock compensation | 0.05 | 0.04 |
| Tax effect(1) | (0.04) | (0.03) |
| Non-GAAP earnings per diluted share | $ 0.08 | $ 0.09 |

(1)Marginal tax rate of 38% applied.

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Net income attributable to ISG | $ 1,645 | $ 3,565 |
| Net income attributable to noncontrolling interest | 123 | 147 |
| Interest expense (net of interest income) | 1,566 | 1,346 |
| Income taxes | 2,331 | 2,497 |
| Depreciation and amortization | 5,386 | 5,308 |
| Interest on contingent consideration | 433 | 36 |
| Foreign currency transaction | 300 | (424) |
| Non-cash stock compensation | 5,180 | 3,640 |

| | | |
|---|---|---|
| Adjusted EBITDA | $ 16,964 | $ 16,115 |

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| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Net income attributable to ISG | $ 1,645 | $ 3,565 |
| Intangible amortization | 4,049 | 3,985 |
| Interest on contingent consideration | 433 | 36 |
| Foreign currency transaction | 300 | (424) |
| Non-cash stock compensation | 5,180 | 3,640 |
| Tax effect (1) | (3,786) | (2,750) |
| Adjusted net income | $ 7,821 | $ 8,052 |

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Earnings per diluted share attributable to ISG | $ 0.05 | $ 0.09 |
| Intangible amortization | 0.11 | 0.10 |
| Interest on contingent consideration | 0.01 | 0.00 |
| Foreign currency transaction | 0.01 | (0.01) |
| Non-cash stock compensation | 0.14 | 0.10 |
| Tax effect(1) | (0.11) | (0.07) |
| Non-GAAP earnings per diluted share | $ 0.21 | $ 0.21 |

(1)Marginal tax rate of 38% applied.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016 AND SEPTEMBER 30, 2015

Revenues

Revenues are generally derived from engagements priced on a time and materials basis as well as various fixed fee projects, and are recorded based on actual time worked and are recognized 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

structure. Invoices are issued to clients at least monthly.

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



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Geographical revenue information for the segment is as follows:

| Geographic Area | Three Months Ended September 30, 2016 | 2015 | Change | Percent Change | |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Americas | $ 29,239 | $ 27,834 | $ 1,405 | 5 | % |
| Europe | 16,611 | 18,066 | (1,455) | (8) | % |
| Asia Pacific | 6,079 | 5,504 | 575 | 10 | % |
| Total revenues | $ 51,929 | $ 51,404 | $ 525 | 1 | % |

Revenues increased $0.5 million or approximately 1% in 2016. The increase in revenues in the Americas region was primarily attributable to higher levels of sourcing activity in Consulting, primarily associated with the acquisition of TracePoint. The increase in revenues in the Asia Pacific region was primarily attributable to higher levels of Managed Services. The decrease in the Europe region was primarily attributable to a lower levels of sourcing activity in Consulting, primarily in the United Kingdom, partially offset by revenues associated with the acquisition of Experton.

Operating Expenses

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

| Operating Expenses | Three Months Ended September 30, 2016 | 2015 | Change | Percent Change | |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Direct costs and expenses for advisors | $ 30,959 | $ 30,093 | $ 866 | 3 | % |
| Selling, general and administrative | 16,613 | 16,405 | 208 | 1 | % |
| Depreciation and amortization | 1,741 | 1,752 | (11) | (1) | % |
| Total operating expenses | $ 49,313 | $ 48,250 | $ 1,063 | 2 | % |

Total operating expenses increased $1.1 million for the quarter with increases in direct expenses and selling, general and administrative expenses. The increases were due primarily to higher compensation and benefits, stock compensation expense, contract labor, professional fees and interest on contingent considerations. The increases were also due to the acquisitions of Experton and TracePoint. These cost increases were partially offset by decreases

in conferences expenditures and bad debt expenses.

Compensation costs consist of a mix of fixed and variable salaries, annual bonuses, benefits and profit sharing plan contributions. 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. Bonus compensation is determined based on achievement against Company financial and individual targets, and is accrued monthly throughout the year based on management's estimates of target achievement. Statutory and elective profit sharing plans are offered to employees as appropriate. Direct costs also include employee taxes, health insurance, workers compensation and disability insurance.

Sales and marketing 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. The Company maintains a dedicated global marketing function responsible for developing and managing sales campaigns, brand promotion, the ISG Index and assembling proposals.

We maintain a comprehensive program for training and professional development. Related expenses include product training, updates on new service offerings or methodologies and development of 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.

Depreciation and amortization expense in the third quarter of 2016 and 2015 was $1.7 million and $1.8 million, respectively. Our 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. We also capitalize certain costs associated with the purchase and development of internal-use software, system conversions and website development costs. These costs are amortized over the estimated useful life of the software or system.

We amortize our intangible assets (e.g. client relationships and databases) over their estimated useful lives. Goodwill related to acquisitions is not amortized but is subject to annual impairment testing.

Other (Expense), Net

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

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2016 | 2015 | Change | Percent Change |
| | (in thousands) | | | |
| Interest income | $ — | $ 2 | $ (2) | (100) % |
| Interest expense | (596) | (419) | (177) | (42) % |
| Foreign currency (loss) gain | (38) | 24 | (62) | (258) % |
| Total other (expense), net | $ (634) | $ (393) | $ (241) | (61) % |

The increase in expense was primarily the result of higher interest expense due to an increase in interest rates and higher debt balances.

Income Tax Expense

Our quarterly 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 projected to be incurred during the current fiscal year. Our effective tax rate for the three months ended September 30, 2016 was 61.9% compared to 35.3% for the three months ended September 30, 2015. The difference is primarily due to the impact of current quarter losses in jurisdiction where the Company is currently precluded from booking tax benefits for the three months ended September 30, 2016.

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RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND SEPTEMBER 30, 2015

Revenues

Geographical revenue information for the segment is as follows:

| Geographic Area | Nine Months Ended September 30, | | | Percent | |
|---|---|---|---|---|---|
| | 2016 | 2015 | Change | Change | |
| | (in thousands) | | | | |
| Americas | $ 86,832 | $ 84,078 | $ 2,754 | 3 | % |
| Europe | 56,885 | 54,795 | 2,090 | 4 | % |
| Asia Pacific | 18,495 | 16,481 | 2,014 | 12 | % |
| Total revenues | $ 162,212 | $ 155,354 | $ 6,858 | 4 | % |

Revenues increased $6.9 million or approximately 4% in 2016. The increase in revenues in the Americas region was primarily attributable to higher levels of sourcing activity in Consulting, primarily associated with the acquisition of TracePoint. The increase in revenues in the Asia Pacific region was primarily attributable to higher levels of Managed Services and higher levels of sourcing activity in Consulting. The increase in the Europe region was primarily attributable to a higher levels of Research Services, primarily associated with the acquisition of Experton Group offset by a lower levels of sourcing activity in Consulting, primarily in the United Kingdom.

Operating Expenses

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

| Operating Expenses | Nine Months Ended September 30, | | | Percent | |
|---|---|---|---|---|---|
| | 2016 | 2015 | Change | Change | |
| | (in thousands) | | | | |
| Direct costs and expenses for advisors | $ 98,433 | $ 93,089 | $ 5,344 | 6 | % |

| | | | | | |
|---|---|---|---|---|---|
| Selling, general and administrative | 52,428 | 49,826 | 2,602 | 5 | % |
| Depreciation and amortization | 5,386 | 5,308 | 78 | 1 | % |
| Total operating expenses | $ 156,247 | $ 148,223 | $ 8,024 | 5 | % |

Total operating expenses increased $8.0 million for 2016 with increases in direct expenses, selling, general and administrative and depreciation and amortization expenses. The increases were due primarily to higher compensation and benefits, stock compensation expense, contract labor, professional fees and interest on contingent considerations. The increases were also due to the acquisitions of TracePoint and Experton. These cost increases were partially offset by decreases in occupancy, bad debt and travel expenses.

Depreciation and amortization expense in 2016 and 2015 was $5.4 million and $5.3 million, respectively.

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Other (Expense), Net

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

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2016 | 2015 | Change | Percent Change |
| | (in thousands) | | | |
| Interest income | $ 24 | $ 11 | $ 13 | 118 % |
| Interest expense | (1,590) | (1,357) | (233) | (17) % |
| Foreign currency (loss) gain | (300) | 424 | (724) | (171) % |
| Total other (expense), net | $ (1,866) | $ (922) | $ (944) | (102) % |

The increase in foreign currency transactions of $0.7 million was primarily the result of $0.2 million of realized loss and $0.1 million of unrealized loss recognized related to the marked-to-market forward contracts during the nine months ended September 30, 2016 as compared to a $0.4 million foreign currency transaction gain during the nine months ended September 30, 2015. The increase in interest expense was primarily due to an increase in interest rates and higher debt balances.

Income Tax Expense

Our quarterly 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 projected to be incurred during the current fiscal year. Our effective tax rate for the nine months ended September 30, 2016 was 56.9% compared to 40.2% for the nine months ended September 30, 2015. The difference is primarily due to the impact of losses in jurisdiction where the Company is currently precluded from booking tax benefits for the nine months ended September 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our primary sources of liquidity are cash flows from operations, existing cash and cash equivalents and our revolving credit facility. 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.

As of September 30, 2016, our cash and cash equivalents were $19.1 million, a net increase of $1.3 million from December 31, 2015, which was primarily attributable to the following:

· net cash provided by operating activities of $9.9 million;

· proceeds of debt of $13.5 million;

· payments of principal amounts due on the debt of $1.7 million;

· prepayment of a portion of the convertible note of $3.2 million;

· payments of contingent consideration of $2.5 million;

· acquisitions, net of cash acquired of $1.9 million;

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· capital expenditures for furniture, fixtures and equipment of $1.9 million; and

· equity repurchases of $11.4 million, including pursuant to the modified Dutch auction tender offer.

Capital Resources

On May 3, 2013 (the "Closing"), the Company entered into a five year senior secured credit facility (the "2013 Credit Agreement") comprised of a $45.0 million term loan facility and a $25.0 million revolving credit facility. On May 3, 2013, the Company borrowed $55.0 million under the 2013 Credit Agreement to refinance our existing debt under the Company's prior credit facility and to pay transaction costs.

On May 11, 2015, the Company amended the 2013 Credit Agreement to reduce annual mandatory principal payments, lower borrowing costs and extend the term of the 2013 Credit Agreement by two years, resulting in a maturity date of May 3, 2020. As a result of the amendment, the Term Loan is repayable in twenty consecutive quarterly installments of $562,500 each, commencing June 30, 2015. In addition, the amendment also allows the Company to prepay up to $3.5 million of the subordinated convertible notes issued in connection with the Company's acquisition of Compass in 2011.

On March 9, 2016, the Company amended the 2013 Credit Agreement. The amendment increases the revolving line of credit commitment by $15.0 million to a total of $40.0 million and allows the Company to maintain its maximum consolidated total leverage ratio at 3.00 to 1.00 through the first quarter of 2017.

On April 29, 2016, the Company’s lenders agreed to amend the 2013 Credit Agreement to allow the Company to complete the acquisition of TracePoint Consulting LLC, a Georgia limited liability company (“TracePoint”). In addition, the Company’s lenders agreed to allow the Company to exclude the acquisition from the Company’s $10.0 million fiscal year permitted acquisition basket and from the calculation of the Company’s Consolidated Fixed Charge Coverage ratio.

The material terms of the senior secured credit facility under the 2013 Credit Agreement, as amended, are as follows:

· The credit facility is secured by all of the equity interests owned by the Company, and its direct and indirect domestic subsidiaries and, subject to agreed exceptions, the Company's direct and indirect "first-tier" foreign subsidiaries and a perfected first priority security interest in all of the Company's and its direct and indirect domestic

subsidiaries' tangible and intangible assets.

- The Company's direct and indirect existing and future wholly-owned domestic subsidiaries serve as guarantors to the Company's obligations under the senior secured facility.

- Mandatory repayments of term loans shall be required from (subject to agreed exceptions) (i) 100% of the proceeds from asset sales by the Company and its subsidiaries, (ii) 100% of the net proceeds from issuances of debt and equity by the Company and its subsidiaries, and (iii) 100% of the net proceeds from insurance recovery and condemnation events of the Company and its subsidiaries.

- The senior secured credit facility 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 Company is required to comply with a total leverage ratio and fixed charge coverage ratio. As of September 30, 2016, our maximum total leverage ratio was 3.00 to 1.00 and we were in compliance with all covenants contained in the 2013 Credit Agreement.

· The senior secured credit facility contains customary events of default, including cross-default to other material agreements, judgment default and change of control.

The Company is required under the 2013 Credit Agreement to establish a fixed or maximum interest rate covering a notional amount of not less than 50% of the aggregate outstanding indebtedness for borrowed money (other than the total revolving outstanding) for a period of three years from the Closing of our 2013 Credit Agreement. Subsequent to May 3, 2013, the Company entered into an agreement to cap the interest rate at 5% on the LIBOR component of its borrowings under the term loan facility until May 3, 2016. This interest rate cap was not designated for hedging or speculative purposes. The expense related to this interest rate cap was not material.

During the second quarter of 2016, the Company borrowed $13.5 million under the revolving credit facility to fund a modified Dutch auction tender offer for the Company's shares and to retire a portion of the Compass convertible notes. As of September 30, 2016, the total principal outstanding under the term loan facility and revolving credit facility was $35.7 million and $23.5 million, respectively. Additional mandatory principal repayments totaling $0.6 million and $2.3 million will be due in 2016 and 2017, respectively.

In the first quarter of 2016, the Company adopted accounting guidance requiring debt issuance costs related to recognized debt liabilities to be presented in the balance sheet as a direct reduction from the debt liability rather than an asset. Accordingly, as of September 30, 2016, approximately $0.7 million of deferred debt issuance costs were presented as a direct reduction within Long-Term Debt on the Company's Consolidated Balance Sheets. Furthermore, the Company reclassified approximately $0.6 million of deferred debt issuance costs from Other Assets to Long-Term Debt as of December 31, 2015.

Compass Convertible Notes

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

On April 26, 2013, the Company settled a portion of the Notes. The payee agreed to accept from the Company an amount equal to $650,000 as satisfaction in full of all indebtedness of $1.1 million owing by the Company to such payee. As a result of this transaction, the Company recognized a gain of $0.5 million in the second quarter of 2013 representing the difference between the fair value of the consideration issued in the settlement transaction and the carrying value of the amounts due to the payee. This amount was recorded in Gain on Extinguishment of Debt in the accompanying consolidated statement of comprehensive income (loss).

On November 14, 2013, the Company's lenders agreed to amend the 2013 Credit Agreement to allow the Company to prepay the entire outstanding principal amount of the CPIV S.A. Convertible Note ("CPIV Note") plus accrued interest and exclude the CPIV Note prepayment from the calculation of our consolidated fixed charge coverage ratio. On November 25, 2013, the Company settled a portion of the Notes and prepaid the CPIV Note and the payee agreed to accept from the Company an amount equal to the principal of $1.7 million plus accrued interest as satisfaction in full of all indebtedness owing by the Company to such payee. Therefore, there was no gain or loss recorded as a result of this transaction.

On March 21, 2014, the Trigger Event occurred. As a result, a holder of the Notes may convert all (but not less than all) of the outstanding principal amount of the Notes into shares of our common stock at the rate of 1 share for every $4 in principal amount outstanding. In addition, ISG may elect to prepay all or any portion of the outstanding principal amount

of the Notes by giving a holder 30 days written notice; however, such holder shall be given the opportunity to convert the outstanding principal amount into shares as described above. No holder of the Notes has the option to require cash payment as a result of the Trigger Event, hence the Notes are classified as non-current.

On May 6, 2016, the Company prepaid a convertible note in the amount of $3.2 million for principal and accrued interest as satisfaction in full of all indebtedness owed by the Company under such convertible note. No gain or loss was recorded as a result of this transaction. As a result of this transaction, the Company's fully diluted shares outstanding reduced by 790,721 shares and the aggregate principal amount of convertible notes that remain outstanding is $0.2 million.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

See Note 3 to our condensed consolidated financial statements included elsewhere in this report.

Critical Accounting Policies and Accounting Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. We prepare these financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates; however, actual results may differ from these estimates under different assumptions or conditions. There have been no material changes or developments in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K, for the year ended December 31, 2015.

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to financial market risks primarily related to changes in interest rates. A 100 basis point change in interest rates would result in an annual change in the results of operations of $0.6 million pre-tax.

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 also economically hedge our exposure to changes in foreign exchange rates principally with forward contracts. These contracts are marked-to-market with the resulting gains and losses recognized in earnings offsetting the gains and losses on the non-functional currency denominated monetary assets and liabilities being hedged. We recognized $0.2 million of realized loss and $0.1 million of unrealized loss in foreign currency transaction (loss) gain for the nine months ended September 30, 2016. It is expected that our international revenues will continue to grow as European, Asian and other markets adopt sourcing solutions and as a result of our acquisition of Experton. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

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

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

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Our 25 largest clients accounted for approximately 49% of revenue in 2015 and 46% in 2014. If one or more of our large clients terminate or significantly reduce their engagements or fail to remain a viable business, then our revenues could be materially and adversely affected. In addition, our large clients generally maintain sizable receivable balances at any given time and our ability to collect such receivables could be jeopardized if such client fails to remain a viable business.

ITEM 4.CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016, as required by the Rule 13a-15(b) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2016.

Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

The risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 have not materially changed.

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ITEM 2.UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table details the repurchases that were made during the three months ended September 30, 2016.

| Period | Total Number of Securities Purchased (In thousands) | Average Price per Securities | Total Numbers of Securities Purchased as Part of Publicly Announced Plan (In thousands) | Approximate Dollar Value of Securities That May Yet Be Purchased Under The Plan (In thousands) |
|---|---|---|---|---|
| July 1 – July 31 | 80 | $ 3.75 | 80 | $ 18,306 |
| August 1 – August 31 | 13 | $ 3.71 | 13 | $ 18,258 |
| September 1 – September 30 | 13 | $ 3.76 | 13 | $ 18,210 |

On March 9, 2016, the Company’s Board of Directors approved a new share repurchase authorization of up to $15 million. The repurchase program is expected to be executed over time. The shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions, pursuant to a Rule 10b5-1 repurchase plan or by other means in accordance with federal securities laws. The timing and the amount of any repurchases will be determined by the Company’s management based on its evaluation of market conditions, capital allocation alternatives, and other factors. There is no guarantee as to the number of shares that will be repurchased, and the repurchase program may be extended, suspended or discontinued at any time without notice at the Company's discretion.

On March 10, 2016 the Company commenced a tender offer to purchase up to $12.0 million in value of shares of its common stock $0.001 par value per share (the “Shares”), at a price not greater than $4.00 nor less than $3.30 per Share, to the seller in cash, less any applicable withholding taxes and without interest (the “Offer”). The Offer expired on April 7, 2016. The Company conducted the Offer through a procedure commonly called a modified “Dutch auction”. A modified “Dutch auction” tender offer allows stockholders to indicate how much stock and at what price within the specified offer range they wish to tender their stock.

Based on the final count for the tender offer, the Company accepted for payment an aggregate of 2,323,879 shares of its common stock, $0.001 par value per share on April 7, 2016, at a purchase price of $4.00 per share for an aggregate

purchase price of approximately $9.3 million.  As of September 30, 2016, there is $18.2 million remaining available for repurchase under the Company's repurchase program

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ITEM 6.EXHIBITS

The following exhibits are filed as part of this report:

| Exhibit Number | | Description |
|---|---|---|
| 31.1 | * | Certification of Chief Executive Officer Pursuant to SEC Rule 13a−14(a)/15d−14(a). |
| 31.2 | * | Certification of Chief Financial Officer Pursuant to SEC Rule 13a−14(a)/15d−14(a). |
| 32.1 | * | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | * | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | * | The following materials from ISG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows and (iv) the Notes to Consolidated Financial Statements. |

*Filed herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | INFORMATION SERVICES GROUP, INC. |
|---|---|
| Date: November 8, 2016 | /s/ Michael P. Connors<br>Michael P. Connors, Chairman of the Board and Chief Executive Officer |
| Date: November 8, 2016 | /s/ David E. Berger<br>David E. Berger, Executive Vice President and Chief Financial Officer |