

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

**Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended June 30, 2018**

**Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission File Number 000-52170**

**INNERWORKINGS, INC.**  
**(Exact Name of Registrant as Specified in its Charter)**

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**20-5997364**  
**(I.R.S. Employer**  
**Identification No.)**

**600 West Chicago Avenue, Suite 850**  
**Chicago, Illinois 60654**  
**Phone: (312) 642-3700**

**(Address, zip code and telephone number, including area code, of principal executive offices)**

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

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

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

Large accelerated filer:

Accelerated filer:

Non-accelerated filer:  (Do not check if a smaller reporting company)

Smaller reporting company:

Emerging growth company:

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 9, 2018, the Registrant had 52,171,100 shares of Common Stock, par value \$0.0001 per share, outstanding, which includes 487,054 shares of unvested restricted stock awards that have voting rights and are held by members of the Board of Directors and certain of the Company's employees.

INNERWORKINGS, INC.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements**

**InnerWorkings, Inc. and subsidiaries**  
**Condensed Consolidated Statements of Comprehensive (Loss) Income**  
**(In thousands, except per share data)**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
		(as restated)		(as restated)
Revenue	\$ 281,967	\$ 280,066	\$ 556,506	\$ 544,471
Cost of goods sold	217,096	210,020	425,568	409,721
Gross profit	64,871	70,046	130,938	134,750
Operating expenses:				
Selling, general and administrative expenses	59,002	55,054	120,169	108,669
Depreciation and amortization	3,514	3,182	7,173	6,086
Change in fair value of contingent consideration	—	1,884	—	844
Income from operations	2,355	9,926	3,596	19,151
Other income (expense):				
Interest income	54	12	115	46
Interest expense	(1,517)	(1,038)	(3,085)	(2,041)
Other, net	(588)	(1,164)	(1,433)	(1,388)
Total other expense	(2,051)	(2,190)	(4,403)	(3,383)
Income (loss) before income taxes	304	7,736	(807)	15,768
Income tax expense	603	3,362	1,176	5,716
Net (loss) income	\$ (299)	\$ 4,374	\$ (1,983)	\$ 10,052
Basic (loss) earnings per share	\$ (0.01)	\$ 0.08	\$ (0.04)	\$ 0.19
Diluted (loss) earnings per share	\$ (0.01)	\$ 0.08	\$ (0.04)	\$ 0.18
Comprehensive (loss) income	\$ (5,905)	\$ 8,253	\$ (4,226)	\$ 15,911

*See accompanying notes to the condensed consolidated financial statements.*

**InnerWorkings, Inc. and subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except per share data)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(unaudited)	(as restated)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 28,266	\$ 30,562
Accounts receivable, net of allowance for doubtful accounts of \$3,174 and \$3,534, respectively	185,222	205,386
Unbilled revenue	47,906	50,016
Inventories	40,781	40,694
Prepaid expenses	20,584	18,565
Other current assets	26,296	37,865
Total current assets	349,055	383,088
Property and equipment, net	68,028	36,714
Intangibles and other assets:		
Goodwill	199,135	199,946
Intangible assets, net	25,068	27,563
Deferred income taxes	1,084	691
Other non-current assets	2,047	1,636
Total intangibles and other assets	227,334	229,836
Total assets	<u>\$ 644,417</u>	<u>\$ 649,638</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 122,452	\$ 141,164
Accrued expenses	34,386	34,391
Deferred revenue	20,022	17,620
Revolving credit facility - current (See Note 13)	136,538	—
Other current liabilities	22,770	24,078
Total current liabilities	336,168	217,253
Revolving credit facility - non-current	—	128,398
Financing obligation - build-to-suit leases (See Note 12)	31,147	—
Deferred income taxes	12,236	12,043
Other non-current liabilities	7,075	7,399
Total liabilities	386,626	365,093
Commitments and contingencies (See Note 12)		
Stockholders' equity:		
Common stock, par value \$0.0001 per share, 200,000 and 200,000 shares authorized, 64,372 and 64,075 shares issued, and 51,684 and 54,055 shares outstanding, respectively	6	6
Additional paid-in capital	237,634	235,199
Treasury stock at cost, 12,688 and 10,020 shares, respectively	(81,471)	(55,873)
Accumulated other comprehensive loss	(21,472)	(19,229)
Retained earnings	123,094	124,442
Total stockholders' equity	257,791	284,545
Total liabilities and stockholders' equity	<u>\$ 644,417</u>	<u>\$ 649,638</u>

*See accompanying notes to the condensed consolidated financial statements.*

**InnerWorkings, Inc. and subsidiaries**  
**Condensed Consolidated Statement of Stockholders' Equity**  
**(In thousands)**  
**(Unaudited)**

	Common Stock		Treasury Stock		Additional Paid-in-Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
<b>Balance at December 31, 2017 (as restated)</b>	64,075	\$ 6	10,020	\$ (55,873)	\$ 235,199	\$ (19,229)	\$ 124,442	\$ 284,545
Net loss							(1,983)	(1,983)
Total other comprehensive loss, net of tax						(2,243)		(2,243)
Comprehensive loss								(4,226)
Issuance of common stock upon exercise of stock awards	297	—			(388)			(388)
Acquisition of treasury shares			2,668	(25,598)				(25,598)
Stock-based compensation expense					2,823			2,823
Cumulative effect of change related to adoption of ASC 606							482	482
Cumulative effect of change related to adoption of ASU 2016-16							153	153
<b>Balance at June 30, 2018</b>	<u>64,372</u>	<u>\$ 6</u>	<u>12,688</u>	<u>\$ (81,471)</u>	<u>\$ 237,634</u>	<u>\$ (21,472)</u>	<u>\$ 123,094</u>	<u>\$ 257,791</u>

*See accompanying notes to the condensed consolidated financial statements.*

**InnerWorkings, Inc. and subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(In thousands)**  
**(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
		(as restated)
<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (1,983)	\$ 10,052
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation and amortization	7,173	6,086
Stock-based compensation expense	2,823	2,921
Deferred income taxes	—	624
Bad debt provision	630	82
Implementation cost amortization	263	—
Change in fair value of contingent consideration	—	844
Payments of contingent consideration (See Note 3)	—	(662)
Other operating activities	(154)	104
Change in assets:		
Accounts receivable and unbilled revenue	21,643	(26,620)
Inventories	(87)	1,890
Prepaid expenses and other assets	9,424	(971)
Change in liabilities:		
Accounts payable	(18,735)	3,370
Accrued expenses and other liabilities	1,643	(69)
Net cash provided by (used in) operating activities	<u>22,640</u>	<u>(2,349)</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(5,490)	(7,024)
Net cash used in investing activities	<u>(5,490)</u>	<u>(7,024)</u>
<b>Cash flows from financing activities</b>		
Net borrowings from revolving credit facility	8,629	11,491
Net short-term secured (repayments) borrowings	(578)	37
Repurchases of common stock	(25,689)	(10,041)
Payments of contingent consideration	—	(1,427)
Proceeds from exercise of stock options	284	1,319
Other financing activities	(695)	(119)
Net cash (used in) provided by financing activities	<u>(18,049)</u>	<u>1,260</u>
Effect of exchange rate changes on cash and cash equivalents	(1,397)	726
Decrease in cash and cash equivalents	<u>(2,296)</u>	<u>(7,387)</u>
Cash and cash equivalents, beginning of period	30,562	30,924
Cash and cash equivalents, end of period	<u>\$ 28,266</u>	<u>\$ 23,537</u>

*See accompanying notes to the condensed consolidated financial statements.*

## **1. Summary of Significant Accounting Policies**

### **Basis of Presentation of Interim Financial Statements**

The accompanying unaudited condensed consolidated financial statements of InnerWorkings, Inc. and subsidiaries (the “Company”) included herein have been prepared to conform to the rules and regulations of the Securities and Exchange Commission (“SEC”) and accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation of the accompanying unaudited financial statements have been included, and all adjustments are of a normal and recurring nature. The operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018. These condensed consolidated interim financial statements and notes should be read in conjunction with the Company’s Consolidated Financial Statements and Notes thereto as of and for the year ended December 31, 2017 included in the Company’s Annual Report on Form 10-K/A filed with the SEC on July 27, 2018.

### **Restatement of Prior Period Financial Statements**

As discussed in greater detail in Note 20 of the Company’s Form 10-K/A filed on July 27, 2018, the Company determined to restate its previously issued unaudited condensed consolidated financial statements for the quarterly periods within the years ended December 31, 2017 and 2016. The restatement corrected certain errors primarily related to the timing of the recognition of (i) revenue recognized for goods shipped and services performed and (ii) cost of goods sold for certain orders that were not recorded in the period in which the end product was sold to the customer and revenue was recognized. The condensed consolidated interim financial statements for the three and six months ended June 30, 2017 presented herein include the impacts of the restatement on our condensed consolidated financial statements for such period included in our previously reported Quarterly Report on Form 10-Q.

### **Description of the Business**

The Company was incorporated in the state of Delaware on January 3, 2006. The Company is a leading global marketing execution firm for some of the world’s most marketing intensive companies, including those in the Fortune 1000, across a wide range of industries. As a comprehensive outsourced enterprise solution, the Company leverages proprietary technology, an extensive supplier network and deep domain expertise to streamline the creation, production and distribution of marketing and promotional materials, signage and displays, retail experiences, events and promotions and packaging across every major market worldwide. The items the Company sources are generally procured through the marketing supply chain and are referred to collectively as marketing materials. The Company’s technology and database of information is designed to capitalize on excess manufacturing capacity and other inefficiencies in the traditional marketing and print supply chain to obtain favorable pricing and to deliver high-quality products and services.

The Company is organized and managed as two business segments, North America and International and is viewed as two operating segments by the chief operating decision maker for purposes of resource allocation and assessing performance. See Note 15 for further information about the Company’s reportable segments.

### **Preparation of Financial Statements and Use of Estimates**

The preparation of the consolidated financial statements is in conformity with GAAP. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, the Company evaluates its estimates, including those related to product returns, allowance for doubtful accounts, inventories and inventory valuation, valuation and impairments of goodwill and long-lived assets, income taxes, accrued bonus, contingencies, stock-based compensation and litigation costs. The Company bases its estimates on historical experience and on other assumptions that its management believes are reasonable under the circumstances. These estimates form the basis for making judgments about the carrying value of assets and liabilities when those values are not readily apparent from other sources. Actual results may differ from those estimates.

### **Foreign Currency Translation**

The Company determines the functional currency for its parent company and each of its subsidiaries by reviewing the currencies in which their respective operating activities occur. Assets and liabilities of these operations are translated into U.S. currency at the rates of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange. The resulting translation adjustments are included in accumulated other comprehensive loss, a separate component of stockholders' equity. Transaction gains and losses arising from activities in other than the applicable functional currency are calculated using average exchange rates for the applicable period and reported in net income as a non-operating item in each period. Non-monetary balance sheet items denominated in a currency other than the applicable functional currency are translated using the historical rate.

### **Revenue Recognition**

Revenue is measured based on consideration specified in a contract with a customer and the Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer which may be at a point in time or over time. Unbilled revenue represents shipments or deliveries that have been made to customers for which the related account receivable has not yet been invoiced.

Shipping and handling costs after control over a product has transferred to a customer are expensed as incurred and are included in cost of goods sold in the condensed consolidated statements of operations.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, we generally report revenue on a gross basis because we typically control the goods or services before transferring to the customer. Under these arrangements, we are primarily responsible for the fulfillment, including the acceptability, of the marketing materials and other products or services. In addition, we have reasonable discretion in establishing the price, and in some transactions, we also have inventory risk and are involved in the determination of the nature or characteristics of the marketing materials and products. In some arrangements, we are not primarily responsible for fulfilling the goods or services. In arrangements of this nature, we do not control the goods or services before they are transferred to the customer and such revenue is reported on a net basis.

Some service revenue, including stand-alone creative and other services, may be earned over time; however, the difference from recognizing that revenue over time compared to a point in time (i.e., when the service is completed and accepted by the customer) is not material. Service revenue has not been material to our overall revenue to date.

The Company records taxes collected from customers and remitted to governmental authorities on a net basis.

### **Stock-Based Compensation**

The Company accounts for stock-based compensation awards to employees and directors in accordance with ASC 718, *Compensation – Stock Compensation*. Compensation expense is measured by determining the fair value of each award using the Black-Scholes option valuation model for stock options or the closing share price on the grant date for restricted shares and performance share units ("PSUs"). The fair value is then recognized over the requisite service period of the awards, which is generally the vesting period, on a straight-line basis for the entire award.

On June 1, 2017, the Compensation Committee of the Board of Directors of the Company approved, pursuant to the 2006 Stock Incentive Plan, awards of PSUs for certain executive officers and employees. PSUs are performance-based awards that will settle in shares of the Company's common stock, in an amount between 0% and 200% of the target award level, based on the cumulative adjusted earnings per share and the return on invested capital achieved by the Company between April 1, 2017 and December 31, 2019. Compensation expense for PSUs is measured by determining the fair value of the award using the closing share price on the grant date and is recognized ratably from the grant date to the vesting date for the number of awards expected to vest. The amount of compensation expense recognized for PSUs is dependent upon a quarterly assessment of the likelihood of achieving the performance conditions.

Stock-based compensation cost recognized during the period is based on the full grant date fair value of the share-based payment awards adjusted for any forfeitures during the period.



**InnerWorkings, Inc. and subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
**Three and Six Months Ended June 30, 2018**

The Company recorded stock-based compensation expense of \$1.4 million and \$1.5 million for the three months ended June 30, 2018 and 2017, respectively, and \$2.8 million and \$2.9 million for the six months ended June 30, 2018 and 2017, respectively.

### **Recent Accounting Pronouncements**

#### *Recently Adopted Accounting Standards*

In the first quarter of 2018, the Company adopted FASB Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and all the related amendments (the "new revenue standard"), which outlines a single comprehensive model for entities to use in accounting for revenue using a five-step process that supersedes virtually all existing revenue guidance. The Company adopted the new revenue standard using the modified retrospective transition method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings and the effects of the adoption of the new revenue standard on the Company's statement of cash flows are discussed in Note 2. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption to be immaterial to our net income on an ongoing basis.

In the first quarter of 2018, the Company adopted ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which amends ASC 230, *Statement of Cash Flows*. This ASU provides guidance on the statement of cash flows presentation of certain transactions where diversity in practice exists. The new guidance was applied retrospectively and the impact of this adoption resulted in a \$0.7 million increase in cash flows from financing activities and a corresponding decrease in cash flows from operating activities in the condensed consolidated statements of cash flows for the six months ended June 30, 2017 due to contingent liability payments made in excess of the original liability recognized at the time of acquisition during that period.

In the first quarter of 2018, the Company adopted ASU No. 2016-16, *Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory*, which amends the timing of recognition of tax consequences of intercompany asset transfers other than inventory when the transfer occurs and removes the exception to postpone recognition until the asset has been sold to an outside party. The new guidance was applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings. The impact of this adoption did not have a material effect on the consolidated financial statements.

In the first quarter of 2018, the Company early adopted ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. The new guidance will be applied prospectively, and the impact of this adoption is not expected to have a material effect on the consolidated financial statements.

In the first quarter of 2018, the Company adopted ASU No. 2017-09, *Scope of Modification Accounting*, which amends ASC 718, *Compensation - Stock Compensation*. This ASU amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance will allow companies to make certain changes to awards without accounting for them as modifications. It does not change the accounting for modifications. The new guidance is applied prospectively to awards modified on or after the adoption date. The impact of this adoption did not have a material effect on the consolidated financial statements.

#### *Recently Issued Accounting Pronouncements Not Yet Adopted*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosure of key information about leasing arrangements. ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability for most leases in the balance sheet as well as other qualitative and quantitative disclosures. ASU 2016-02 requires using a modified retrospective transition method and provides certain practical expedients. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements*, which permits an alternate transition method that does not require comparative periods to be presented in the financial statements in the period of adoption to be restated. ASU 2016-02 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which amends ASC 220, *Income Statement - Reporting Comprehensive Income*.

**InnerWorkings, Inc. and subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
**Three and Six Months Ended June 30, 2018**

This ASU allows a reclassification from accumulated OCI to retained earnings for stranded tax effects resulting from tax reform. This update is effective for fiscal years beginning after December 15, 2018, including interim periods therein, and early adoption is permitted. The Company is evaluating the potential effects of the ASU on the consolidated financial statements. The effects of tax reform on the Company's consolidated financial statements are outlined in Note 7.

In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. This ASU is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, and early adopted is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

**2. Revenue Recognition**

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 605 *Revenue Recognition*. The following summarizes the significant changes in accounting treatment due to the adoption of the new revenue standard:

- We recorded a net increase to opening retained earnings of \$0.5 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact primarily related to our capitalization of certain setup costs, inclusive of income tax effects. The details of the significant changes and quantitative impact of the changes for the three and six months ended June 30, 2018 are disclosed below.
- The Company previously recognized setup costs related to new customers as selling, general and administrative expense when they were incurred. Under ASC 606, the Company capitalizes certain setup costs as costs to fulfill a contract and amortizes them consistently with the pattern of transfer of the good or service to which the asset relates.
- The following tables summarize the impacts of ASC 606 adoption on the Company's consolidated financial statements for the periods ended June 30, 2018 (in thousands, except per share data).

	As Reported June 30, 2018	Adjustments	As Adjusted Without Adoption of ASC 606
<b>Condensed consolidated balance sheet</b>			
Assets:			
Other non-current assets \$	2,047	\$ (628)	\$ 1,419
Liabilities:			
Deferred income taxes	12,236	(167)	12,069
Stockholders' equity:			
Retained earnings	123,094	(461)	122,633
	As Reported Three Months Ended June 30, 2018	Adjustments	As Adjusted Without Adoption of ASC 606
<b>Condensed consolidated statement of operations</b>			
Operating expenses:			
Selling, general and administrative expenses	\$ 59,002	\$ 5	\$ 59,007
Income from operations	2,355	(5)	2,350
Income before income taxes	304	(5)	299
Income tax expense	603	(1)	602
Net loss	(299)	(4)	(303)
Basic loss per share	\$ (0.01)	\$ —	\$ (0.01)
Diluted loss per share	\$ (0.01)	\$ —	\$ (0.01)

**InnerWorkings, Inc. and subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
**Three and Six Months Ended June 30, 2018**

	<b>As Reported Six Months Ended June 30, 2018</b>	<b>Adjustments</b>	<b>As Adjusted Without ASU Adoption of ASC 606</b>
<b>Condensed consolidated statement of operations</b>			
Operating expenses:			
Selling, general and administrative expenses	\$ 120,169	\$ (21)	\$ 120,148
Income from operations	3,596	21	3,617
Loss before income taxes	(807)	21	(786)
Income tax expense	1,176	5	1,181
Net loss	(1,983)	16	(1,967)
Basic loss per share	\$ (0.04)	\$ —	\$ (0.04)
Diluted loss per share	\$ (0.04)	\$ —	\$ (0.04)

The adoption of ASC 606 had no impact on the Company's cash flow from operations and resulted in offsetting shifts in cash flows throughout net (loss) income and various changes in working capital balances.

*Nature of Goods and Services*

The Company primarily generates revenues from the procurement of marketing materials for customers. Service revenue including creative, design, installation, warehousing and other services has not been material to the Company's overall revenue to date.

Products and services may be sold separately or in bundled packages. For bundled packages, the Company accounts for individual products and services separately if they are distinct - that is, if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

We include any fixed charges per our contracts as part of the total transaction price. The transaction price is allocated between separate products and services in a bundle based on their standalone selling prices. The standalone selling prices are generally determined based on the prices at which the Company separately sells the products and services.

Contracts may include variable consideration (for example, customer incentives like rebates), and to the extent that variable consideration is not constrained, we include the expected amount within the total transaction price and update our assumptions over the duration of the contract. The constraint will generally not result in a reduction in the estimated transaction price.

The Company's performance obligations related to the procurement of marketing materials are typically satisfied upon shipment or delivery of our products to customers. Payment is typically due from the customer at this time or shortly thereafter. Unbilled revenue represents shipments or deliveries that have been made to customers for which the related account receivable has not yet been invoiced. The Company does not have material future performance obligations that extend beyond one year.

Some service revenue may be recognized over time but the difference from recognizing that revenue over time versus at a point in time when the service is completed and accepted by the customer has not been material to the Company's overall revenue to date.

*Disaggregation of Revenue*

The following tables summarize revenue disaggregated by primary geographical market and also include a reconciliation of the disaggregated revenue to the Company's reportable segments (in thousands):

**InnerWorkings, Inc. and subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
**Three and Six Months Ended June 30, 2018**

*Three months ended June 30, 2018*

<b>Geographical Market</b>	<b>Reportable Segments</b>		
	<b>North America</b>	<b>International</b>	<b>Total</b>
United States and Canada	\$ 194,735	\$ —	\$ 194,735
Europe and Asia	—	65,854	65,854
Latin America	—	21,378	21,378
<b>Total</b>	<b>\$ 194,735</b>	<b>\$ 87,232</b>	<b>\$ 281,967</b>

*Six months ended June 30, 2018*

<b>Geographical Market</b>	<b>Reportable Segments</b>		
	<b>North America</b>	<b>International</b>	<b>Total</b>
United States and Canada	\$ 384,012	\$ —	\$ 384,012
Europe and Asia	—	130,768	130,768
Latin America	—	41,726	41,726
<b>Total</b>	<b>\$ 384,012</b>	<b>\$ 172,494</b>	<b>\$ 556,506</b>

*Contract Balances*

Contract liabilities were \$20.0 million and \$17.6 million as of June 30, 2018 and January 1, 2018, respectively, and are referred to as deferred revenue in the condensed consolidated financial statements. We record deferred revenue when cash payments are received or due in advance of our performance. The increase in the deferred revenue balance for the six months ended June 30, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations as well as the recognition of a contract liability for projects where we have a right to payment (approximately \$4.5 million), offset by \$9.8 million of revenue recognized from the deferred revenue balance from January 1, 2018. There were no contract assets during the period.

*Transaction Price Allocated to Remaining Performance Obligations*

ASC 606 requires that the Company disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of June 30, 2018. The Company does not have material future performance obligations that extend beyond one year. Accordingly, the Company has applied the optional exemption for contracts that have an original expected duration of one year or less. The nature of the remaining performance obligations as well as the nature of the variability and how it will be resolved is described above.

*Costs to Obtain a Customer Contract*

The Company incurs certain incremental costs to obtain a contract that the Company expects to recover. The Company applies a practical expedient and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. No incremental costs to obtain a contract incurred by the Company prior to adoption of ASC 606 or during the quarter ended June 30, 2018, are required to be capitalized. These costs primarily relate to commissions paid to our account executives and are included in selling, general and administrative expenses.

*Costs to Fulfill a Customer Contract*

The Company capitalized certain setup costs related to new customers as fulfillment costs upon adoption of ASU 2014-09 and during the quarter ended June 30, 2018. The closing balance at June 30, 2018 was \$0.6 million. Capitalized contract costs are amortized over the expected period of benefit using the straight-line method which is generally three years. In the three and six months ended June 30, 2018, the amount of amortization was \$0.1 million and \$0.3 million, respectively, and there was no impairment loss in relation to the costs capitalized.

**3. Contingent Consideration**

In connection with certain of the Company's acquisitions, contingent consideration is payable in cash or common stock of the Company upon the achievement of certain performance measures over future periods. The Company recorded the

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acquisition date fair value of the contingent consideration liability as additional purchase price. As discussed in Note 11, the process for determining the fair value of the contingent consideration liability consists of reviewing financial forecasts and assessing the likelihood of reaching the required performance measures based on factors specific to each acquisition as well as the Company's historical experience with similar arrangements. Subsequent to the acquisition date, the Company estimates the fair value of the contingent consideration liability each reporting period and any adjustments made to the fair value are recorded in the Company's results of operations. If an acquisition reaches the required performance measures within the reporting period, the fair value of the contingent consideration liability is increased to 100%, the maximum potential payment, and reclassified to due to seller.

There were no contingent consideration obligations outstanding as of December 31, 2017 or June 30, 2018. During the three months ended June 30, 2017, the Company recorded expense of \$1.9 million. During the six months ended June 30, 2017, the Company recorded expense of \$0.8 million. For the six months ended June 30, 2017, \$0.7 million of contingent consideration payments were reclassified from financing activities to operating activities in accordance with ASU 2016-15 (See Note 1) as they were not made soon after the acquisition date and deemed to be excess cash payments.

**4. Goodwill**

The following is a summary of the goodwill balance for each reportable segment as of June 30, 2018 (in thousands):

	<b>North America</b>	<b>International</b>	<b>Total</b>
Net goodwill as of December 31, 2017	\$ 170,685	\$ 29,262	\$ 199,946
Foreign exchange impact	(53)	(758)	(811)
Net goodwill as of June 30, 2018	<u>\$ 170,632</u>	<u>\$ 28,504</u>	<u>\$ 199,135</u>

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. In accordance with ASC 350, *Intangibles – Goodwill and Other*, goodwill is not amortized, but instead is tested for impairment annually, or more frequently if circumstances indicate a possible impairment may exist.

The fair value estimates used in the goodwill impairment analysis require significant judgment. The Company's fair value estimates for purposes of performing the analysis are considered Level 3 fair value measurements. The fair value estimates were based on assumptions that management believes to be reasonable, but that are inherently uncertain, including estimates of future revenues and operating margins and assumptions about the overall economic climate and the competitive environment for the business.

Absent any interim indicators of impairment, the Company tests for goodwill impairment as of the first day of the fourth fiscal quarter of each year. The Company does not believe that goodwill is impaired as of June 30, 2018.

**5. Other Intangible Assets**

The following is a summary of the Company's other intangible assets as of June 30, 2018 and December 31, 2017 (in thousands):

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>Weighted Average Life</b>
Customer lists	\$ 74,186	\$ 74,615	14.4
Non-compete agreements	959	964	4.1
Trade names	2,510	2,510	13.3
Patents	57	57	9.0
	<u>77,712</u>	<u>78,146</u>	
Less accumulated amortization	(52,644)	(50,583)	
Intangible assets, net	<u>\$ 25,068</u>	<u>\$ 27,563</u>	

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In accordance with ASC 350, the Company amortizes its intangible assets with finite lives over their respective estimated useful lives and reviews for impairment whenever impairment indicators exist. Impairment indicators could include significant under-performance relative to the historical or projected future operating results, significant changes in the manner of use of assets, significant negative industry or economic trends or significant changes in the Company's market capitalization relative to net book value. Any changes in key assumptions used by the Company, including those set forth above, could result in an impairment charge and such a charge could have a material adverse effect on the Company's consolidated results of operations. The Company's intangible assets consist of customer lists, non-compete agreements, trade names and patents. The Company's customer lists, which have an estimated weighted-average useful life of approximately fourteen years, are being amortized using the economic life method. The Company's non-compete agreements, trade names and patents are being amortized on a straight-line basis over their estimated weighted-average useful lives of approximately four years, thirteen years and nine years, respectively.

Amortization expense related to these intangible assets was \$1.1 million and \$1.3 million for the three months ended June 30, 2018 and 2017, respectively, and \$2.3 million and \$2.5 million for the six months ended June 30, 2018 and 2017, respectively.

The estimated amortization expense for the remainder of 2018 and each of the next five years and thereafter is as follows (in thousands):

Remainder of 2018	\$	2,272
2019		4,312
2020		4,141
2021		3,835
2022		3,340
Thereafter		7,168
	\$	<u>25,068</u>

## 6. Restructuring Activities and Other Charges

On December 14, 2015, the Company approved a global realignment plan that allowed the Company to more efficiently meet client needs across its international platform. Through improved integration of global resources, the plan created back office and other efficiencies and allowed for the elimination of approximately 100 positions. In connection with these actions, the Company incurred pre-tax cash restructuring charges of \$6.7 million, the majority of which were recognized during 2016. These cash charges included approximately \$5.6 million for employee severance and related benefits and \$1.1 million for lease and contract terminations and other associated costs. The charges were all incurred by the end of 2016 with the final payouts of the charges expected to occur in 2018. As required by law, the Company consulted with each of the affected countries' local Works Councils throughout the plan.

For the three and six months ended June 30, 2018, the Company recognized no additional restructuring charges related to this plan, as the plan was completed by the end of 2016.

The following table summarizes the accrued restructuring activities for this plan for the six months ended June 30, 2018 (in thousands):

	<b>Employee Severance and Related Benefits</b>	<b>Lease and Contract Termination Costs</b>	<b>Other</b>	<b>Total</b>
Balance at December 31, 2017	\$ 484	\$ —	\$ —	\$ 484
Cash payments	(47)	—	—	(47)
Balance at June 30, 2018	<u>\$ 437</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 437</u>

## 7. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Reform Act") was enacted into law. The Tax Reform Act significantly revises the U.S. corporate income tax laws by, amongst other things, reducing the corporate income tax rate from 35.0% to 21.0%. In addition to the tax rate reduction, the legislation establishes new provisions that affect our 2018 results,

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including but not limited to, the creation of a new minimum tax called the base erosion anti-abuse tax ("BEAT"); a new provision that taxes U.S. allocated expenses (e.g. interest and general administrative expenses) and currently taxes certain income from foreign operations (Global Intangible Low-Tax Income, or "GILTI"); a new limitation on deductible interest expense; and limitations on the deductibility of certain employee compensation.

Certain impacts of the new legislation would have generally required accounting to be completed in the period of enactment, however in response to the complexities of this new legislation, the SEC issued guidance to provide companies with relief. The SEC provided up to a one-year window for companies to finalize the accounting for the impacts of this new legislation and we anticipate finalizing our accounting during 2018. While our accounting for the enactment of the new U.S. tax legislation is not complete, we have recorded an estimate of our full-year net GILTI cost in the amount of \$0.2 million for the six months ended June 30, 2018. We have not changed our provisional transition tax estimated and recorded in the year ended December 31, 2017.

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items. The Company's reported effective income tax rate was 198.4% and 43.5% for the three months ended June 30, 2018 and 2017, respectively. The Company's reported effective income tax rate was (145.7)% and 36.3% for the six months ended June 30, 2018 and 2017, respectively. The Company's effective income tax rate differs from the U.S. federal statutory rate each year due to certain operations that are subject to tax incentives, state and local taxes, valuation allowances, and foreign taxes that are different than the U.S. federal statutory rate. In addition, the effective tax rate can be impacted each period by discrete factors and events.

The effective tax rates were impacted by losses in jurisdictions where the Company's foreign entities have valuation allowances against deferred tax assets, as well as by other discrete factors including a write-off of a deferred tax asset for stock-based compensation due to the expiration of unexercised stock options. In addition, the effective tax rate in the three and six months ended June 30, 2017 was affected by the fair value changes to contingent consideration. Excluding the impact of these losses without corresponding tax benefits, the fair value changes to contingent consideration for the three and six months ended June 30, 2017, and other discrete factors, the effective tax rate was 30.8% and 31.9%, respectively, for the periods then ended. The effective tax rate was 30.4% and 25.0% in the three and six months ended June 30, 2018, respectively.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will expire unutilized. At the end of each reporting period, the Company reviews the realizability of its deferred tax assets. Additionally, the Company continues to incur losses in jurisdictions which have valuation allowances against tax loss carryforwards, so a tax benefit has not been recognized in the financial statements for these losses.

## **8. Earnings Per Share**

Basic (loss) earnings per common share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted (loss) earnings per share is calculated by dividing net (loss) income by the weighted average shares outstanding assuming dilution. Dilutive common shares outstanding is computed using the Treasury Stock Method and reflects the additional shares that would be outstanding if dilutive stock options were exercised and restricted stock and restricted stock units were settled for common shares during the period. In addition, dilutive shares include any shares issuable related to PSUs for which the performance conditions have been met as of the end of the period.

There were no dilutive effects during the three and six months ended June 30, 2018 as a result of the net loss. During the three and six months ended June 30, 2017, an aggregate of 2.5 million and 2.6 million options and restricted common shares, respectively, were excluded from the calculation as these options and restricted common shares were anti-dilutive. The computations of basic and diluted (loss) earnings per share for the three and six months ended June 30, 2018 and 2017 are as follows (in thousands, except per share amounts):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
		(as restated)		(as restated)
<b>Numerator:</b>				
Net (loss) income	\$ (299)	\$ 4,374	\$ (1,983)	\$ 10,052
<b>Denominator:</b>				
Weighted-average shares outstanding – basic	51,770	53,278	52,738	53,665
<b>Effect of dilutive securities:</b>				
Employee and director stock options and restricted common shares	—	1,150	—	1,025
Contingently issuable shares	—	761	—	380
Weighted-average shares outstanding – diluted	51,770	55,189	52,738	55,070
Basic (loss) earnings per share	\$ (0.01)	\$ 0.08	\$ (0.04)	\$ 0.19
Diluted (loss) earnings per share	\$ (0.01)	\$ 0.08	\$ (0.04)	\$ 0.18

**9. Accumulated Other Comprehensive Loss**

The table below presents changes in the components of accumulated other comprehensive loss for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,	
	2018	2017
	Foreign currency translation adjustments	Foreign currency translation adjustments
Balance, beginning of period	\$ (15,865)	\$ (18,820)
Other comprehensive (loss) income before reclassifications	(5,607)	3,880
Net current-period other comprehensive (loss) income	(5,607)	3,880
Balance, end of period	\$ (21,472)	\$ (14,940)
	Six Months Ended June 30,	
	2018	2017
	Foreign currency translation adjustments	Foreign currency translation adjustments
Balance, beginning of period	\$ (19,229)	\$ (20,799)
Other comprehensive (loss) income before reclassifications	(2,243)	5,859
Net current-period other comprehensive (loss) income	(2,243)	5,859
	\$ (21,472)	\$ (14,940)

**10. Related Party Transactions**

The Company provides print procurement services to Arthur J. Gallagher & Co. J. Patrick Gallagher, Jr., a member of the Company's Board of Directors, is the Chairman, President and Chief Executive Officer of Arthur J. Gallagher & Co. and has a direct ownership interest in Arthur J. Gallagher & Co. The total amount billed for such print procurement services during the three months ended June 30, 2018 and 2017 was \$0.5 million and \$0.5 million, respectively, and \$0.7 million and \$0.9 million during the six months ended June 30, 2018 and 2017, respectively. The amounts receivable from Arthur J. Gallagher & Co. were \$0.2 million and \$0.2 million as of June 30, 2018 and December 31, 2017, respectively.



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In the fourth quarter of 2017, the Company began providing marketing execution services to Enova International, Inc. ("Enova"). David Fischer, a member of the Company's Board of Directors, is the Chairman and Chief Executive Officer of Enova and has direct ownership in Enova. The total amount billed for such services during the three and six months ended June 30, 2018 was \$2.2 million and \$4.0 million, respectively. The amounts receivable from Enova were \$1.4 million and \$0.1 million as of June 30, 2018 and December 31, 2017, respectively.

## **11. Fair Value Measurement**

ASC 820, *Fair Value Measurement*, includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on observable or unobservable inputs to valuation techniques that are used to measure fair value. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions.

The fair value hierarchy consists of the following three levels:

- *Level 1:* Inputs are quoted prices in active markets for identical assets or liabilities.
- *Level 2:* Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable and market-corroborated inputs, which are derived principally from or corroborated by observable market data.
- *Level 3:* Inputs that are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The book value of the debt under the Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of August 13, 2018 and further discussed in Note 13, is considered to approximate its fair value as of June 30, 2018 as the interest rates are considered in line with current market rates. This valuation method utilizes Level 1 inputs.

## **12. Commitments and Contingencies**

### *Financing Obligation - Build to Suit Leases*

During the second quarter of 2018, the Company entered into lease arrangements to make certain improvements to recently constructed buildings in Portland, Oregon and Blue Ash, Ohio to be used as new warehouse and office spaces for its North America operations. As of June 30, 2018, both locations are under construction and are expected to be completed during the third quarter of 2018.

According to ASC 840, *Leases*, the Company is deemed the accounting owner of both facilities because of its responsibility to fund costs of non-normal tenant improvements. Consequently, the fair value of both buildings, which was \$31.1 million, was included in Property and equipment, net as of June 30, 2018. The amounts recorded were based on actual construction costs incurred through June 30, 2018. A corresponding liability (under the finance method) of \$31.1 million was included in Financing obligation - build-to-suit leases as of June 30, 2018. In the three and six months ended June 30, 2018, the Company included non-cash investing activities in the condensed consolidated statement of cash flows of \$0.3 million for non-cash capitalized interest costs recorded through the other operating activities and \$30.6 million in non-cash items from the financing obligation included in the condensed consolidated balance sheet. These transactions did not have a material impact on the income statement during the three and six months ended June 30, 2018.

The fair value of the buildings is recorded as construction in progress within Property and equipment, net during the construction period, and once construction is completed, the construction in progress will be reclassified to buildings within Property and equipment, net based on sale-leaseback accounting guidance under ASC 840, and depreciated. All future rent payments on both leases will be treated as debt service payments on the financing obligation.

### *Legal Contingencies*

In October 2013, the Company removed the former owner of Productions Graphics from his role as President of Productions Graphics, the Company's French subsidiary. He had been in that role since the Company's 2011 acquisition of Productions Graphics, a European business then principally owned by him. In December 2013, the former owner of Productions Graphics

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initiated a wrongful termination claim in the Commercial Court of Paris seeking approximately €0.7 million (approximately \$1.0 million) in fees and damages. In anticipation of this claim, in November 2013, he also obtained a judicial asset attachment order in the amount of €0.7 million (approximately \$1.0 million) as payment security; the attachment order was confirmed in January 2014, and the Company filed an appeal of the order. In March 2015, the appellate court ruled in the Company's favor in the attachment proceedings, releasing all attachments. The Company disputes the allegations of the former owner of Productions Graphics and intends to vigorously defend these matters. In February 2014, based on a review the Company initiated into certain transactions associated with the former owner of Productions Graphics, the Company concluded that he had engaged in fraud by inflating the results of the Productions Graphics business in order to induce the Company to pay him €7.1 million in contingent consideration pursuant to the acquisition agreement. In light of those findings, in February 2014, the Company filed a criminal complaint in France seeking to redress the harm caused by his conduct and this proceeding is currently pending. In addition, in September 2015, the Company initiated a civil claim in the Paris Commercial Court against the former owner of Productions Graphics, seeking civil damages to redress these same harms. In addition to these pending matters, there may be other potential disputes between the Company and the former owner of Productions Graphics relating to the acquisition agreement. The Company had paid €5.8 million (approximately \$8.0 million) in fixed consideration and €7.1 million (approximately \$9.4 million) in contingent consideration to the former owner of Productions Graphics; the remaining maximum contingent consideration under the acquisition agreement was €34.5 million (approximately \$37.6 million) and the Company has determined that none of this amount was earned and payable.

In January 2014, a former finance employee of Productions Graphics initiated wrongful termination and overtime claims in the Labor Court of Boulogne-Billancourt, and he currently seeks damages of approximately €0.6 million (approximately \$0.7 million). The Company disputes these allegations and intends to vigorously defend these matters. In addition, the Company's criminal complaint in France, described above, seeks to redress harm caused by this former employee in light of his participation in the fraudulent transactions described above. The labor claim has been stayed in deference to the Company's related criminal complaint.

In May 2018, shortly following the Company's announcement of its intention to restate certain historical financial statements, a putative securities class action complaint was filed against the Company and certain of its current and former officers and directors. The action, *Errol Brown, et al., v. InnerWorkings, Inc., et al.*, is currently pending before the United States District Court for the Central District of California. The complaint alleges claims pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Allegations in the complaint include that the Company and its current and former officers and directors made untrue statements or omissions of material fact by issuing inaccurate financial statements for the fiscal years ending December 31, 2015, 2016, and 2017, as well as all interim periods. The putative class seeks an unspecified amount of monetary damages as well as reimbursement of fees and costs, including reasonable attorneys' fees, and other costs. The Company and individual defendants dispute the claims. On July 27, 2018, the Court appointed a lead plaintiff and lead counsel for the case. Plaintiff's deadline to file an amended complaint is September 25, 2018.

### **13. Revolving Credit Facilities**

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of August 13, 2018, among the Company, the lenders party thereto and Bank of America, N.A., as Administrative Agent (the "Credit Agreement"). The Credit Agreement includes a revolving commitment amount of \$175 million in the aggregate with a maturity date of September 25, 2019 and provides the Company the right to increase the aggregate commitment amount by an additional \$50 million. Outstanding borrowings under the revolving credit facility are guaranteed by the Company's material domestic subsidiaries, as defined in the Credit Agreement. The Company's obligations under the Credit Agreement and such domestic subsidiaries' guaranty obligations are secured by substantially all of their respective assets. The ranges of applicable rates charged for interest on outstanding loans and letters of credit are 125-250 basis point spread for letter of credit fees and loans based on the Eurodollar rate and 25-150 basis point spread for loans based on the base rate.

The terms of the Credit Agreement include various covenants, including covenants that require the Company to maintain a maximum leverage ratio and a minimum interest coverage ratio. The most recent amendment to the Credit Agreement modified the maximum leverage ratio from 3.0 to 1.0 to 4.0 to 1.0 for the trailing twelve months ended June 30, 2018, and the maximum leverage ratio is 3.0 to 1.0 for each period thereafter. The Company is also required to maintain an interest coverage ratio of no less than 5.0 to 1.0. The Company is in compliance with all debt covenants as of June 30, 2018; however, if the Credit Agreement would not have been modified as of June 30, 2018, the Company would have violated the leverage ratio covenant.

Due to restructuring charges that the Company anticipates recording in the three months ending September 30, 2018 (See Note 16), the Company expects its leverage ratio to exceed 3.0 to 1.0 at September 30, 2018. The Company is in the process of

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refinancing the Credit Agreement with its existing lenders. However, if the Company is not able to complete a refinancing with a less restrictive leverage ratio by September 30, 2018, or obtain additional amendments or waivers, the Company would likely exceed the maximum leverage ratio covenant at September 30, 2018, in which case the lenders would have the ability to demand repayment of the outstanding debt at such time. Accordingly, the outstanding balance of \$136.5 million is presented as a current liability as of June 30, 2018 based on the guidance in ASC 470, *Debt*.

Additionally, under ASC 205, *Presentation of Financial Statements*, the Company is required to consider and has evaluated whether there is substantial doubt that it has the ability to meet its obligations within one year from the financial statement issuance date, including its ability to repay the outstanding debt in full. Based on this evaluation and the following plans, the Company believes it will have sufficient funds to meet its current obligations over the next twelve months from the filing date of this Quarterly Report on Form 10-Q. As described above, the Company is in the process of refinancing the Credit Agreement with its existing lenders, which the Company intends to complete prior to September 30, 2018. Further, the Company is implementing a Cost Reduction Plan, as discussed in Note 16, designed to improve profitability, which in turn would enhance the Company's ability to meet its financial obligations under the Credit Agreement.

At June 30, 2018, the Company had \$18.0 million of unused availability under the Credit Agreement and \$0.6 million of letters of credit which have not been drawn upon.

On February 22, 2016, the Company entered into a Revolving Credit Facility (the "Facility") with Bank of America N.A. to support ongoing working capital needs of the Company. The Facility includes a revolving commitment amount of \$5.0 million whereby maturity dates vary based on each individual drawdown. Outstanding borrowings under the Facility are guaranteed by the Company's assets. Borrowings and repayments are made in renminbi, the official Chinese currency. The applicable interest rate is 110% of the People's Bank of China's base rate. The terms of the Facility include limitations on use of funds for working capital purposes as well as customary representations and warranties made by the Company. At June 30, 2018, the Company had \$4.4 million of unused availability under the Facility.

#### **14. Share Repurchase Program**

On February 12, 2015, the Company announced that its Board of Directors approved a share repurchase program authorizing the repurchase of up to an aggregate of \$20 million of its common stock through open market and privately negotiated transactions over a two-year period. On November 2, 2016, the Board of Directors approved a two-year extension to the share repurchase program through February 28, 2019. On May 4, 2017, the Board of Directors authorized the repurchase of up to an additional \$30.0 million of its common stock through open market and privately negotiated transactions over a two-year period ending May 31, 2019. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. Repurchases will be made in compliance with SEC rules and other legal requirements.

During the six months ended June 30, 2018, the Company repurchased 2,667,732 shares of its common stock for \$25.6 million in the aggregate at an average cost of \$9.60 per share under this program. During the three months ended June 30, 2018, the Company repurchased 1,735,983 shares of its common stock for \$16.9 million in the aggregate at an average cost of \$9.75 per share. During the six months ended June 30, 2017, the Company repurchased 1,028,654 shares of its common stock for \$10.0 million in the aggregate at an average cost of \$9.76 per share. During the three months ended June 30, 2017, the Company repurchased 459,030 shares of its common stock for \$4.6 million in the aggregate at an average cost of \$9.91 per share. Shares repurchased under this program are recorded at acquisition cost, including related expenses.

#### **15. Business Segments**

Segment information is prepared on the same basis that our Chief Executive Officer, who is our chief operating decision maker, manages the segments, evaluates financial results, and makes key operating decisions. The Company is organized and managed as two business segments: North America and International. The North America segment includes operations in the United States and Canada; the International segment includes all other operations across Europe, Asia, Mexico, Central America and South America; Other consists of intersegment eliminations, shared service activities and unallocated corporate expenses. All transactions between segments are presented at their gross amounts and eliminated through Other.

Management evaluates the performance of its operating segments based on revenues and Adjusted EBITDA, which is a non-GAAP financial measure. The accounting policies of each of the operating segments are the same as those described in the summary of significant accounting policies in Note 1. Adjusted EBITDA represents income from operations excluding depreciation and amortization, stock-based compensation expense, income/expense related to changes in the fair value of

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contingent consideration liabilities and restructuring and other charges. Management does not evaluate the performance of its operating segments using asset measures.

The table below presents financial information for the Company's reportable segments and Other for the three and six month periods noted (in thousands):

	<b>North America</b>	<b>International</b>	<b>Other</b>	<b>Total</b>
<i>Three Months Ended June 30, 2018:</i>				
Revenue from third parties	\$ 194,735	\$ 87,232	\$ —	\$ 281,967
Revenue from other segments	951	2,648	(3,599)	—
Total revenue	195,686	89,880	(3,599)	281,967
Adjusted EBITDA <sup>(1)</sup>	18,372	2,049	(12,235)	8,186

<i>Three Months Ended June 30, 2017 (as restated):</i>				
Revenue from third parties	\$ 187,507	\$ 92,559	\$ —	\$ 280,066
Revenue from other segments	1,087	2,987	(4,074)	—
Total revenue	188,594	95,546	(4,074)	280,066
Adjusted EBITDA <sup>(1)</sup>	18,305	6,681	(8,493)	16,493

	<b>North America</b>	<b>International</b>	<b>Other</b>	<b>Total</b>
<i>Six Months Ended June 30, 2018:</i>				
Revenue from third parties	\$ 384,012	\$ 172,494	\$ —	\$ 556,506
Revenue from other segments	2,371	5,424	(7,795)	—
Total revenue	386,383	177,918	(7,795)	556,506
Adjusted EBITDA <sup>(1)</sup>	35,588	4,140	(24,193)	15,535

<i>Six Months Ended June 30, 2017 (as restated):</i>				
Revenue from third parties	\$ 370,005	\$ 174,466	\$ —	\$ 544,471
Revenue from other segments	2,842	6,347	(9,189)	—
Total revenue	372,847	180,813	(9,189)	544,471
Adjusted EBITDA <sup>(1)</sup>	36,987	9,552	(17,537)	29,002

(1) Adjusted EBITDA, which represents income from operations with the addition of depreciation and amortization, stock-based compensation expense, change in fair value of contingent consideration liabilities, professional fees related to ASC 606 implementation and restatement of prior period financial statements, executive search expenses, and other expenses related to investment in operational and financial process improvements is considered a non-GAAP financial measure under SEC regulations. Income from operations is the most directly comparable financial measure calculated in accordance with GAAP. The Company presents this measure as supplemental information to help investors better understand trends in its business results over time. The Company's management team uses Adjusted EBITDA to evaluate the performance of the business. Adjusted EBITDA is not equivalent to any measure of performance required to be reported under GAAP, nor should this data be considered an indicator of the Company's overall financial performance and liquidity. Moreover, the Adjusted EBITDA definition the Company uses may not be comparable to similarly titled measures reported by other companies.

**InnerWorkings, Inc. and subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
**Three and Six Months Ended June 30, 2018**

The table below reconciles the total of the reportable segments' Adjusted EBITDA and the Adjusted EBITDA included in Other to income (loss) before income taxes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
		(as restated)		(as restated)
Adjusted EBITDA	8,186	16,493	15,535	29,002
Depreciation and amortization	(3,514)	(3,182)	(7,173)	(6,086)
Stock-based compensation expense	(1,406)	(1,503)	(2,823)	(2,921)
Change in fair value of contingent consideration	—	(1,884)	—	(844)
Professional fees related to ASC 606 implementation	(60)	—	(1,092)	—
Executive search fees	(234)	—	(234)	—
Restatement-related professional fees	(537)	—	(537)	—
Other professional fees	(80)	—	(80)	—
Income from operations	2,355	9,926	3,596	19,151
Interest income	54	12	115	46
Interest expense	(1,517)	(1,038)	(3,085)	(2,041)
Other, net	(588)	(1,164)	(1,433)	(1,388)
Income (loss) before income taxes	<u>\$ 304</u>	<u>\$ 7,736</u>	<u>\$ (807)</u>	<u>\$ 15,768</u>

## **16. Subsequent Event**

On August 10, 2018, the Company approved a plan to reduce the Company's cost structure while driving returns for its clients and shareholders. The plan was adopted as a result of the Company's determination that its selling, general and administrative costs were disproportionately high in relation to its revenues and gross profit. The Company expects to record total pre-tax cash restructuring charges of \$8.0 to \$10.0 million, the majority of which will be recorded during 2018. These cash charges are expected to include approximately \$6.0 to \$8.0 million for employee-related costs and \$2.0 million for lease and contract termination and other associated costs. The plan is expected to be completed by the end of 2019.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and the notes thereto included in the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q and in conjunction with Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2017 (the "Form 10-K/A"). The impact of the restatement is reflected in Management's Discussion and Analysis of Financial Condition and Results of Operations below.*

### **Overview**

We are a leading global marketing execution firm for some of the world's most marketing intensive companies, including those listed in the Fortune 1000. As a comprehensive outsourced global solution, we leverage proprietary technology, an extensive supplier network and deep domain expertise to streamline the creation, production and distribution of marketing and promotional materials, signage and displays, retail experiences, events and promotions and product packaging across every major market worldwide. The items we source generally are procured through the marketing supply chain and we refer to these items collectively as marketing materials. Through our network of more than 8,000 global suppliers, we offer a full range of fulfillment and logistics services that allow us to procure marketing materials of virtually any kind. The breadth of our product offerings and services and the depth of our supplier network enable us to fulfill the marketing materials procurement needs of our clients.

Our proprietary software applications and databases create a fully-integrated solution that stores, analyzes and tracks the production capabilities of our supplier network, as well as detailed pricing data. As a result, we believe we have one of the largest independent repositories of supplier capabilities and pricing data for suppliers of marketing materials around the world. We leverage our supplier capabilities and pricing data to match our orders with suppliers that are optimally suited to meet the client's needs at a highly competitive price. Our technology and databases of product and supplier information are designed to capitalize on excess manufacturing capacity and other inefficiencies in the traditional marketing materials supply chain to obtain favorable pricing while delivering high-quality products and services for our clients.

We use our supplier capability and pricing data to match orders with suppliers that are optimally suited to meet the client's needs at a highly competitive price. By leveraging our technology and data, our clients are able to reduce overhead costs, redeploy internal resources and obtain favorable pricing and service terms. In addition, our ability to track individual transactions and provide customized reports detailing procurement activity on an enterprise-wide basis provides our clients with greater visibility and control of their marketing materials expenditures.

We generate revenue by procuring and purchasing marketing materials from our suppliers and selling those products to our clients. We procure products for clients across a wide range of industries, such as retail, financial services, hospitality, consumer packaged goods, non-profits, healthcare, pharmaceuticals, food and beverage, broadcasting and cable and transportation.

As of June 30, 2018, we had approximately 2,100 employees and independent contractors in more than 26 countries. We organize our operations into two operating segments based on geographic regions: North America and International. The North America segment includes operations in the United States and Canada; the International segment includes operations in Mexico, South America, Central America, Europe, the Middle East, Africa, and Asia. In 2017, we generated global revenue from third parties of \$780.5 million in the North America segment and \$357.9 million in the International Segment. We believe the opportunity exists to expand our business into new geographic markets. Our objective is to continue to increase our sales in the United States and internationally by adding new clients and increasing our sales to existing clients through additional marketing execution services or geographic markets. We intend to hire or acquire more account executives within close proximity to these large markets.

## **U.S Tax Reform**

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Reform Act”) was enacted into law. The Tax Reform Act significantly revises the U.S. corporate income tax laws by, amongst other things, reducing the corporate income tax rate from 35.0% to 21.0%. In addition to the tax rate reduction, the legislation establishes new provisions that may affect our 2018 results, including but not limited to, the creation of a new minimum tax called the base erosion anti-abuse tax (“BEAT”); a new provision that taxes U.S. allocated expenses (e.g. interest and general administrative expenses) and currently taxes certain income from foreign operations (Global Intangible Low-Tax Income, or “GILTI”); a new limitation on deductible interest expense; and limitations on the deductibility of certain employee compensation.

Certain impacts of the new legislation would have generally required accounting to be completed in the period of enactment, however in response to the complexities of this new legislation, the SEC issued guidance to provide companies with relief. The SEC provided up to a one-year window for companies to finalize the accounting for the impacts of this new legislation and we anticipate finalizing our accounting during 2018. While our accounting for the enactment of the new U.S. tax legislation is not complete, we have recorded an estimate of our full-year net GILTI cost in the amount of \$0.2 million in the six months ended June 30, 2018. We have not changed our provisional transition tax estimated and recorded for the year ended December 31, 2017.

## **Revenue**

We generate revenue through the procurement of marketing materials for our clients. Our revenue consists of the prices paid to us by our clients for marketing materials. These prices, in turn, reflect the amounts charged to us by our suppliers plus our gross profit. Our gross profit margin may be fixed by contract or may depend on prices negotiated on a job-by-job basis. Once the client accepts our pricing terms, the selling price is established and we procure the product for our own account in order to re-sell it to the client. We generally take full title and risk of loss for the product upon shipment. The finished product is typically shipped directly from our supplier to a destination specified by our client. Upon shipment, our supplier invoices us for the products and we invoice our client.

## **Cost of Goods Sold and Gross Profit**

Our cost of goods sold consists primarily of the price at which we purchase products from our suppliers. Our selling price, including our gross profit may be established by contract based on a fixed gross profit as a percentage of revenue, which we refer to as gross margin, or may be determined at the discretion of the account executive or production manager within predetermined parameters.

## **Operating Expenses and (Loss) Income from Operations**

Our selling, general and administrative expenses consist of commissions paid to our account executives, compensation costs for our management team and production managers as well as compensation costs for our finance and support employees, public company expenses and corporate systems, legal and accounting, facilities and travel and entertainment expenses.

We accrue for commissions when we recognize the related revenue. Some of our account executives receive a monthly draw to provide them with a more consistent income stream. The cash paid to our account executives in advance of commissions earned is reflected as a prepaid expense on our balance sheet. As our account executives earn commissions, a portion of their commission payment is withheld and offset against their prepaid commission balance, if any. Our prepaid commission balance, net of accrued earned commissions not yet paid, decreased to a net accrued commission amount of (\$2.3) million as of June 30, 2018 from a net accrued commission amount of (\$3.3) million as of December 31, 2017.

We agree to provide our clients with marketing materials that conform to the industry standard of a “commercially reasonable quality,” and our suppliers in turn agree to provide us with products of the same quality. In addition, the quotes we execute with our clients include customary industry terms and conditions that limit the amount of our liability for product defects. Product defects have not had a material adverse effect on our results of operations to date.

## Comparison of three months ended June 30, 2018 and 2017

### Revenue

Our revenue by segment for each of the periods presented was as follows:

<i>(dollars in thousands)</i>	Three Months Ended June 30,			
	2018	% of Total	2017	% of Total
			(as restated)	(as restated)
North America	\$ 194,735	69.1%	\$ 187,507	67.0%
International	87,232	30.9%	92,559	33.0%
Revenue from third parties	<u>\$ 281,967</u>	<u>100.0%</u>	<u>\$ 280,066</u>	<u>100.0%</u>

#### North America

North America revenue increased by \$7.2 million, or 3.9%, from \$187.5 million during the three months ended June 30, 2017 to \$194.7 million during the three months ended June 30, 2018. This increase in revenue is driven primarily by organic growth from new accounts added during the last 12 to 18 months.

#### International

International revenue decreased by \$5.3 million, or 5.8%, from \$92.6 million during the three months ended June 30, 2017 to \$87.2 million during the three months ended June 30, 2018. This decrease in revenue is driven primarily by foreign currency impacts.

#### Cost of goods sold

Our cost of goods sold increased by \$7.1 million, or 3.4%, from \$210.0 million during the three months ended June 30, 2017 to \$217.1 million during the three months ended June 30, 2018. Our cost of goods sold as a percentage of revenue was 77.0% and 75.0% during the three months ended June 30, 2018 and 2017, respectively.

#### Gross profit margin

Our gross profit margin was 23.0% and 25.0% during the three months ended June 30, 2018 and 2017, respectively.

#### Selling, general, and administrative expenses

Selling, general, and administrative expenses increased by \$3.9 million, or 7.2%, from \$55.1 million during the three months ended June 30, 2017 to \$59.0 million during the three months ended June 30, 2018. This increase is primarily driven by increased investments into the infrastructure of the Company for operational improvements during the current quarter. As a percentage of gross profit, selling, general, and administrative expenses increased to 91.0% for the three months ended June 30, 2018 compared to 78.6% for the three months ended June 30, 2017.

#### Depreciation and amortization

Depreciation and amortization expense increased by \$0.3 million, or 10.4%, from \$3.2 million during the three months ended June 30, 2017 to \$3.5 million during the three months ended June 30, 2018. This increase is related to the growth in property and equipment, primarily internal-use software.

#### Change in fair value of contingent consideration

Expense from the change in the fair value of contingent consideration decreased by \$1.9 million from \$1.9 million during the three months ended June 30, 2017 to \$0.0 million during the three months ended June 30, 2018. The decrease in expense from the change in the fair value of the contingent liability is driven by the settlement of the EYELEVEL liability during the third quarter of 2017.



### ***Income from operations***

Income from operations decreased by \$7.6 million from \$9.9 million during the three months ended June 30, 2017 to \$2.4 million during the three months ended June 30, 2018. As a percentage of revenue, income from operations was 0.8% and 3.5% during the three months ended June 30, 2018 and 2017, respectively. As a percentage of gross profit, income from operations was 3.6% and 14.2% during the three months ended June 30, 2018 and 2017, respectively. This decrease is primarily attributable to the increase in selling, general, and administrative expenses discussed above.

### ***Other expense***

Other expense decreased by \$0.1 million from \$2.2 million for the three months ended June 30, 2017 to \$2.1 million during the three months ended June 30, 2018. This decrease in expense was primarily driven by foreign currency impacts on balances denominated in foreign currencies, including intercompany loans, caused by exchange rate changes in the euro, Brazilian real, and certain other currencies.

### ***Income tax expense***

Income tax expense decreased by \$2.8 million from \$3.4 million during the three months ended June 30, 2017 to \$0.6 million during the three months ended June 30, 2018. Our effective tax rate was 198.4% and 43.5% for the three months ended June 30, 2018 and 2017, respectively. Our effective income tax rate differs from the U.S. federal statutory rate each year due to certain operations that are subject to tax incentives, state and local taxes, valuation allowances, and foreign taxes that are different than the U.S. federal statutory rate. In addition, the effective tax rate can be impacted each period by discrete factors and events.

The effective tax rates were impacted by losses in jurisdictions where the Company's foreign entities have valuation allowances against deferred tax assets, as well as by other discrete factors, including a write-off of a deferred tax asset for stock-based compensation due to the expiration of unexercised stock options. In addition, the effective tax rate in the three months ended June 30, 2017 was affected by the fair value changes to contingent consideration. Excluding the impact of these losses without corresponding tax benefits, the fair value changes to contingent consideration for the three months ended June 30, 2017, and the other discrete factors, the effective tax rate was 30.4% and 30.8% in the three months ended June 30, 2018 and 2017, respectively.

### ***Net (loss) income***

Net (loss) income decreased by \$4.7 million, or 106.8%, from net income of \$4.4 million during the three months ended June 30, 2017 to a \$0.3 million net loss during the three months ended June 30, 2018. Net (loss) income as a percentage of revenue was (0.1)% and 1.6% during the three months ended June 30, 2018 and 2017, respectively. Net (loss) income as a percentage of gross profit was (0.5)% and 6.2% during the three months ended June 30, 2018 and 2017, respectively. This decrease is primarily attributable to the increase in selling, general, and administrative expenses discussed above.

### ***Diluted (loss) earnings per share***

	<b>Three Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<i>(in thousands, except per share data)</i>		<i>(as restated)</i>
Net (loss) income	\$ (299)	\$ 4,374
Denominator for dilutive earnings per share	51,770	55,189
Diluted (loss) earnings per share	\$ (0.01)	\$ 0.08

Diluted (loss) earnings per share decreased by \$0.09 from \$0.08 per share during the three months ended June 30, 2017 to \$(0.01) per share during the three months ended June 30, 2018.

### **Comparison of six months ended June 30, 2018 and 2017**

#### ***Revenue***

Our revenue by segment for each of the periods presented was as follows:

	<b>Six Months Ended June 30,</b>			
	<b>2018</b>	<b>% of Total</b>	<b>2017</b>	<b>% of Total</b>
<i>(dollars in thousands)</i>			<i>(as restated)</i>	<i>(as restated)</i>
North America	\$ 384,012	69.0%	370,005	68.0%
International	172,494	31.0%	174,466	32.0%
Revenue from third parties	<u>\$ 556,506</u>	<u>100.0%</u>	<u>544,471</u>	<u>100.0%</u>

#### *North America*

North America revenue increased by \$14.0 million, or 3.8%, from \$370.0 million during the six months ended June 30, 2017 to \$384.0 million during the six months ended June 30, 2018. This increase in revenue is driven primarily by organic growth from new accounts added during the last 12 to 18 months.

#### *International*

International revenue decreased by \$2.0 million, or 1.1%, from \$174.5 million during the six months ended June 30, 2017 to \$172.5 million during the six months ended June 30, 2018. This decrease in revenue is driven primarily by foreign currency impacts.

#### **Cost of goods sold**

Our cost of goods sold increased by \$15.8 million, or 3.9%, from \$409.7 million during the six months ended June 30, 2017 to \$425.6 million during the six months ended June 30, 2018. Our cost of goods sold as a percentage of revenue was 76.5% and 75.3% during the six months ended June 30, 2018 and 2017, respectively.

#### **Gross profit margin**

Our gross profit margin was 23.5% and 24.7% during the six months ended June 30, 2018 and 2017, respectively. This decrease was primarily driven by the client mix of revenue and by short-term operational challenges in select accounts in North America.

#### **Selling, general, and administrative expenses**

Selling, general, and administrative expenses increased by \$11.5 million, or 10.6%, from \$108.7 million during the six months ended June 30, 2017 to \$120.2 million during the six months ended June 30, 2018. This increase is primarily driven by increased investments into the infrastructure of the Company for operational improvements during the current year. As a percentage of gross profit, selling, general, and administrative expenses increased to 91.8% for the six months ended June 30, 2018 compared to 80.6% for the six months ended June 30, 2017.

#### **Depreciation and amortization**

Depreciation and amortization expense increased by \$1.1 million, or 17.9%, from \$6.1 million during the six months ended June 30, 2017 to \$7.2 million during the six months ended June 30, 2018. This increase is related to the growth in property and equipment, primarily internal-use software.

#### **Change in fair value of contingent consideration**

Expense from the change in fair value of contingent consideration decreased by \$0.8 million from \$0.8 million during the six months ended June 30, 2017 to \$0.0 million during the six months ended June 30, 2018. The decrease in expense from the change in the fair value of the contingent liability is driven by the settlement of the EYELEVEL liability during the third quarter of 2017.

#### **Income from operations**

Income from operations decreased by \$15.6 million from \$19.2 million during the six months ended June 30, 2017 to \$3.6 million during the six months ended June 30, 2018. As a percentage of revenue, income from operations was 0.6% and 3.5% during the six months ended June 30, 2018 and 2017, respectively. As a percentage of gross profit, income from operations was 2.7% and 14.2% during the six months ended June 30, 2018 and 2017, respectively. This decrease is primarily attributable to the increase in selling, general, and administrative expenses discussed above.

#### **Other expense**

Other expense increased by \$1.0 million from \$3.4 million for the six months ended June 30, 2017 to \$4.4 million for the six months ended June 30, 2018. The increase was primarily driven by a \$1.1 million increase in interest expense.

#### **Income tax expense**

Income tax expense decreased by \$4.5 million from \$5.7 million during the six months ended June 30, 2017 to \$1.2 million during the six months ended June 30, 2018. Our effective tax rate was (145.7)% and 36.3% for the six months ended June 30, 2018 and 2017, respectively. Our effective income tax rate differs from the U.S. federal statutory rate each year due to certain operations that are subject to tax incentives, state and local taxes, valuation allowances, and foreign taxes that are different than the U.S. federal statutory rate. In addition, the effective tax rate can be impacted each period by discrete factors and events.

The effective tax rates were impacted by losses in jurisdictions where the Company's foreign entities have valuation allowances against deferred tax assets, as well as by other discrete factors, including a write-off of a deferred tax asset for stock-based compensation due to the expiration of unexercised stock options. In addition, the effective tax rate in the six months ended June 30, 2017 was affected by the fair value changes to contingent consideration. Excluding the impact of these losses without corresponding tax benefits, the fair value changes to contingent consideration for the six months ended June 30, 2017, and other discrete factors, the effective tax rate was 25.0% and 31.9% in the six months ended June 30, 2018 and 2017, respectively.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will expire unutilized. At the end of each reporting period, the Company reviews the realizability of its deferred tax assets. During the second quarter of 2017, the valuation allowance balance was decreased for a Peruvian valuation allowance adjustment. The Company believes sufficient positive evidence exists to release the valuation allowance, therefore, the Company adjusted the valuation allowance by \$0.8 million resulting in a \$0.2 million benefit to income tax expense for the six months ended June 30, 2017. There were no material valuation adjustments for the six months ended June 30, 2018. Additionally, the Company continues to incur losses in jurisdictions which have valuation allowances against tax loss carryforwards, so a tax benefit has not been recognized in the financial statements for these losses.

#### **Net (loss) income**

Net (loss) income decreased by \$12.0 million, or 119.7%, from net income of \$10.1 million during the six months ended June 30, 2017 to a net loss of \$2.0 million during the six months ended June 30, 2018. Net (loss) income as a percentage of revenue was (0.4)% and 1.8% during the six months ended June 30, 2018 and 2017, respectively. Net (loss) income as a percentage of gross profit was (1.5)% and 7.5% during the six months ended June 30, 2018 and 2017, respectively. This decrease is primarily attributable to the increase in selling, general, and administrative expenses discussed above.

#### **Diluted (loss) earnings per share**

	<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<i>(in thousands, except per share data)</i>		<i>(as restated)</i>
Net (loss) income	\$ (1,983)	\$ 10,052
Denominator for dilutive earnings per share	52,738	55,070
Diluted (loss) earnings per share	\$ (0.04)	\$ 0.18

Diluted (loss) earnings per share decreased from income of \$0.18 per share during the six months ended June 30, 2017 to a loss of \$0.04 per share during the six months ended June 30, 2018.

## Adjusted EBITDA

Adjusted EBITDA, which represents income from operations with the addition of depreciation and amortization, stock-based compensation expense, change in the fair value of contingent consideration liabilities, and professional fees relating to ASC 606 implementation and restatement of prior period financial statements, executive search expenses, and other expenses related to investment in operational and financial process improvements itemized in the reconciliation table below, is considered a non-GAAP financial measure under SEC regulations. Net (loss) income is the most directly comparable financial measure calculated in accordance with GAAP. We present this measure as supplemental information to help our investors better understand trends in our business over time. Our management team uses Adjusted EBITDA to evaluate the performance of our business. Adjusted EBITDA is not equivalent to any measure of performance required to be reported under GAAP, nor should this data be considered an indicator of our overall financial performance and liquidity. Moreover, the Adjusted EBITDA definition we use may not be comparable to similarly titled measures reported by other companies. Our Adjusted EBITDA by segment for each of the periods presented was as follows:

	Three Months Ended June 30,			
	2018	% of Total	2017	% of Total
<i>(dollars in thousands)</i>			(as restated)	(as restated)
North America	\$ 18,372	224.4 %	\$ 18,305	111.0 %
International	2,049	25.0	6,681	40.5
Other <sup>(1)</sup>	(12,235)	(149.5)	(8,493)	(51.5)
Adjusted EBITDA	\$ 8,186	100.0 %	\$ 16,493	100.0 %

  

	Six Months Ended June 30,			
	2018	% of Total	2017	% of Total
<i>(dollars in thousands)</i>			(as restated)	(as restated)
North America	\$ 35,588	229.1 %	36,987	127.5 %
International	4,140	26.6	9,552	32.9
Other <sup>(1)</sup>	(24,193)	(155.7)	(17,537)	(60.5)
Adjusted EBITDA	\$ 15,535	100.0 %	29,002	100.0 %

(1) "Other" consists of intersegment eliminations, shared service activities, and corporate expenses which are not allocated to the operating segments as management does not consider them in evaluating segment performance.

*Comparison of three months ended June 30, 2018 and 2017.* Adjusted EBITDA decreased by \$8.3 million, or 50.4%, from \$16.5 million during the three months ended June 30, 2017 to \$8.2 million during the three months ended June 30, 2018. North America Adjusted EBITDA increased by \$0.1 million, or 0.4%, from \$18.3 million during the three months ended June 30, 2017 to \$18.4 million during the three months ended June 30, 2018. International Adjusted EBITDA decreased by \$4.6 million, or 69.3%, from \$6.7 million during the three months ended June 30, 2017 to \$2.0 million during the three months ended June 30, 2018 primarily due to increased selling, general, and administrative expenses. Other Adjusted EBITDA decreased by \$3.7 million, or 44.1%, from a loss of \$8.5 million during the three months ended June 30, 2017 to a loss of \$12.2 million during the three months ended June 30, 2018 due to increased investments into the infrastructure of the Company through operational improvements.

*Comparison of six months ended June 30, 2018 and 2017.* Adjusted EBITDA decreased by \$13.5 million, or 46.4%, from \$29.0 million during the six months ended June 30, 2017 to \$15.5 million during the six months ended June 30, 2018. North America Adjusted EBITDA decreased \$1.4 million, or 3.8%, from \$37.0 million during the six months ended June 30, 2017 to \$35.6 million during the six months ended June 30, 2018 due to increased selling, general, and administrative expenses. International Adjusted EBITDA decreased by \$5.4 million, or 56.7%, from \$9.6 million during the six months ended June 30, 2017 to \$4.1 million during the six months ended June 30, 2018 due to increased selling, general, and administrative expenses and decreased gross profit. Other Adjusted EBITDA decreased by \$6.7 million, or 38.0%, from a loss of \$17.5 million during

the six months ended June 30, 2017 to a loss of \$24.2 million during the six months ended June 30, 2018 due to increased investments into the infrastructure of the Company through operational improvements.

The table below provides a reconciliation of Adjusted EBITDA to net (loss) income for each of the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
		(as restated)		(as restated)
Net (loss) income	\$ (299)	\$ 4,374	\$ (1,983)	\$ 10,052
Income tax expense	603	3,362	1,176	5,716
Interest income	(54)	(12)	(115)	(46)
Interest expense	1,517	1,038	3,085	2,041
Other, net	588	1,164	1,433	1,388
Depreciation and amortization	3,514	3,182	7,173	6,086
Stock-based compensation expense	1,406	1,503	2,823	2,921
Change in fair value of contingent consideration	—	1,884	—	844
Professional fees related to ASC 606 implementation	60	—	1,092	—
Executive search fees	\$ 234	\$ —	\$ 234	\$ —
Restatement-related professional fees	\$ 537	\$ —	\$ 537	\$ —
Other professional fees	\$ 80	\$ —	\$ 80	\$ —
Non-GAAP Adjusted EBITDA	<u>\$ 8,186</u>	<u>\$ 16,493</u>	<u>\$ 15,535</u>	<u>\$ 29,002</u>

#### ***Adjusted Diluted (Loss) Earnings Per Share***

Adjusted diluted (loss) earnings per share, which represents net (loss) income, with the addition of the change in the fair value of contingent consideration liabilities and professional fees related to ASC 606 implementation costs and restatement of prior period financial statements, executive search expenses, and other expenses related to investment in operational and financial process improvements divided by the weighted average shares outstanding plus share equivalents that would arise from the exercise of stock options and restricted stock and other contingently issuable shares, is considered a non-GAAP financial measure under SEC regulations. Diluted earnings per share is the most directly comparable financial measure calculated in accordance with GAAP. We present this measure as supplemental information to help our investors better understand trends in our business over time. Our management team uses adjusted diluted earnings per share to evaluate the performance of our business. Adjusted diluted earnings per share is not equivalent to any measure of performance required to be reported under GAAP, nor should this data be considered an indicator of our overall financial performance and liquidity. Moreover, the adjusted diluted earnings per share definition we use may not be comparable to similarly titled measures reported by other companies. Our adjusted diluted (loss) earnings per share for each of the periods presented was as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
		(as restated)		(as restated)
Net (loss) income	\$ (299)	\$ 4,374	\$ (1,983)	\$ 10,052
Change in fair value of contingent consideration	—	1,884	—	844
Czech exit from exchange rate commitment, net of tax	—	294	—	294
Professional fees related to ASC 606 implementation, net of tax	\$ 45	\$ —	\$ 819	\$ —
Executive search fees, net of tax	\$ 176	\$ —	\$ 176	\$ —
Restatement-related professional fees, net of tax	\$ 403	\$ —	\$ 403	\$ —
Other professional fees, net of tax	\$ 60	\$ —	\$ 60	\$ —
Adjusted net income (loss)	\$ 385	\$ 6,552	\$ (526)	\$ 11,190
Weighted-average shares outstanding, diluted	52,528	55,189	52,738	55,070
Non-GAAP diluted earnings (loss) per share	\$ 0.01	\$ 0.12	\$ (0.01)	\$ 0.20

*Comparison of three months ended June 30, 2018 and 2017.* Adjusted diluted (loss) earnings per share decreased by \$0.11 from \$0.12 during the three months ended June 30, 2017 to \$0.01 during the three months ended June 30, 2018. This decrease is primarily attributable to increased selling, general, and administrative expenses as discussed above.

*Comparison of six months ended June 30, 2018 and 2017.* Adjusted diluted (loss) earnings per share decreased by \$0.21 from \$0.20 during the six months ended June 30, 2017 to \$(0.01) during the six months ended June 30, 2018. This decrease is primarily attributable to increased selling, general, and administrative expenses as discussed above.

### Liquidity and Capital Resources

At June 30, 2018, we had \$28.3 million of cash and cash equivalents.

*Operating Activities.* Cash provided by operating activities primarily consists of net (loss) income adjusted for certain non-cash items, including depreciation and amortization and share-based compensation and the effect of changes in working capital and other activities. Cash provided by operating activities for the six months ended June 30, 2018 was \$22.6 million and consisted of a net (loss) of \$(2.0) million, offset by \$10.7 million of non-cash items and by \$13.9 million provided by working capital and other activities. The most significant impact on working capital and other activities consisted of a decrease in accounts receivable and unbilled revenue of \$21.6 million, an increase in inventory of \$0.1 million, a decrease in prepaid expenses and other assets of \$9.4 million and an increase in accrued expenses and other liabilities of \$1.6 million, all of which were partially offset by a decrease in accounts payable of \$18.7 million.

Cash used in operating activities for the six months ended June 30, 2017 was \$(2.3) million and consisted of net income of \$10.1 million and \$10.0 million of non-cash items, offset by \$22.4 million used by working capital and other activities. The most significant impact on working capital and other activities consisted of an increase in accounts receivable and unbilled revenue of \$26.6 million, a decrease in inventory of \$1.9 million and an increase in accounts payable of \$3.4 million, offset by a decrease in accrued expenses and other liabilities of \$(0.1) million.

*Investing Activities.* Cash used in investing activities for the six months ended June 30, 2018 of \$5.5 million was entirely attributable to capital expenditures.

Cash used in investing activities for the six months ended June 30, 2017 of \$7.0 million was entirely attributable to capital expenditures.

*Financing Activities.* Cash used in financing activities for the six months ended June 30, 2018 of \$18.0 million was primarily attributable to net repayments under the revolving credit facility of \$8.6 million, repurchases of common stock of \$25.7 million and \$(0.6) million in net short-term secured repayments.

Cash provided by financing activities for the six months ended June 30, 2017 of \$1.3 million was primarily attributable to net borrowings under the revolving credit facility of \$11.5 million, offset by repurchases of common stock of \$10.0 million.

#### *Share Repurchase Program*

On February 12, 2015, the Company announced that its Board of Directors approved a share repurchase program authorizing the repurchase of up to an aggregate of \$20 million of its common stock through open market and privately negotiated transactions over a two-year period. On November 2, 2016, the Board of Directors approved a two-year extension to the share repurchase program through February 28, 2019. On May 4, 2017, the Board of Directors authorized the repurchase of up to an additional \$30.0 million of its common stock through open market and privately negotiated transactions over a two-year period ending May 31, 2019. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. Repurchases will be made in compliance with SEC rules and other legal requirements.

During the six months ended June 30, 2018, the Company repurchased 2,667,732 shares of its common stock for \$25.6 million in the aggregate at an average cost of \$9.60 per share under this program. During the three months ended June 30, 2018, the Company repurchased 1,735,983 shares of its common stock for \$16.9 million in the aggregate at an average cost of \$9.75 per share under this program. During the six months ended June 30, 2017, the Company repurchased 1,028,654 shares of its common stock for \$10.0 million in the aggregate at an average cost of \$9.76 per share under this program. During the three months ended June 30, 2017, the Company repurchased 459,030 shares of its common stock for \$4.6 million in the aggregate at an average cost of \$9.91 per share. Shares repurchased under this program are recorded at acquisition cost, including related expenses.

An additional 69,520 shares of common stock were repurchased to satisfy the mandatory tax withholding requirements upon vesting of restricted stock for \$724,616 at an average cost of \$10.42 per share for the six months ended June 30, 2018.

#### *Revolving Credit Facilities*

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of August 13, 2018, among the Company, the lenders party thereto and Bank of America, N.A., as Administrative Agent (the "Credit Agreement"). The Credit Agreement includes a revolving commitment amount of \$175 million in the aggregate with a maturity date of September 25, 2019 and provides the Company the right to increase the aggregate commitment amount by an additional \$50 million. Outstanding borrowings under the revolving credit facility are guaranteed by the Company's material domestic subsidiaries, as defined in the Credit Agreement. The Company's obligations under the Credit Agreement and such domestic subsidiaries' guaranty obligations are secured by substantially all of their respective assets. The ranges of applicable rates charged for interest on outstanding loans and letters of credit are 125-250 basis point spread for letter of credit fees and loans based on the Eurodollar rate and 25-150 basis point spread for loans based on the base rate.

The terms of the Credit Agreement include various covenants, including covenants that require the Company to maintain a maximum leverage ratio and a minimum interest coverage ratio. The Credit Agreement requires the Company to maintain a leverage ratio of no more than 4.0 to 1.0 for the trailing twelve months ended June 30, 2018 and a leverage ratio of no more than 3.0 to 1.0 for each period thereafter. The Company is also required to maintain an interest coverage ratio of no less than 5.0 to 1.0. The Company is in compliance with all debt covenants as of June 30, 2018. See Note 13 for further discussion on the Company's plans to refinance the Credit Agreement.

At June 30, 2018, we had \$18.0 million of unused availability under the Credit Agreement and \$0.6 million of letters of credit which have not been drawn upon.

On February 22, 2016, we entered into a Revolving Credit Facility (the "Facility") with Bank of America N.A. to support our ongoing working capital needs. The Facility includes a revolving commitment amount of \$5.0 million whereby maturity dates vary based on each individual drawdown. Outstanding borrowings under the Facility are guaranteed by our assets. Borrowings and repayments are made in renminbi, the official Chinese currency. The applicable interest rate is 110% of the People's Bank of China's base rate. The terms of the Facility include limitations on use of funds for working capital purposes as well as customary representations and warranties made us. At June 30, 2018, the Company had \$4.4 million of unused availability under the Facility.

In addition, we will continue to utilize cash, in part, to fund acquisitions and expand our operations. We believe that our available cash and cash equivalents and the availability under our revolving credit facility will be sufficient to meet our working capital and operating expenditure requirements for the foreseeable future. Thereafter, we may find it necessary to obtain additional equity or debt financing.

We earn a significant amount of our operating income outside the United States, which is deemed to be permanently reinvested in foreign jurisdictions. We do not currently foresee a need to repatriate funds; however, should we require more capital in the United States than is generated by our operations locally or through debt or equity issuances, we could elect to repatriate funds held in foreign jurisdictions. Included in our cash and cash equivalents are amounts held by foreign subsidiaries. We had \$26.2 million and \$28.6 million of foreign cash and cash equivalents as of June 30, 2018 and December 31, 2017, respectively, which are generally denominated in the local currency where the funds are held.

### **Off-Balance Sheet Arrangements**

We do not have any material off-balance sheet arrangements.

### **Contractual Obligations**

With the exception of the current classification of the credit facility discussed in Note 13 in the Notes to Consolidated Financial Statements, there have been no material changes outside the normal course of business in the contractual obligations disclosed in Item 7 to our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2017, under the caption "Contractual Obligations."

### **Critical Accounting Policies and Estimates**

#### *Revenue Recognition*

Revenue is measured based on consideration specified in a contract with a customer and the Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer which may be at a point in time or over time. Unbilled revenue represents shipments or deliveries that have been made to customers for which the related account receivable has not yet been invoiced.

Shipping and handling costs after control over a product has transferred to a customer are expensed as incurred and are included in cost of goods sold in the condensed consolidated statements of operations.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, we generally report revenue on a gross basis because we typically control the goods or services before transferring to the customer. Under these arrangements, we are primarily responsible for the fulfillment, including the acceptability, of the marketing materials and other products or services. In addition, we have reasonable discretion in establishing the price, and in some transactions, we also have inventory risk and are involved in the determination of the nature or characteristics of the marketing materials and products. In some arrangements, we are not primarily responsible for fulfilling the goods or services. In arrangements of this nature, we do not control the goods or services before they are transferred to the customer and such revenue is reported on a net basis.

Some service revenue, including stand-alone creative and other services, may be earned over time; however, the difference from recognizing that revenue over time compared to a point in time (i.e., when the service is completed and accepted by the customer) is not material. Service revenue has not been material to our overall revenue to date.

The Company records taxes collected from customers and remitted to governmental authorities on a net basis.

#### *Goodwill*

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. In accordance with ASC 350, *Intangibles-Goodwill and Other* ("ASC 350"), goodwill is not amortized, but instead is tested for impairment annually or more frequently if circumstances indicate a possible impairment may exist. Absent any interim indicators of impairment, we test for goodwill impairment the first day of the fourth fiscal quarter of each year.



Under ASC 350, an entity is permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. If the quantitative test is required, the fair value for each reporting unit is compared to its book value including goodwill. In the case that the fair value is less than the book value of the goodwill, the difference is recognized as an impairment.

We performed our impairment test as of October 1, 2017, our measurement date, and concluded there was no impairment in any of our reporting units. We also concluded that no goodwill impairment existed as of December 31, 2017.

As of March 31, 2018, except for the new critical accounting policies for Revenue Recognition and Goodwill described above and the adoption of ASU 2014-09 disclosed herein, there were no material changes to our critical accounting policies and estimates disclosed in our Annual Report on Form 10-K/A for the year ended December 31, 2017.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains words such as "may," "will," "believe," "expect," "anticipate," "intend," "plan," "project," "estimate" and "objective" or the negative thereof or similar terminology concerning the Company's future financial performance, business strategy, plans, goals and objectives. These expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning our possible or assumed future performance or results of operations and are not guarantees. While these statements are based on assumptions and judgments that management has made in light of industry experience as well as perceptions of historical trends, current conditions, expected future developments and other factors believed to be appropriate under the circumstances, they are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different. Some of the factors that would cause future results to differ from the recent results or those projected in forward-looking statements include, but are not limited to, the risk factors described in our Annual Report on Form 10-K/A for the year ended December 31, 2017.

### **Additional Information**

We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, other reports and information filed with the SEC and amendments to those reports available, free of charge, through our Internet website (<http://www.inwk.com>) as soon as reasonably practical after we electronically file or furnish such materials to the SEC. All of our filings may be read or copied at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Information on the operation of the Public Filing Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### ***Commodity Risk***

We are dependent upon the availability of paper, and paper prices represent a substantial portion of the cost of our products. The supply and price of paper depend on a variety of factors over which we have no control, including environmental and conservation regulations, natural disasters and weather. We believe a 10% increase in the price of paper would not have a significant effect on our condensed consolidated statements of income or cash flows, as these costs are generally passed through to our clients.

#### ***Interest Rate Risk***

We have exposure to changes in interest rates on our revolving credit facility. Interest is payable at the adjusted LIBOR rate or the alternate base rate. Assuming our \$175.0 million revolving credit facility were fully drawn, a 1.0% increase in the interest rate would increase our annual interest expense by \$1.75 million.

Our interest income is sensitive to changes in the general level of U.S. interest rates, in particular because all of our investments are in cash equivalents and marketable securities. The average duration of our investments as of June 30, 2018 was less than one year. Due to the short-term nature of our investments, we believe that there is no material risk exposure.

#### ***Foreign Currency Risk***

We transact business in various foreign currencies other than the U.S. dollar, principally the euro, British pound sterling, Czech koruna, Brazilian real, Peruvian nuevo sol, Mexican peso, Colombian peso and Chilean peso, which exposes us to foreign currency risk. For the six months ended June 30, 2018, we derived approximately 30.9% of our revenue from international customers, and we expect the percentage of revenue derived from outside the United States to increase in future periods as we continue to expand globally. Revenue and related expenses generated from our international operations are denominated in the functional currencies of the corresponding country. The functional currency of our subsidiaries that either operate or support these markets is generally the same as the corresponding local currency. The results of operations of, and certain of our intercompany balances associated with, our international operations are exposed to foreign exchange rate fluctuations. Changes in exchange rates could negatively affect our revenue and other operating results as expressed in U.S. dollars. We may record significant gains or losses on the remeasurement of intercompany balances. Foreign exchange gains and losses recorded to date have been immaterial to our financial statements. At this time we do not, but in the future we may enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our chief executive officer and chief financial officer, we evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures, our chief executive officer and chief financial officer concluded that, due to material weaknesses in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of June 30, 2018.

### **Material Weaknesses and Related Remediation Efforts**

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

As previously reported in our Annual Report on Form 10-K/A (the “Form 10-K/A”), as of December 31, 2017, our management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2017, because of the material weaknesses described therein, as summarized below.

During the financial statement close process for the period ended December 31, 2017, management identified material weaknesses due to control deficiencies and gaps in the design and operating effectiveness of revenue recognition and compensation expense in the Company’s North America business. During the financial statement close process for the quarter ended March 31, 2018, management identified an additional material weakness that existed as of December 31, 2017, primarily related to completeness and accuracy of data in certain key reports. As a result, we restated our previously reported financial statements for the years ended December 31, 2017 and 2016 and all interim periods in such years, as more fully described in the Form 10-K/A.

#### Material Weaknesses

With respect to revenue process, the Company’s controls were ineffective to: (i) ensure revenue was recognized when the risk of loss transferred from the Company to the customer based on an analysis of customer arrangements and delivery terms, (ii) retain and review customer order documentation, including support for assessing whether pricing was fixed and determinable, and (iii) estimate the impact of future credit memos. These deficiencies also impacted unbilled revenue, inventory and cost of sales. With respect to compensation expense, the Company’s controls were ineffective in relation to the design and operation of the review controls over compensation. Finally, with respect to report accuracy, the Company’s controls were ineffective to verify the completeness and accuracy of data in certain key reports used to reconcile revenue and cost accruals during the period-end process.

#### Remediation Efforts

Our management has worked, and continues to work, to strengthen our internal control over financial reporting. We are committed to ensuring that such controls are operating effectively.

The Company has initiated a plan to remediate the material weaknesses noted above. Specifically, to remediate deficiencies in revenue recognition controls, the Company will develop and implement controls to (i) compile and process shipping data and

delivery terms in customer contracts and improve related operational processes; (ii) improve review processes and related documentation supporting customer orders and pricing; (iii) improve process for estimating future credit memos; and (iv) implement an improved system, process, and related controls to categorize and track customer contracts based on delivery terms.

To remediate deficiencies in the controls over the compensation process, the Company will develop and implement controls to ensure that systems used for computing payroll, commission, and bonus expenses are updated with accurate data to reflect approved compensation arrangements.

To remediate deficiencies with respect to report accuracy, the Company will update the underlying reports that are used to reconcile revenue and cost accruals during the period-end process to ensure their completeness and accuracy. Additionally, the Company will develop and implement controls over the accuracy and completeness of information used in key controls, including validation of source data, report logic, and report parameters.

We will continue to actively identify, develop, and implement additional measures to materially improve and strengthen our internal control over financial reporting. The material weaknesses discussed above cannot be considered remediated until the controls have operated for a sufficient period of time and management has concluded, through testing, that the control is operating effectively.

### **Changes in Internal Control Over Financial Reporting**

Except as described above, there have been no other changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2018 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

For information concerning our legal proceedings, see Note 12 to the Condensed Consolidated Financial Statements in this Form 10-Q.

### Item 1A. Risk Factors

There have been no material changes in the risk factors described in Item 1A of our Annual Report on Form 10-K/A for the year ended December 31, 2017.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

There were no unregistered sales of the Company's equity securities during the period covered by this report.

**Issuer Purchases of Equity Securities**

On February 12, 2015, we announced that our Board of Directors approved a share repurchase program providing us authorization to repurchase up to an aggregate of \$20.0 million of our common stock through open market and privately negotiated transactions over a two-year period. On November 2, 2016, the Board of Directors approved a two-year extension to the share repurchase program through February 28, 2019.

On May 4, 2017, the Board of Directors authorized the repurchase of up to an additional \$30.0 million of its common stock through open market and privately negotiated transactions over a two-year period ending May 31, 2019. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. Repurchases will be made in compliance with SEC rules and other legal requirements.

During the six months ended June 30, 2018, the Company repurchased 2,667,732 shares of its common stock for \$25.6 million in the aggregate at an average cost of \$9.60 per share under this program.

The following table provides information relating to our purchase of shares of our common stock in the second quarter of 2018 (in thousands, except per share amounts).

<b>Period</b>	<b>Number of Shares Purchased <sup>(2)</sup></b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup></b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
4/1/18-4/30/18	1,736	\$ 9.82	1,736	1,054
5/1/18-5/31/18	—	9.88	—	1,211
6/1/18-6/30/18	70	10.42	—	1,225
Total	1,806	\$ 9.84	1,736	

(1) The share repurchase plan authorized by our Board of Directors allows repurchases of up to \$50 million of our common stock. The maximum number of shares that may yet be repurchased under the plan is estimated using the closing share price on the last day of each period presented.

(2) Includes 69,520 shares delivered to us by employees to satisfy the mandatory tax withholding requirement upon vesting of restricted stock.

**Item 5 Other Information**

On August 13, 2018, the Company entered into an amendment (the “Sixth Amendment”) to its Credit Agreement, dated as of August 2, 2010, by and among the Company, the lenders party thereto and Bank of America, N.A., as Administrative Agent (the “Credit Agreement”). The Sixth Amendment amends the Credit Agreement effective as of June 30, 2018 to increase the maximum leverage ratio from 3.0 to 1.0 to 4.0 to 1.0 for the trailing twelve months ended June 30, 2018.

The foregoing description of the Sixth Amendment does not purport to be complete and is qualified in its entirety by reference to the Sixth Amendment, which is attached hereto as Exhibit 10.1 and incorporated herein by reference.

**Item 6. Exhibits**

<b>Exhibit No</b>	<b>Description of Exhibit</b>
<a href="#">10.1</a>	Sixth Amendment to Credit Agreement, dated as of August 13, 2018, by and among InnerWorkings, Inc., the lenders party thereto and Bank of America, N.A., as Administrative Agent
<a href="#">31.1</a>	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">31.2</a>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.1</a>	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.2</a>	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\*\*Submitted electronically with this Quarterly Report on Form 10-Q

**SIGNATURES**

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

**INNERWORKINGS, INC.**

Date: August 14, 2018

By: /s/ Richard S. Stoddart

Richard S. Stoddart

Chief Executive Officer

Date: August 14, 2018

By: /s/ Charles D. Hodgkins III

Charles D. Hodgkins III

Interim Chief Financial Officer



## SIXTH AMENDMENT TO CREDIT AGREEMENT

This SIXTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of August 13, 2018 (the "Sixth Amendment Effective Date") among INNERWORKINGS, INC., a Delaware corporation (the "Borrower"), the Lenders party hereto and BANK OF AMERICA, N.A., as Administrative Agent for the Lenders (the "Administrative Agent"), Swing Line Lender and L/C Issuer. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Credit Agreement (as defined below).

### RECITALS

WHEREAS, the Borrower, the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of August 2, 2010 (as previously amended and modified from time to time, the "Credit Agreement");

WHEREAS, the Borrower is requesting that the Administrative Agent and the Lenders modify certain provisions of the Credit Agreement; and

WHEREAS, the Administrative Agent, Swing Line Lender, L/C Issuer and the Lenders party hereto have agreed to amend certain terms of the Credit Agreement on the terms, and subject to the conditions, set forth below.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

### AGREEMENT

#### 1. Amendments.

(a) The following definitions are hereby added to Section 1.01 of the Credit Agreement in the appropriate alphabetical order to read as follows:

"Beneficial Ownership Certification" means a certification regarding beneficial ownership required by the Beneficial Ownership Regulation.

"Beneficial Ownership Regulation" means 31 C.F.R. § 1010.230.

(b) The following sentence is hereby added to the end of Section 6.11 of the Credit Agreement to read as follows:

As of August 13, 2018, the information included in the Beneficial Ownership Certification, if applicable, is true and correct in all respects.

(c) Section 7.02 of the Credit Agreement is hereby amended to (i) delete the "and" at the end of clause (e), (ii) to replace the "." at the end of clause (f) with "; and" and (iii) to add a new clause (g) to read as follows:

(g) promptly following any request therefor, provide information and documentation reasonably requested by the Administrative Agent or any Lender for purposes of compliance with applicable "know your customer" and anti-money-laundering rules and regulations, including, without limitation, the PATRIOT Act and the Beneficial Ownership Regulation.

(d) Section 8.11(b) of the Credit Agreement is hereby amended to read as follows:

(b) Consolidated Leverage Ratio. Permit the Consolidated Leverage Ratio as of the end of any fiscal quarter of the Borrower set forth below to be greater than the ratio corresponding to such fiscal quarter:

Calendar Year	March 31	June 30	September 30	December 31
2017	3.00 to 1.0	3.00 to 1.0	3.00 to 1.0	3.00 to 1.0
2018	3.00 to 1.0	4.00 to 1.0	3.00 to 1.0	3.00 to 1.0
thereafter	3.00 to 1.0	3.00 to 1.0	3.00 to 1.0	3.00 to 1.0

2. Effectiveness; Conditions Precedent. This Amendment shall be effective upon satisfaction of the following conditions precedent, provided that the amendment set forth in Section 1(d) shall be deemed to be effective as of June 30, 2018:

(a) Execution of Counterparts of Amendment. The Administrative Agent shall have received counterparts of this Amendment, which collectively shall have been duly executed on behalf of each of the Loan Parties and the Required Lenders.

(b) Beneficial Ownership Certification. If the Borrower qualifies as a “legal entity customer” under the Beneficial Ownership Regulation, the Administrative Agent and each Lender that so requests shall have received a Beneficial Ownership Certification in relation to the Borrower.

(c) Attorney Costs. The Borrower shall have paid all reasonable fees, charges and disbursements of counsel to the Administrative Agent (“Attorney Costs”) to the extent invoiced prior to or on the Sixth Amendment Effective Date, plus such additional amounts of Attorney Costs as shall constitute its reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrower and the Administrative Agent).

3. Ratification of Credit Agreement. The term “Credit Agreement” as used in each of the Loan Documents shall hereafter mean the Credit Agreement as amended and modified by this Amendment. Except as herein specifically agreed, the Credit Agreement, as amended by this Amendment, is hereby ratified and confirmed and shall remain in full force and effect according to its terms. The Loan Parties acknowledge and consent to the modifications set forth herein and agree that this Amendment does not impair, reduce or limit any of their obligations under the Loan Documents (including, without limitation, the indemnity obligations set forth therein) and that, after the date hereof, this Amendment shall constitute a Loan Document. Notwithstanding anything herein to the contrary and without limiting the foregoing, each of the Guarantors reaffirm their guaranty obligations set forth in the Loan Agreement.

4. Authority/Enforceability. Each of the Loan Parties represents and warrants as follows:

(a) It has taken all necessary action to authorize the execution, delivery and performance of this Amendment.

(b) This Amendment has been duly executed and delivered by such Person and constitutes such Person’s legal, valid and binding obligation, enforceable in accordance with its terms, except as such enforceability may be subject to (i) Debtor Relief Laws and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

(c) No consent, approval, authorization or order of, or filing, registration or qualification with, any court or Governmental Authority or third party is required in connection with the execution, delivery or performance by such Person of this Amendment.

(d) The execution and delivery of this Amendment does not (i) violate, contravene or conflict with any provision of its Organization Documents or (ii) materially violate, contravene or conflict with any Laws applicable to it.

5. Representations. The Loan Parties represent and warrant to the Lenders that the representations and warranties of the Loan Parties set forth in Article VI of the Credit Agreement are true and correct in all material respects on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date.

6. Counterparts/Telecopy. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of executed counterparts of this Amendment by telecopy or other electronic imaging means (i.e., .pdf) shall be effective as an original.

7. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered and this Amendment shall be effective as of the Sixth Amendment Effective Date.

BORROWER: INNERWORKINGS, INC,  
a Delaware corporation

By: /s/ Charles D. Hodgkins III  
Name: Charles D. Hodgkins III  
Title: Interim Chief Financial Officer

GUARANTORS: EYELEVEL, INC.,  
an Oregon corporation

By: /s/ Ed Halla  
Name: Ed Halla  
Title: Global Managing Director

ADMINISTRATIVE AGENT: bank of america, n.a.,  
as Administrative Agent

By: /s/ Felicia Brinson  
Name: Felicia Brinson  
Title: Assistant Vice President

LENDERS: bank of america, n.a.,  
as a Lender, an L/C Issuer and the Swing Line Lender

By: /s/ A. Quinn Richardson  
Name: A. Quinn Richardson  
Title: Senior Vice President

JPMORGAN CHASE BANK, N.A.,  
as a Lender

By: /s/ Jeremy M. Tworek  
Name: Jeremy M. Tworek  
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION,  
as a Lender

By: /s/ Robert G. Stevens  
Name: Robert G. Stevens  
Title: Vice President

ASSOCIATED BANK, N.A.,  
as a Lender

By: /s/ Craig Thessin  
Name: Craig Thessin  
Title: Senior Vice President

THE NORTHERN TRUST COMPANY,  
as a Lender

By:  
Name:  
Title:

U.S. BANK NATIONAL ASSOCIATION,  
as a Lender

By: /s/ Phillip J. Salter  
Name: Phillip J. Salter  
Title: Vice President

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
INNERWORKINGS, INC.  
PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard S. Stoddart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of InnerWorkings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2018

/s/ Richard S. Stoddart

Richard S. Stoddart

Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
INNERWORKINGS, INC.  
PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles D. Hodgkins III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of InnerWorkings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2018

/s/ Charles D. Hodgkins III

Charles D. Hodgkins III

Interim Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard S. Stoddart, Chief Executive Officer of InnerWorkings, Inc. (the "Company"), hereby certify, that:

- (1) The Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2018 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material aspects, the financial condition and results of operations of the Company.

/s/ Richard S. Stoddart

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Richard S. Stoddart

Chief Executive Officer

August 14, 2018



CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles D. Hodgkins III, Chief Financial Officer of InnerWorkings, Inc. (the "Company"), hereby certify, that:

- (1) The Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2018 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material aspects, the financial condition and results of operations of the Company.

/s/ Charles D. Hodgkins III

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Charles D. Hodgkins III  
Interim Chief Financial Officer  
August 14, 2018