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 March 31, 2019

☐ **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	**20-5997364**
(State or Other Jurisdiction of Incorporation or Organization)	**(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, $0.0001 par value	INWK	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

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 every Interactive Data File required to be submitted 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 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: ☐	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 May 6, 2019, the Registrant had 51,859,799 shares of Common Stock, par value $0.0001 per share, outstanding.

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 March 31, 2019	Three Months Ended March 31, 2018
Revenue	$ 267,239	$ 274,539
Cost of goods sold	206,043	208,472
Gross profit	61,196	66,067
Operating expenses:		
Selling, general and administrative expenses	55,805	61,167
Depreciation and amortization	2,617	3,659
Restructuring charges	3,934	—
(Loss) income from operations	(1,160)	1,241
Other income (expense):		
Interest income	98	62
Interest expense	(2,745)	(1,568)
Other, net	(740)	(846)
Total other expense	(3,387)	(2,352)
Loss before income taxes	(4,547)	(1,111)
Income tax (benefit) expense	(2,085)	573
Net loss	$ (2,462)	$ (1,684)
Basic loss per share	$ (0.05)	$ (0.03)
Diluted loss per share	$ (0.05)	$ (0.03)
Comprehensive (loss) income	$ (1,715)	$ 1,680

See accompanying notes to the condensed consolidated financial statements.

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

	March 31, 2019	December 31, 2018
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 25,851	$ 26,770
Accounts receivable, net of allowance for doubtful accounts of $5,227 and $4,880, respectively	184,359	193,253
Unbilled revenue	51,166	46,474
Inventories	46,927	56,001
Prepaid expenses	14,245	16,982
Other current assets	36,188	34,106
Total current assets	358,736	373,586
Property and equipment, net	35,952	82,933
Intangibles and other assets:		
Goodwill	152,181	152,158
Intangible assets, net	9,301	9,828
Right of use assets	39,391	—
Deferred income taxes	1,073	1,195
Other non-current assets	3,486	2,976
Total intangibles and other assets	205,432	166,157
Total assets	$ 600,120	$ 622,676
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 149,813	$ 158,449
Accrued expenses	31,339	35,474
Deferred revenue	20,945	17,614
Revolving credit facility - current	138,923	142,736
Other current liabilities	31,493	26,231
Total current liabilities	372,513	380,504
Lease liabilities	35,044	—
Deferred income taxes	8,268	8,178
Other non-current liabilities	1,986	50,903
Total liabilities	417,811	439,585
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.0001 per share, 200,000 and 200,000 shares authorized, 64,534 and 64,495 shares issued, and 51,845 and 51,807 shares outstanding, respectively	6	6
Additional paid-in capital	240,734	239,960
Treasury stock at cost, 12,688 and 12,688 shares, respectively	(81,471)	(81,471)
Accumulated other comprehensive loss	(23,562)	(24,309)
Retained earnings	46,602	48,905
Total stockholders' equity	182,309	183,091
Total liabilities and stockholders' equity	$ 600,120	$ 622,676

See accompanying notes to the condensed consolidated financial statements.

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

The following summarizes the changes in total equity for the three months ended March 31, 2018:

	Common Stock		Treasury Stock		Additional	Accumulated Other	Retained	
	Shares	Amount	Shares	Amount	Paid-in-Capital	Comprehensive Loss	Earnings	Total
Balance at December 31, 2017	64,075	$ 6	10,020	$ (55,873)	$ 235,199	$ (19,229)	$ 124,442	$ 284,545
Net loss							(1,684)	(1,684)
Total other comprehensive income, net of tax						3,364		3,364
Comprehensive income								1,680
Issuance of common stock upon exercise of stock awards	28	—			48			48
Acquisition of treasury shares			932	(8,671)				(8,671)
Stock-based compensation expense					1,417			1,417
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
Balance as of March 31, 2018	64,103	$ 6	10,952	$ (64,544)	$ 236,664	$ (15,865)	$ 123,393	$ 279,654

The following summarizes the changes in total equity for the three months ended March 31, 2019:

	Common Stock		Treasury Stock		Additional	Accumulated Other	Retained	
	Shares	Amount	Shares	Amount	Paid-in-Capital	Comprehensive Loss	Earnings	Total
Balance as of December 31, 2018	64,495	$ 6	12,688	$ (81,471)	$ 239,960	$ (24,309)	$ 48,905	$ 183,091
Net loss							(2,462)	(2,462)
Total other comprehensive income, net of tax						747		747
Comprehensive loss								(1,715)
Issuance of common stock upon exercise of stock awards	39	—			35			35
Stock-based compensation expense					739			739
Cumulative effect of change related to adoption of ASC 842							159	159
Balance as of March 31, 2019	64,534	$ 6	12,688	$ (81,471)	$ 240,734	$ (23,562)	$ 46,602	$ 182,309

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net loss	$ (2,462)	$ (1,684)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	2,617	3,659
Stock-based compensation expense	739	1,417
Deferred income taxes	—	30
Bad debt provision	385	538
Implementation cost amortization	143	125
Other operating activities	102	52
Change in assets:		
Accounts receivable and unbilled revenue	3,924	24,165
Inventories	9,149	2,131
Prepaid expenses and other assets	116	2,941
Change in liabilities:		
Accounts payable	(8,351)	(20,922)
Accrued expenses and other liabilities	(870)	21,857
Net cash provided by operating activities	5,492	34,309
Cash flows from investing activities		
Purchases of property and equipment	(3,345)	(2,874)
Net cash used in investing activities	(3,345)	(2,874)
Cash flows from financing activities		
Net repayments of revolving credit facility	(3,800)	(9,023)
Net short-term secured borrowings (repayments)	1,256	(1,986)
Repurchases of common stock	—	(8,048)
Proceeds from exercise of stock options	63	7
Payment of debt issuance costs	(585)	—
Other financing activities	(29)	(67)
Net cash used in financing activities	(3,095)	(19,117)
Effect of exchange rate changes on cash and cash equivalents	29	594
(Decrease) increase in cash and cash equivalents	(919)	12,912
Cash and cash equivalents, beginning of period	26,770	30,562
Cash and cash equivalents, end of period	$ 25,851	$ 43,474

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 month periods ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019. 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, 2018 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 19, 2019.

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.

During the third quarter of 2018, the Company changed its reportable segments. The Company is now organized and managed by the chief operating decision maker for purposes of resource allocation and assessing performance as three operating segments: North America, EMEA and LATAM. The Company reflected the segment change as if it had occurred in all periods presented. 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 U.S. GAAP which 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 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.

Argentinian Highly Inflationary Accounting

In the second quarter of 2018, the Argentinian economy was classified as highly inflationary under GAAP due to multiple years of increasing inflation, the devaluation of the Argentine peso ("ARS") and increasing borrowing rates. Effective July 1, 2018, the Company's Argentinian subsidiary is being accounted for under highly inflationary accounting rules, which principally means all transactions are recorded in U.S. dollars. The Company uses the official ARS exchange rate to translate the results of its Argentinian operations into U.S. dollars. As of March 31, 2019, the Company had a balance of net monetary assets denominated in ARS of approximately 43.7 million ARS, and the exchange rate was approximately 43.3 ARS per U.S. dollar.

During the three month period ended March 31, 2019, the Company recorded $0.04 million of unfavorable currency impacts recorded within Other income (expense). For the three months ended March 31, 2019, the Company had revenue and gross margin of $0.6 million and $0.1 million, respectively, at its Argentinian operations.

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*, the Company generally reports revenue on a gross basis because the Company typically controls the goods or services before transferring to the customer. Under these arrangements, the Company is primarily responsible for the fulfillment, including the acceptability, of the marketing materials and other products or services. In addition, the Company has reasonable discretion in establishing the price, and in some transactions, the Company also has inventory risk and is involved in the determination of the nature or characteristics of the marketing materials and products. In some arrangements, the Company is not primarily responsible for fulfilling the goods or services. In arrangements of this nature, the Company does 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.

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, *Leases* (Topic 842). This pronouncement requires lessees to recognize a liability for lease obligations, which represents the discounted obligation to make future lease payments, and a corresponding right-of-use asset on the balance sheet. The Company adopted ASU 2016-02, along with related clarifications and improvements, as of January 1, 2019, using the modified retrospective approach, which allows the Company to apply Accounting Standards Codification (“ASC”) 840, *Leases*, in the comparative periods presented in the year of adoption. The cumulative effect of adoption was recorded as an adjustment to the opening balance of retained earnings in the period of adoption.

The Company elected to use the package of practical expedients, which permitted the Company to not reassess: (i) whether a contract is or contains a lease, (ii) lease classification, and (iii) initial direct costs resulting from the lease. The Company has not elected the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of operating lease assets. The Company elected to apply the short-term lease exception, which allows the Company to keep leases with terms of 12 months or less off the balance sheet. The Company also elected to combine lease and non-lease components as a single component for the Company's entire population of lease assets.

Adoption of the new standard resulted in the recording of net lease assets and lease liabilities of approximately $39.4 million and $41.5 million, respectively, as of January 1, 2019. The $2.1 million difference in the lease liabilities and net lease assets represents the net ASC 840 lease liabilities at the effective date that were netted against the initial right-of-use-asset, which included: straight-line rent, prepaid rent, and lease incentives. The $0.2 million transition adjustment to retained earnings was comprised of $1.0 million of build-to-suit financing lease assets that were derecognized and recorded as operating leases in transition and $0.5 million of initial impairment to right-of-use-assets, which were partially offset by the related deferred tax effect of $0.3 million.

Adoption of ASU 2016-02 did not materially impact the Company's consolidated net earnings nor cash flows, and did not have a notable impact on the Company's liquidity or debt-covenant compliance under the Company's current agreements.

In the first quarter of 2019, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which amends ASC 220, *Income Statement - Reporting Comprehensive Income*. 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.An election was not made to reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The adoption of this ASU did not have a material impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires entities to measure the impairment of certain financial instruments, including trade receivables, based on expected losses rather than incurred losses. The effective date is for fiscal years beginning after December 15, 2019, with early adoption permitted for financial statement periods beginning after December 15, 2018. The Company is evaluating the potential effects of the ASU on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which amends ASC 820, *Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The effective date is the first quarter of fiscal year 2021, with early adoption permitted for the removed disclosures and delayed adoption until fiscal year 2021 permitted for the new disclosures. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The Company is evaluating the potential effects of the ASU on the consolidated financial statements.

2. Revenue Recognition

Nature of Goods and Services

The Company primarily generates revenue 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.

The Company includes any fixed charges per its 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, the Company includes the expected amount within the total transaction price and updates its 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 its 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.

Contract Balances

Contract liabilities were $20.9 million and $17.6 million as of March 31, 2019 and December 31, 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 three months ended March 31, 2019 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 $11.7 million), offset by $8.4 million of revenue recognized from the deferred revenue balance from December 31, 2018. There were no contract assets as of March 31, 2019 or December 31, 2018.

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 March 31, 2019. 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 during the quarters ended March 31, 2019 and 2018 were required to be capitalized. These costs would 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 capitalizes certain setup costs related to new customers as fulfillment costs. The closing balance at March 31, 2019 and December 31, 2018 was $1.2 million and $1.2 million, respectively. Capitalized contract costs are amortized over the expected period of benefit using the straight-line method which is generally three years. In the three months ended March 31, 2019 and 2018, the amount of amortization was $0.1 million and $0.1 million, respectively, and there was no impairment loss in relation to the costs capitalized in either period presented.

3. Leases

The Company leases office space, warehouses, automobiles, and equipment. These leases are recorded as right-of-use assets and lease liabilities for leases with terms greater than 12 months. The Company's leases generally have terms of 1-10 years, with certain leases including renewal options to extend the leases for additional periods at the Company's discretion. Generally, the lease term is the minimum of the noncancelable period of the lease, as the Company is not reasonably certain to exercise renewal options.

Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred. Tenant allowances used to fund leasehold improvements are recognized when earned and reduce the right-of-use asset related to the lease. These are amortized through the right-of-use asset as reductions of expense over the lease term.

Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent the right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, the Company estimates incremental secured borrowing rates corresponding to the maturities of the leases. The Company estimates this rate based on prevailing financial market conditions as rates are not implicitly stated in most leases. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Leased assets are presented net of accumulated amortization. Variable lease payment amounts that cannot be determined at the commencement of the lease, such as increases in lease payments based on changes in index rates or usage, are not included in the ROU assets or liabilities; instead, these are expensed as incurred and recorded as variable lease expense.

Adoption of Topic 842 resulted in the recording net lease assets and lease liabilities of approximately $39.4 million and $41.5 million, respectively. The current portion of the lease liabilities are recorded within other current liabilities on the condensed consolidated balance sheet. The $2.1 million difference in the lease liabilities and net lease assets represents the net ASC 840 lease liabilities at the effective date that were netted against the initial right-of-use-asset, which included: straight-line rent, prepaid rent, and lease incentives. The $0.2 million transition adjustment to retained earnings was comprised of $1.0 million of build-to-suit financing lease assets that were derecognized and recorded as operating leases in transition and $0.5 million of initial impairment to right-of-use-assets, which were partially offset by the related deferred tax effect of $0.3 million.

Supplemental balance sheet information related to leases was as follows (in thousands):

	March 31, 2019	
Operating leases:		
Right of use assets	$	39,382
Finance leases:		
Right of use assets:		
Right of use asset, cost	$	19
Accumulated amortization		(10)
Right of use asset, net	$	9
Total ending right of use asset - net:		39,391
Lease liabilities:		
Current		
Operating	$	6,343
Finance		78
Non-current		
Operating	$	34,844
Finance		200
Total lease liabilities	$	41,465

The components of lease cost were as follows:

(in thousands)	March 31, 2019
Operating lease cost	$ 2,426
Variable lease cost	289
Short-term lease cost	602
Finance lease cost:	
Amortization of right-of-use assets	1
Interest on lease liabilities	8
Total financing lease cost	$ 9
Sublease income	—
Total lease cost	$ 3,326

Average lease terms and discount rates were as follows:

	March 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	6.07
Financing leases	3.42
Weighted-average discount rate	
Operating leases	0.06
Financing leases	0.13

Supplemental cash flow information related to leases was as follows (in thousands):

	March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	$ 2,390
Operating cash flows from operating leases	26
Total	$ 2,416

The aggregate future lease payments for operating and finance leases as of March 31, 2019 are as follows (in thousands):

	Operating	Finance
Remaining 2019	$ 6,205	$ 79
2020	8,915	105
2021	8,776	105
2022	7,511	50
2023	6,041	10
Thereafter	12,334	—
Total lease payments	$ 49,782	$ 349
Less: Interest	(8,595)	(71)
Present value of lease liabilities	$ 41,187	$ 278

The aggregate future lease payments for operating and capital leases as of December 31, 2018 were as follows (in thousands):

	Operating
2019	$ 6,383
2020	5,017
2021	4,422
2022	3,245
2023	2,068
Thereafter	1,966
Total lease payments	$ 23,101

4. Goodwill

The following is a summary of the goodwill balance for each reportable segment as of March 31, 2019 (in thousands):

	North America	EMEA	LATAM	Total
Goodwill as of December 31, 2018	$ 152,158	$ —	$ —	$ 152,158
Foreign exchange impact	23	—	—	23
Goodwill as of March 31, 2019	$ 152,181	$ —	$ —	$ 152,181

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. 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 fair value estimates used in the goodwill impairment analysis require significant judgment. The fair value estimates were based on assumptions management believes to be reasonable, but that are inherently uncertain, including estimates of future revenue and operating margins and assumptions about the overall economic climate and the competitive environment for the business.

The Company most recently impaired a portion of its goodwill in the North America reportable segment as of December 31, 2018, as outlined below. The Company further considered indicators for impairment at March 31, 2019 given the significant level of goodwill remaining in the reportable segment as well as the recent impairment test. The fair value determination of the reporting unit primarily relies on management judgments around timing of generating revenues from recent new customer wins as well as timing of benefits expected to be received from the significant restructuring actions currently underway (see Note 6). If assumptions surrounding either of these factors change, then a future impairment charge may occur.

2018 Goodwill Impairment Charges

During the quarter ended September 30, 2018, the Company changed its segments and re-evaluated its reporting units. This change required an interim impairment assessment of goodwill. The Company determined an enterprise value for its North America, EMEA and LATAM reporting units that considered both discounted cash flow and guideline public company methods. The Company further compared the enterprise value of each reporting unit to their respective carrying value. The enterprise value for North America exceeded its carrying value, which indicated that there was no impairment, whereas enterprise values for the EMEA and LATAM reporting units were less than their respective carrying values and resulted in $20.8 million and $7.1 million goodwill impairment charges, respectively.

As of December 31, 2018, the Company performed an interim impairment assessment due to a triggering event caused by a sustained decrease in the Company's stock price. The Company determined an enterprise value for its North America reporting unit that considered both the discounted cash flow and guideline public company methods. The Company further compared the enterprise value of the reporting unit to its respective carrying value. The enterprise value for the North America reporting unit was less than its carrying value and resulted in a $18.4 million non-cash goodwill impairment charge. No tax benefit was recognized on such charge, and this charge had no impact on the Company's cash flows or compliance with debt covenants.

Prior to this 2018 activity, the Company previously recorded gross and accumulated impairment losses of $75.4 million resulting from prior period goodwill impairment tests.

5. Other Intangibles and Long-Lived Assets

The following is a summary of the Company's intangible assets as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019	December 31, 2018	Weighted Average Life
Customer lists	$ 73,627	$ 73,792	14.4
Non-competition agreements	956	950	4.1
Trade names	2,510	2,510	13.3
Patents	57	57	9.0
	77,150	77,309	
Less accumulated amortization and impairment	(67,849)	(67,481)	
Intangible assets, net	$ 9,301	$ 9,828	

In accordance with ASC 350, *Intangibles - Goodwill and Other*, 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 condensed consolidated statement of comprehensive (loss) income. The Company's intangible assets consist of customer lists, non-competition 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-competition 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 $0.5 million and $1.2 million for the three months ended March 31, 2019 and 2018, respectively. The Company's customer lists had accumulated amortization and impairment of $64.9 million and $64.5 million as of March 31, 2019 and December 31, 2018, respectively. The Company's trade names had accumulated amortization and impairment of $2.0 million and $2.0 million as of March 31, 2019 and December 31, 2018, respectively. The Company's patents and non-competition agreements were fully amortized as of March 31, 2019 and December 31, 2018, respectively.

The estimated amortization expense for the remainder of 2019 and each of the next five years and thereafter is as follows (in thousands):

Remainder of 2019	$ 1,593
2020	2,021
2021	1,783
2022	1,407
2023	962
2024	745
Thereafter	790
	$ 9,301

2018 Intangible and Long-Lived Asset Impairment

In the third quarter of 2018, the Company changed its reporting units as part of a segment change, which required an interim impairment assessment. The Company's intangible and long-lived assets associated with the reporting units assessed were also reviewed for impairment. It was determined that the fair value of intangible assets in EMEA and LATAM was less than the recorded book value of certain customer lists. Additionally, it was determined that the fair value of capitalized costs related to a legacy ERP system in EMEA was less than the recorded book value of such assets. As a result, the Company recognized a $13.8 million non-cash, intangible asset impairment charge related to certain customer lists, which is included in the accumulated amortization balance above. Of the total charge, $0.6 million related to the LATAM reportable segment, and $13.2 million related to the EMEA reportable segment. During the third quarter of 2018, the Company also recognized a $3.0 million non-cash, long-lived asset impairment charge related to a legacy ERP system in the EMEA reportable segment.

6. Restructuring Activities

2018 Restructuring Plan

On August 10, 2018, the Company approved a plan to reduce the Company's cost structure while driving value for its clients and stockholders. 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 revenue and gross profit. In connection with these actions, the Company expects to incur pre-tax cash restructuring charges of $20.0 million to $25.0 million and pre-tax non-cash restructuring charges of $0.4 million. Cash charges are expected to include $12.0 million to $15.0 million for employee severance and related benefits and $8.0 million and $10.0 million for lease and contract terminations and other associated costs. Where required by law, the Company will consult with each of the affected countries' local Works Councils prior to implementing the plan. The plan was expected to be completed by the end of 2019. On February 21, 2019, the Board of Directors approved a two-year extension to the restructuring plan through the end of 2021.

For the three months ended March 31, 2019, the Company recognized $3.9 million in restructuring charges.

The following table summarizes the accrued restructuring activities for this plan for the three months ended March 31, 2019 (in thousands):

	Employee Severance and Related Benefits	Lease and Contract Termination Costs	Other	Total
Balance at December 31, 2018	$ 358	$ 286	$ 705	$ 1,349
Charges	698	658	2,578	3,934
Cash payments	(747)	(673)	(2,147)	(3,567)
Non-cash settlements/adjustments	(24)	(207)	—	(231)
Balance at March 31, 2019	$ 285	$ 64	$ 1,136	$ 1,485

During the three months ended March 31, 2019, the Company recorded the following restructuring costs within loss from operations and loss before income taxes (in thousands):

	North America	EMEA	LATAM	Other	Total
Restructuring charges	$ 192	$ 1,079	$ 35	$ 2,628	$ 3,934

2015 Restructuring Plan

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 2017. 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 2017 with the final payouts of the charges expected to occur in 2019. As required by law, the Company consulted with each of the affected countries' local Works Councils throughout the plan.

The following table summarizes the accrued restructuring activities for this plan for the three months ended March 31, 2019 (in thousands), all of which relate to EMEA:

	Employee Severance and Related Benefits	Lease and Contract Termination Costs	Other	Total
Balance as of December 31, 2018	$ 486	$ —	$ —	$ 486
Cash payments	—	—	—	—
Balance as of March 31, 2019	$ 486	$ —	$ —	$ 486

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 2019 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 greater than 10% return on assets from foreign operations called Global Intangible Low-Tax Income ("GILTI"); a new limitation on deductible interest expense; and limitations on the deductibility of certain employee compensation and benefits.

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 45.9% and (51.6)% for the three months ended March 31, 2019 and 2018, 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, impacts of the Tax Reform Act, and foreign tax rates that are different than the U.S. federal statutory tax rate. In addition, the effective tax rate can be impacted each period by discrete factors and events such as a write-off of a deferred tax asset for stock-based compensation due to the expiration of unexercised stock options.

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. There were no material valuation adjustments for the three months ended March 31, 2019 and 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.

8. Loss Per Share

Basic loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted (loss) earnings per share is calculated by dividing net loss 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 months ended March 31, 2019 and 2018 as a result of a net loss incurred in each period. The number of antidilutive securities excluded from the computation of diluted earnings per share amounts was not material.The computations of basic and diluted loss per share for the three months ended March 31, 2019 and 2018 are as follows (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2019	**2018**
Numerator:		
Net loss	$ (2,462)	$ (1,684)
Denominator:		
Weighted-average shares outstanding – basic	51,830	53,716
Effect of dilutive securities:		
Employee stock options and restricted common shares	—	—
Weighted-average shares outstanding – diluted	51,830	53,716
Basic loss per share	$ (0.05)	$ (0.03)
Diluted loss earnings per share	$ (0.05)	$ (0.03)

9. Accumulated Other Comprehensive Loss

The table below presents changes in the components of accumulated other comprehensive loss for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	**2018**
	Foreign currency translation adjustments	**Foreign currency translation adjustments**
Balance, beginning of period	$ (24,309)	$ (19,229)
Other comprehensive income before reclassifications, net	747	3,364
Net current-period other comprehensive income	747	3,364
Balance, end of period	$ (23,562)	$ (15,865)

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 March 31, 2019 and 2018 was $0.5 million and $0.3 million, respectively. The amounts receivable from Arthur J. Gallagher & Co. were $0.4 million and $0.3 million as of March 31, 2019 and December 31, 2018, respectively.

In the fourth quarter of 2017, the Company began providing marketing execution services to Enova International, Inc. ("Enova"). David Fisher, a member of the Company's Board of Directors, is the Chairman and Chief Executive Officer of Enova and has a direct ownership interest in Enova. The total amount billed for such services during the three months ended March 31, 2019 and 2018 was $2.7 million and $1.8 million, respectively. The amounts receivable from Enova were $2.2 million and $2.0 million as of March 31, 2019 and December 31, 2018, 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 March 15, 2019 and further discussed in Note 13, is considered to approximate its fair value as of March 31, 2019 as the interest rates are considered in line with current market rates.

12. Commitments and Contingencies

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 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 €37.6 million (approximately $37.6 million at the time) 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., was brought in 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. On July 27, 2018, the Court appointed a lead plaintiff and lead counsel for the case. Plaintiff's counsel filed an amended complaint on September 25, 2018. On March 27, 2019, the Court granted the Company's motion to dismiss the amended complaint, and on April 16, 2019 the plaintiff's action was dismissed.

13. Revolving Credit Facilities and Going Concern

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of March 15, 2019, 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 and $160 million in the aggregate through September 25, 2019 and September 25, 2020, respectively. The Credit Agreement also 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 50-225 basis point spread for loans based on the base rate and 150-325 basis point spread for letter of credit fees and loans based on the Eurodollar rate.

The most recent amendment (i) modified the definition of the term "Consolidated EBITDA" as used in the covenant calculations, (ii) increased the maximum leverage ratio to which the Company is subject for the trailing twelve month periods ended December 31, 2018 and March 31, 2019 and (iii) decreased the minimum interest coverage ratio to which the Company is subject for the trailing twelve month periods ended December 31, 2018 and March 31, 2019, respectively.

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 3.50 to 1.00 to 4.50 to 1.00 for the trailing twelve months ended December 31, 2018, and from 3.00 to 1.00 to 4.75 to 1.00 for the trailing twelve months ended March 31, 2019. The maximum leverage ratio is 3.00 to 1.00 for the trailing twelve months ending June 30, 2019 and each period thereafter. The most recent amendment to the Credit Agreement also modified the minimum interest coverage ratio from 5.00 to 1.00 to 4.00 to 1.00 for the trailing twelve months ended December 31, 2018, and from 5.00 to 1.00 to 3.50 to 1.00 for the trailing twelve months ending March 31, 2019. The minimum interest coverage ratio is 5.00 to 1.00 for the trailing twelve months ending June 30, 2019 and each period thereafter. We were in compliance with all debt covenants as of March 31, 2019.

The revised covenants only affected the fourth quarter of 2018 and the first quarter of 2019. The Company concluded that without any additional changes, it would likely exceed the maximum leverage ratio covenant and/or not meet the minimum interest coverage ratio beyond the revised period, in which case the lenders would have the ability to demand repayment of the outstanding debt at such time. Accordingly, the outstanding balance is presented as a current liability as of March 31, 2019 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. This assessment also includes the Company's consideration of any management plans to alleviate such doubts. As described above, the probable inability of the Company to meet its current covenant obligations beyond the covenant waiver periods casts substantial doubt on the Company's ability to meet its obligations within one year from the financial statement issuance date.

The Company is in the process of negotiating changes to its debt structure with its existing lenders, which, based on discussions with lenders to-date and review of proposed negotiated conditions and financial covenants, the Company believes will be successfully completed in Q2 2019.

At March 31, 2019, the Company had $11.2 million of unused availability under the Credit Agreement and $1.5 million of letters of credit which have not been drawn upon. The amount outstanding under the Company's' revolving credit facility was $138.9 million and $142.7 million as of March 31, 2019 and December 31, 2018, respectively. The Company had unamortized deferred financing fees associated with the Credit Facility of $1.1 million and $0.7 million as of March 31, 2019 and December 31, 2018, respectively.

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's operations in China. 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 March 31, 2019, the Company had $4.5 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 an increase in its authorized share repurchase program of up to an additional $30.0 million of the Company's 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. As of March 31, 2019, $10.6 million remained available for repurchase under this plan through May 31, 2019.

During the three months ended March 31, 2019, the Company did not repurchase any shares of its common stock under this program. During the three months ended March 31, 2018, the Company repurchased 0.9 million shares of its common stock for $8.7 million in the aggregate at an average cost of $9.31 per share. Of this amount, $7.9 million was paid for as of March 31, 2018, with the remaining, paid in April 2018, accrued within other current liabilities in the condensed consolidated balance sheet as of March 31, 2018. 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 ("CODM"), manages the segments, evaluates financial results, and makes key operating decisions. During the third quarter of 2018, the Company changed its reportable segments. The Company is now organized and managed by the CODM as three operating segments: North America, EMEA and LATAM. The North America segment includes operations in the United States and Canada; the EMEA segment includes operations in the United Kingdom, continental Europe, the Middle East, Africa, and Asia; and the LATAM segment includes operations in 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. We have reflected the segment change as if it had occurred in all periods presented.

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, goodwill, intangible and long-lived asset impairment charges, restructuring charges, senior leadership transition and other employee-related expenses, business development realignment, obsolete retail inventory writeoff, professional fees related to ASC 606 implementation, executive search expenses, restatement of prior period financial statements, and other expenses related to investment in operational and financial process improvements. 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 month periods noted (in thousands):

	North America	EMEA	LATAM	Other	Total
Three Months Ended March 31, 2019:					
Revenue from third parties	$ 188,301	$ 60,180	$ 18,758	$ —	$ 267,239
Revenue from other segments	563	1,647	2	(2,212)	—
Total revenue	188,864	61,827	18,760	(2,212)	267,239
Adjusted EBITDA(1)	15,451	2,527	265	(11,668)	6,575
Three Months Ended March 31, 2018:					
Revenue from third parties	$ 189,277	$ 64,168	$ 21,094	$ —	$ 274,539
Revenue from other segments	1,420	2,650	126	(4,196)	—
Total revenue	190,697	66,818	21,220	(4,196)	274,539
Adjusted EBITDA(1)	17,216	1,505	587	(11,958)	7,350

(1) Adjusted EBITDA, which represents income from operations with the addition of depreciation and amortization, stock-based compensation expense, restructuring charges, professional fees related to ASC 606 implementation, executive search costs and restatement-related professional fees 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.

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

	Three Months Ended March 31,	
	2019	**2018**
Adjusted EBITDA	6,575	7,350
Depreciation and amortization	(2,617)	(3,659)
Stock-based compensation expense	(739)	(1,417)
Restructuring charges	(3,934)	—
Restatement-related professional fees	(365)	—
Executive search fees	(80)	—
Professional fees related to ASC 606 implementation	—	(1,033)
(Loss) income from operations	(1,160)	1,241
Interest income	98	62
Interest expense	(2,745)	(1,568)
Other, net	(740)	(846)
(Loss) before income taxes	$ (4,547)	$ (1,111)

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

Certain statements in this Quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements involve a number of risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors which could materially affect such forward-looking statements can be found in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 and elsewhere in this Form 10-Q. Investors are urged to consider these factors carefully in evaluating any forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date hereof and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

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 10,000 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 March 31, 2019, we had approximately 2,100 employees and independent contractors in more than 27 countries. We organize our operations into three operating segments based on geographic regions: North America, EMEA and LATAM. The North America segment includes operations in the United States and Canada; the EMEA segment includes operations in the United Kingdom, continental Europe, the Middle East, Africa, and Asia, and the LATAM segment includes operations in Mexico, Central America, and South America. In 2018, we generated global revenue from third parties of $777.4 million in the North America segment, $261.0 million in the EMEA segment, and $83.2 million in the LATAM 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.

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.

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.

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.

Comparison of three months ended March 31, 2019 and 2018

Revenue

Our third party revenue by segment for each of the periods presented was as follows (dollars in thousands):

	Three Months Ended March 31,			
	2019	% of Total	2018	% of Total
North America	$ 188,301	70.5%	$ 189,277	68.9%
EMEA	60,180	22.5	64,168	23.4
LATAM	18,758	7.0	21,094	7.7
Revenue from third parties	$ 267,239	100.0%	$ 274,539	100.0%

North America

North America revenue decreased by $1.0 million, or 0.5%, from $189.3 million during the three months ended March 31, 2018 to $188.3 million during the three months ended March 31, 2019. This decrease in revenue relates primarily to certain of the Company's middle market customers, partially offset by growth from new and existing enterprise clients.

EMEA

EMEA revenue decreased by $4.0 million, or 6.2%, from $64.2 million during the three months ended March 31, 2018 to $60.2 million during the three months ended March 31, 2019. This decrease in revenue is driven primarily by foreign currency impacts.

LATAM

LATAM revenue decreased by $2.3 million, or 11.1%, from $21.1 million during the three months ended March 31, 2018 to $18.8 million during the three months ended March 31, 2019. This decrease in revenue is driven primarily by foreign currency impacts.

Cost of goods sold

Our cost of goods sold decreased by $2.4 million, or 1.2%, from $208.5 million during the three months ended March 31, 2018 to $206.0 million during the three months ended March 31, 2019. Our cost of goods sold as a percentage of revenue was 77.1% and 75.9% during the three months ended March 31, 2019 and 2018, respectively.

Gross profit margin

Our gross profit margin was 22.9% and 24.1% during the three months ended March 31, 2019 and 2018, respectively. This decrease was primarily driven by client mix of revenue as well as writeoffs related to two client accounts we are exiting in North America.

Selling, general, and administrative expenses

Selling, general, and administrative expenses decreased by $5.4 million, or 8.8%, from $61.2 million during the three months ended March 31, 2018 to $55.8 million during the three months ended March 31, 2019. This decrease was primarily driven by a decrease in certain employee compensation and incentive expenses. As a percentage of gross profit, selling, general, and administrative expenses also decreased to 91.2% for the three months ended March 31, 2019 compared to 92.6% for the three months ended March 31, 2018.

Depreciation and amortization

Depreciation and amortization expense decreased by $1.0 million, or 28.5%, from $3.7 million during the three months ended March 31, 2018 to $2.6 million during the three months ended March 31, 2019. The decrease in depreciation and amortization was primarily driven by lower capital expenditures as well as fewer intangible assets due to the impairment charges in 2018.

Restructuring charges

On August 10, 2018, the Company approved a plan to reduce the Company's cost structure while driving value for its clients and stockholders. 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 revenue and gross profit. In connection with these actions, the Company expects to incur pre-tax cash restructuring charges of $20.0 million to $25.0 million and pre-tax non-cash restructuring charges of $0.4 million. Cash charges are expected to include $12.0 million to $15.0 million for employee severance and related benefits and $8.0 million and $10.0 million for lease and contract terminations and other associated costs. Where required by law, the Company will consult with each of the affected countries' local Works Councils prior to implementing the plan. The plan was expected to be completed by the end of 2019. On February 21, 2019, the Board of Directors approved a two-year extension to the restructuring plan through the end of 2021. For the three months ended March 31, 2019, we recognized $3.9 million in restructuring charges.

(Loss) income from operations

(Loss) income from operations decreased by $2.4 million from income from operations of $1.2 million during the three months ended March 31, 2018 to a loss from operations of $1.2 million during the three months ended March 31, 2019. As a percentage of revenue, (loss) income from operations was (0.4)% and 0.5% during the three months ended March 31, 2019 and 2018, respectively. As a percentage of gross profit, (loss) income from operations was (1.9)% and 1.9% during the three months ended March 31, 2019 and 2018, respectively. This decrease is primarily attributable to restructuring charges and decreased gross profit partially offset by the decrease in selling, general, and administrative expenses discussed above.

Other expense

Other expense increased by $1.0 million from $2.4 million for the three months ended March 31, 2018 to $3.4 million during the three months ended March 31, 2019. This increase in expense was primarily driven by an increase in interest expense.

Income tax (benefit) expense

Income tax (benefit) expense decreased by $2.7 million from an expense of $0.6 million during the three months ended March 31, 2018 to a benefit of $2.1 million during the three months ended March 31, 2019. Our effective tax rate was 45.9% and (51.6)% for the three months ended March 31, 2019 and 2018, 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, impacts of the Tax Reform Act, and foreign tax rates that are different than the U.S. federal statutory tax rate. In addition, the effective tax rate can be impacted each period by discrete factors and events such as a write-off of a deferred tax asset for stock-based compensation due to the expiration of unexercised stock options.

Net loss

Net loss increased by $0.8 million, or 46.2%, from net loss of $1.7 million during the three months ended March 31, 2018 to a $2.5 million net loss during the three months ended March 31, 2019. Net loss as a percentage of revenue was (0.9)% and (0.6)% during the three months ended March 31, 2019 and 2018, respectively. Net loss as a percentage of gross profit was (4.0)% and (2.5)% during the three months ended March 31, 2019 and 2018, respectively. This increase is primarily attributable to the decrease in income from operations and the increase in other expense, both of which are discussed above.

Diluted loss per share

	Three Months Ended March 31,	
	2019	2018
(in thousands, except per share data)		
Net loss	$ (2,462)	$ (1,684)
Denominator for dilutive loss per share	51,830	53,716
Diluted loss per share	$ (0.05)	$ (0.03)

Diluted loss per share increased by $0.02 from $0.03 per share during the three months ended March 31, 2018 to $0.05 per share during the three months ended March 31, 2019.

Adjusted EBITDA

Adjusted EBITDA, which represents income from operations with the addition of depreciation and amortization, stock-based compensation expense, restructuring charges, professional fees related to ASC 606 implementation, executive search expenses and restatement-related professional fees itemized in the reconciliation table below, 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. 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 (dollars in thousands):

	Three Months Ended March 31,			
	2019	**% of Total**	**2018**	**% of Total**
North America	$ 15,451	235.0 %	$ 17,216	234.2 %
EMEA	2,527	38.4	1,505	20.5
LATAM	265	4.0	587	8.0
Other(1)	(11,668)	(177.4)	(11,958)	(162.7)
Adjusted EBITDA	$ 6,575	100.0 %	$ 7,350	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 March 31, 2019 and 2018. Adjusted EBITDA decreased by $0.8 million, or 10.5%, from $7.4 million during the three months ended March 31, 2018 to $6.6 million during the three months ended March 31, 2019. North America Adjusted EBITDA decreased by $1.8 million, or 10.3%, from $17.2 million during the three months ended March 31, 2018 to $15.5 million during the three months ended March 31, 2019 mainly from lower revenue and writeoffs related to two client accounts we are exiting. EMEA Adjusted EBITDA increased by $1.0 million, or 67.9%, from $1.5 million during the three months ended March 31, 2018 to $2.5 million during the three months ended March 31, 2019 due to an increase in gross profit from a more favorable client mix. LATAM Adjusted EBITDA decreased by $0.3 million, or 54.9%, from $0.6 million during the three months ended March 31, 2018 to $0.3 million during the three months ended March 31, 2019 due to foreign currency impacts. Other Adjusted EBITDA increased by $0.3 million, or 2.4%, from a loss of $12.0 million during the three months ended March 31, 2018 to a loss of $11.7 million during the three months ended March 31, 2019 primarily due to reduced employee compensation and incentive expenses.

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

	Three Months Ended March 31,	
	2019	2018
Net loss	$ (2,462)	$ (1,684)
Income tax (benefit) expense	(2,085)	573
Interest income	(98)	(62)
Interest expense	2,745	1,568
Other, net	740	846
Depreciation and amortization	2,617	3,659
Stock-based compensation expense	739	1,417
Restructuring charges	3,934	—
Professional fees related to ASC 606 implementation	—	1,033
Executive search fees	80	—
Restatement-related professional fees	365	—
Non-GAAP Adjusted EBITDA	$ 6,575	$ 7,350

Adjusted Diluted Earnings (Loss) Per Share

Adjusted diluted earnings (loss) per share, which represents net (loss) income, with the addition of restructuring charges, professional fees related to ASC 606 implementation, executive search expenses and restatement-related professional fees 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 March 31,	
	2019	2018
Net loss	$ (2,462)	$ (1,684)
Restructuring charges, net of tax	3,030	—
Restatement-related professional fees, net of tax	272	—
Executive search fees, net of tax	60	—
Professional fees related to ASC 606 implementation, net of tax	—	760
Adjusted net income (loss)	$ 900	$ (924)
Weighted-average shares outstanding, diluted	51,895	53,716
Non-GAAP diluted earnings (loss) per share	$ 0.02	$ (0.02)

Comparison of three months ended March 31, 2019 and 2018. Adjusted diluted earnings (loss) per share increased by $0.04 from $(0.02) during the three months ended March 31, 2018 to $0.02 during the three months ended March 31, 2019.

Liquidity and Capital Resources

At March 31, 2019, we had $25.9 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 three months ended March 31, 2019 was $5.5 million and consisted of a net (loss) of $(2.5) million, offset by $4.0 million of non-cash items and by $4.0 million provided by working capital and other activities. The most significant impact on working capital and other activities consisted of an decrease in accounts payable of $8.4 million and a decrease in accrued expenses and other liabilities of $0.9 million, all of which were offset by a decrease in accounts receivable and unbilled revenue of $3.9 million, a decrease in inventories of $9.1 million, and a decrease in prepaid expenses and other assets of $0.1 million.

Cash provided by operating activities for the three months ended March 31, 2018 was $34.3 million and consisted of a net (loss) of $(1.7) million, offset by $5.8 million of non-cash items and by $30.2 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 $24.2 million, a decrease in inventory of $2.1 million, a decrease in prepaid expenses and other assets of $2.9 million and an increase in accrued expenses and other liabilities of $21.9 million all of which were partially offset by a decrease in accounts payable of $20.9 million.

Investing Activities. Cash used in investing activities for the three months ended March 31, 2019 of $3.3 million was entirely attributable to capital expenditures.

Cash used in investing activities for the three months ended March 31, 2018 of $2.9 million was entirely attributable to capital expenditures.

Financing Activities. Cash used in financing activities for the three months ended March 31, 2019 of $3.1 million was primarily attributable to net repayments under the revolving credit facility of $3.8 million and $0.6 million of payments for debt issuance costs, partially offset by $1.3 million in net short-term secured borrowings.

Cash used in financing activities for the three months ended March 31, 2018 of $19.1 million was primarily attributable to net repayments under the revolving credit facility of $9.0 million, repurchases of common stock of $8.0 million and $2.0 million in net short-term secured repayments.

Share Repurchase Program

On February 12, 2015, we announced that our 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 an increase in its authorized share repurchase program of up to an additional $30.0 million of the Company's 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. As of March 31, 2019, $10.6 million remained available for repurchase under this plan through May 31, 2019.

During the three months ended March 31, 2019, the Company did not repurchase any shares of its common stock under this program. During the three months ended March 31, 2018, the Company repurchased 0.9 million shares of its common stock for $8.7 million in the aggregate at an average cost of $9.31 per share. Of this amount, $7.9 million was paid for as of March 31, 2018, with the remaining, paid in April 2018, accrued within other current liabilities in the condensed consolidated balance sheet as of March 31, 2018. Shares repurchased under this program are recorded at acquisition cost, including related expenses.

Revolving Credit Facilities

The Company entered into a Credit Agreement, dated as of August 2, 2010, subsequently amended most recently as of March 15, 2019, 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 and $160 million in the aggregate through September 25, 2019 and September 25, 2020, respectively. The Credit Agreement also 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 50-225 basis point spread for loans based on the base rate and 150-325 basis point spread for letter of credit fees and loans based on the Eurodollar rate.

The most recent amendment (i) modified the definition of the term “Consolidated EBITDA” as used in the covenant calculations, (ii) increased the maximum leverage ratio to which the Company is subject for the trailing twelve month periods ended December 31, 2018 and March 31, 2019 and (iii) decreased the minimum interest coverage ratio to which the Company is subject for the trailing twelve month periods ended December 31, 2018 and March 31, 2019, respectively.

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 3.50 to 1.00 to 4.50 to 1.00 for the trailing twelve months ended December 31, 2018, and from 3.00 to 1.00 to 4.75 to 1.00 for the trailing twelve months ended March 31, 2019. The maximum leverage ratio is 3.00 to 1.00 for the trailing twelve months ending June 30, 2019 and each period thereafter. The most recent amendment to the Credit Agreement also modified the minimum interest coverage ratio from 5.00 to 1.00 to 4.00 to 1.00 for the trailing twelve months ended December 31, 2018, and from 5.00 to 1.00 to 3.50 to 1.00 for the trailing twelve months ending March 31, 2019. The minimum interest coverage ratio is 5.00 to 1.00 for the trailing twelve months ending June 30, 2019 and each period thereafter. We were in compliance with all debt covenants as of March 31, 2019.

The revised covenants only affected the fourth quarter of 2018 and the first quarter of 2019. The Company concluded that without any additional changes, it would likely exceed the maximum leverage ratio covenant and/or not meet the minimum interest coverage ratio beyond the revised period, in which case the lenders would have the ability to demand repayment of the outstanding debt at such time. Accordingly, the outstanding balance is presented as a current liability as of March 31, 2019 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. This assessment also includes the Company’s consideration of any management plans to alleviate such doubts. As described above, the probable inability of the Company to meet its current covenant obligations beyond the covenant waiver periods casts substantial doubt on the Company’s ability to meet its obligations within one year from the financial statement issuance date.

The Company is in the process of negotiating changes to its debt structure with its existing lenders, which, based on discussions with lenders to-date and review of proposed negotiated conditions and financial covenants, the Company believes will be successfully completed in Q2 2019.

At March 31, 2019, the Company had $11.2 million of unused availability under the Credit Agreement and $1.5 million of letters of credit which have not been drawn upon. The amount outstanding under the Company's' revolving credit facility was $138.9 million and $142.7 million as of March 31, 2019 and December 31, 2018, respectively. The Company had unamortized deferred financing fees associated with the Credit Facility of $1.1 million and $0.7 million as of March 31, 2019 and December 31, 2018, respectively.

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's operations in China. 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 March 31, 2019, the Company had $4.5 million of unused availability under the Facility.

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 $24.7 million and $23.7 million of foreign cash and cash equivalents as of March 31, 2019 and December 31, 2018, 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

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 for the fiscal year ended December 31, 2018, under the caption "Contractual Obligations."

Critical Accounting Policies and Estimates

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases* (Topic 842). This pronouncement requires lessees to recognize a liability for lease obligations, which represents the discounted obligation to make future lease payments, and a corresponding right-of-use asset on the balance sheet. The Company adopted ASU 2016-02, along with related clarifications and improvements, as of January 1, 2019, using the modified retrospective approach, which allows the Company to apply Accounting Standards Codification ("ASC") 840, *Leases*, in the comparative periods presented in the year of adoption. The cumulative effect of adoption was recorded as an adjustment to the opening balance of retained earnings in the period of adoption.

The Company elected to use the package of practical expedients, which permitted the Company to not reassess: (i) whether a contract is or contains a lease, (ii) lease classification, and (iii) initial direct costs resulting from the lease. The Company has not elected the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of operating lease assets. The Company elected to apply the short-term lease exception, which allows the Company to keep leases with terms of 12 months or less off the balance sheet. The Company also elected to combine lease and non-lease components as a single component for the Company's entire population of lease assets.

As of March 31, 2019, except for the new critical accounting policy for Leases described above, there were no material changes to our critical accounting policies and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

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 for the year ended December 31, 2018.

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. In addition, 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 March 31, 2019 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, Peruvian nuevo sol, Colombian peso, Brazilian real, Mexican peso and Chilean peso, which exposes us to foreign currency risk. For the three months ended March 31, 2019, we derived approximately 29.5% 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 March 31, 2019. 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 March 31, 2019.

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 (the "Form 10-K"), as of December 31, 2018, our management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2018, because of the material weaknesses described therein related to revenue recognition and commissions expense, which were initially reported on Item 9A of our Form 10-K for the year ended December 31, 2017 and have not yet been fully remediated.

<u>Material Weaknesses</u>

With respect to revenue recognition material weakness, the Company’s controls were ineffective to: (1) ensure that a contract was appropriately approved and identified prior to revenue being recognized; (2) retain and review customer order documentation, including support for assessing whether the transaction price was determinable; (3) ensure that revenue was recognized subsequent to the transfer of control of the goods or services; and (4) estimate the impact of future credit memos. These deficiencies also contributed to control deficiencies identified in related accounts receivable, unbilled accounts receivable, accrued accounts payable, inventory and cost of sales. With respect to commissions expenses material weakness, the Company’s controls were not designed and operating effectively to: (1) ensure the completeness and accuracy of underlying data used for computing the commission expenses and (2) sufficiently review and approve arrangements with respect to commission expenses.

<u>Remediation Efforts</u>

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.

We have continued executing a plan to remediate the material weaknesses noted above. Specifically, to remediate deficiencies in revenue recognition controls, the Company is developing and implementing 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. As of the filing date, we have made progress toward remediating the material weaknesses by:

- implementing new policies over the operational processes supporting revenue recognition,
- adding resources to train the process owners and to monitor compliance with the Company’s policies,

- developing enhancements to the Company's systems, including approval workflows, validation of shipping data, and preventative controls over data inputs, and
- implementing a new system for tracking customer contract terms and improved contract review process.

To remediate deficiencies in the controls over the commissions process, the Company has developed and is in the process of implementing controls to ensure that systems used for commissions are updated with accurate data to reflect approved compensation arrangements. We have made progress toward remediating the material weakness by:

- purchasing and implementing a third-party system to manage the administration of commissions,
- reviewing sales rep agreements and obtaining confirmation from sales reps of their key terms,
- improving the review process over commissions expense and the related balance sheet accounts, and
- evaluating the accuracy of the reports and underlying data that support the commissions process.

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 such controls are operating effectively. We expect to complete this remediation during 2019.

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 March 31, 2019 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 for the year ended December 31, 2018.

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 authorized an increase in its authorized share repurchase program 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.

The Company did not make any repurchases of its common stock during the three months ended March 31, 2019.

The following table provides information relating to our purchase of shares of our common stock in the first quarter of 2019 (in thousands, except per share amounts).

Period	Number of Shares Purchased(2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
1/1/19-1/31/19	0.2	$ 4.51	—	2,319
2/1/19-2/28/19	5.7	4.71	—	2,195
3/1/19-3/31/19	0.3	3.77	—	2,941
Total	6.2	$ 4.33	—	

(1) The share repurchase plan authorized by our Board of Directors allows repurchases of up to $50 million of our common stock of which $10.6 million remained available for repurchase under this plan through May 31, 2019. 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 6,194 shares delivered to us by employees to satisfy the mandatory tax withholding requirement upon vesting of restricted stock.

Item 6. Exhibits

Exhibit No	Description of Exhibit
10.1	Transition Agreement between InnerWorkings, Inc. and Charles Hodgkins, dated January 3, 2019 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 4, 2019).
10.2	Eighth Amendment to Credit Agreement, dated as of March 15, 2019, by and among InnerWorkings, Inc., the lenders party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	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: May 9, 2019	By:	/s/ Richard S. Stoddart
		Richard S. Stoddart
		Chief Executive Officer
Date: May 9, 2019	By:	/s/ Donald W. Pearson
		Donald W. Pearson
		Chief Financial Officer

EXHIBIT 31.1

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: May 9, 2019

/s/ Richard S. Stoddart
Richard S. Stoddart
Chief Executive Officer

EXHIBIT 31.2

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

I, Donald W. Pearson, 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: May 9, 2019

/s/ Donald W. Pearson

Donald W. Pearson
Chief Financial Officer

EXHIBIT 32.1

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 March 31, 2019 (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

Richard S. Stoddart
Chief Executive Officer
May 9, 2019

EXHIBIT 32.2

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, Donald W. Pearson, 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 March 31, 2019 (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/ Donald W. Pearson

Donald W. Pearson
Chief Financial Officer
May 9, 2019